

Minimum Oil Burn Compensation Proposal

Management Committee

March 20, 2007

Agenda

- ◆ Background
- ◆ Proposal
- ◆ Implementation Plans

Background

- ◆ NYSRC Local Reliability Rule I-R3 states:
 - “the NYS Bulk Power System shall be operated so that the loss of a single gas facility does not result in the loss of electric load within the New York City or Long Island zones.”
 - The application of this rule requires select units under defined load conditions to operate the generation with the alternative fuels or combination of fuels.
- ◆ February 2006, NYS PSC adopted into Law the Reliability Council reliability rules
- ◆ This presentation uses the term “Minimum Oil Burn” for this rule.

Background

- ◆ Minimum oil burn obligation not simultaneously and commonly applied to all units in the electric region
 - *Units are being directed to operate under conditions market forces would not naturally produce*
- ◆ Market Participants have identified a concern with providing a reliability service at:
 - *increased cost,*
 - *potential increased exposure to mitigation,*
 - *the economic disadvantage that such a rule imposes when compared to surrounding units not exposed to the same obligations.*

Proposal

- ◆ Minimum Oil Burn Activation
- ◆ Fixed Maintenance Cost Recovery
- ◆ Margin Restoration Payment

Minimum Oil Burn Activation

- ◆ Facilitate transparent and timely activation of minimum oil burn obligations
 - *Provide notification of minimum oil burn obligations based upon agreed to thresholds of Zone J forecasts*
 - *Minimum oil burn obligations will be validated and invoked in-day*

- ◆ Thresholds
 - *Zone J forecast equivalents to ConEd territory level*

<u>ConEd</u>	<u>Zone J</u>
7500	6500
8000	7000
9000	7800

DRAFT - For Discussion Only

Fixed Maintenance Cost Recovery

- ◆ Defer discussion on fixed maintenance cost recovery to focus efforts on the Margin Restoration Payment.
 - *Maintenance Cost Recovery was intended to refund for the maintenance costs incurred in providing the capability to be operated under alternative fuels or dynamic switching to alternate fuels.*
- ◆ Concerns had been raised regarding what costs were appropriate to be recovered, quantifying the opportunities afforded by the capability to burn alternate fuels and the viability of accurately determining payments.

Margin Restoration Payment

- ◆ Provide payment to unit(s) to compensate for increased costs associated with operating on a more expensive fuel.
 - *Payable only during periods of time when the unit is obligated to operate under minimum oil burn conditions and alternate fuel is more expensive than gas.*
 - *Payment would be based upon actual incremental operating costs to comply with minimum oil burn obligation, to the extent they exceed economic fuel choice costs.*
 - *Costs will be recovered from the local load.*

Margin Restoration Payment

- ◆ Preferred solution technique would utilize a optimizable constraint to produce needed resource levels and corresponding prices
 - *A defined constraint would contain the price impact to those facilities capable of resolving the constraint (i.e. the minimum oil burn units).*
 - *No readily available constraint exists to mimic the loss of gas contingency and the subsequent network response, nor the tiered unit operation requirements currently in place.*
 - *The MRP provides an alternative compensation mechanism to higher market revenues.*

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Margin Restoration Payment

- ◆ In order to mimic the impact of a minimum oil burn “constraint”, payment will only be made to units operating under the minimum oil burn obligation, when:
 - *Unit has established reference prices based upon most economic fuel.*
 - Unit is eligible to establish reference prices for other fuel blends per existing protocols, but will not be eligible for the MRP if they do so.
 - *Minimum oil burn conditions have been activated;*
 - *Unit has implemented alternate fuel-burn operation*

Implementation Plans

- ◆ Margin Restoration Payment will capture the following categories:
 - *Fuel cost as determined by daily indexed fuel cost;*
 - *Emission costs as determined by indexed values;*
 - *Tax expenses per tax rates or accrued expense;*
 - *Fuel delivery/handling costs as accrued expense.*

 - *Guideline: Appropriate costs to recover are those that would normally be represented in a reference bid for that fuel type.*

Implementation Plans

- ◆ Payment of the MRP will require invoice level manual adjustments.
- ◆ To achieve earliest implementation, simplifying assumptions and rules must be adopted. These simplifications include:
 - *MRP payment calculation must be performed on a daily level.*
 - *Allocation of charges to load must be performed on a monthly level.*
 - *Specific guidelines for identifying oil consumption rates and activation and compliance with minimum oil burn obligation.*
- ◆ Prepare 2008 budget proposal to implement available payment automation.

Governance and Filing Schedule

- ◆ MIWG February 26
- ◆ Business Issues Committee March 7
- ◆ Management Committee March 20
- ◆ NYISO Board of Directors April 9

- ◆ Anticipate filing with FERC no later than Late-April
- ◆ Seek expedited treatment to facilitate earliest summer implementation.