

Minimum Oil Burn Compensation Proposal

Market Issues Working Group

February 26, 2007

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 oil 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.*

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;*
 - Further definition needed to facilitate transparent and automated identification of hours;
 - *Unit has implemented oil burn operation;*
 - Further definition needed to define oil consumption rates to provide transparent and automated calculation of oil fuel consumption.

Margin Restoration Payment

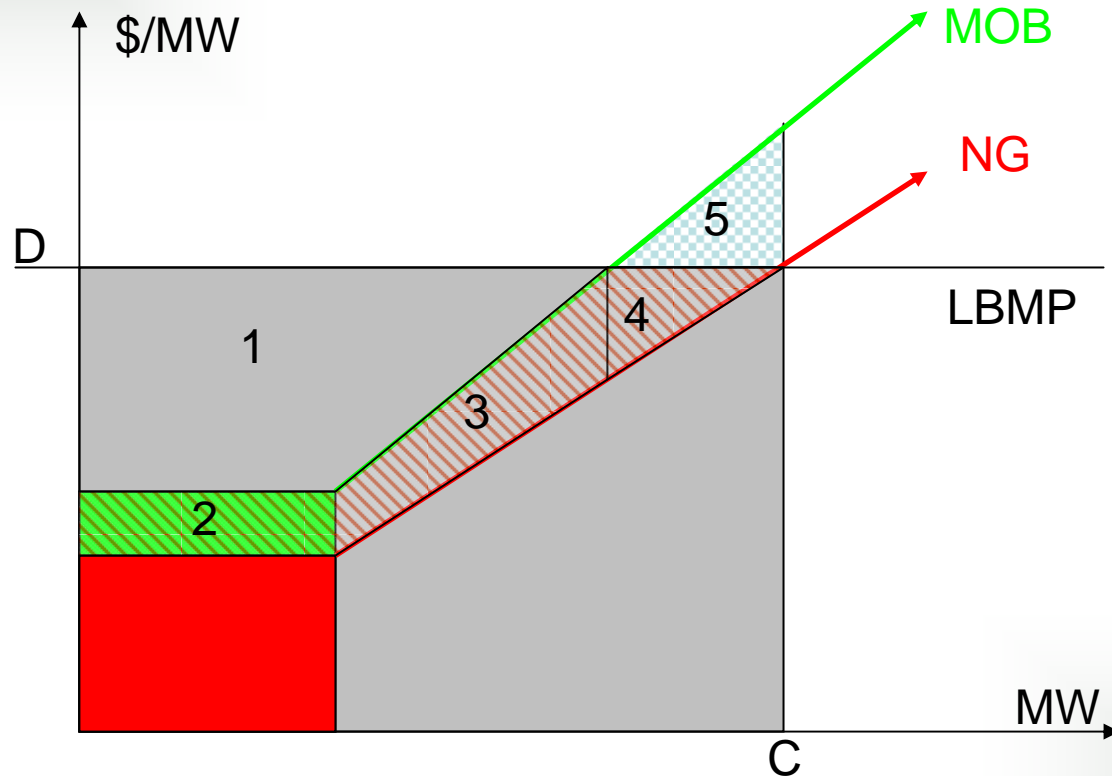
- ◆ Payment will capture the following categories:
 - *Fuel cost as determined by daily indexed fuel cost;*
 - *Emission costs as determined by indexed values;*
 - *Tax expenses per tax rates or accrued expense;*
 - *Fuel delivery/handling costs as accrued expense.*

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

Margin Restoration Payment

- ◆ 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.*

Margin Restoration Payment



LBMP Revenue	Lost Margin
NG Costs	Increased Cost
Alt Fuel Costs	

DRAFT - For Discussion Only

Fixed Maintenance Cost Recovery

- ◆ Defer discussion on fixed maintenance cost recovery to focus attention on the Margin Restoration Payment and the movement of the concept through committees.

Next Steps

- ◆ Proceed with the MRP through committee structure to review program
 - *Seek guidance on desire for a manual payment implementation*
 - *As appropriate, seek committee approval for payment structure*

- ◆ Explore the need for a fixed maintenance cost recovery mechanism and return to the working group to continue discussion as deemed necessary.