

WESTERN ENERGY IMBALANCE MARKET

Briefing on variable operations and maintenance cost review and decision on advisory role

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EIM Governing Body Meeting

General Session

November 4, 2020



The variable operations and maintenance (O&M) cost initiative has two components that fall under the EIM Governing Body's advisory role

- 1) Proposes guiding principles for the categorization of operations and maintenance cost components used in the calculation of O&M adders
- 2) Updates operations and maintenance cost framework and default values for the O&M adders

This initiative provides guiding principles for O&M costs categorization

- O&M costs are currently reflected in bids via the variable O&M (VOM) adder and the major maintenance adder (MMA)
- The ISO currently does not have a set of publically available principles for O&M cost categorization among variable, operations, maintenance and fixed costs
- Explicit principles will provide a better reference for use in negotiations and a more accurate accounting of O&M costs that will increase market efficiency and bid flexibility

Initiative proposes guiding principles that clarify the cost components

- Core principle is that only variable costs, i.e. costs that vary with electrical production, are considered in a resource's reference levels
 - Variable operations costs
 - Variable maintenance costs
- Transparent guiding principles serve as interpretive reference for:
 - the ISO's expectations to market participants during O&M adder negotiations
 - the ISO's triennial updates of default O&M values with an explicit, principle-based, foundation

Updated O&M cost framework and “default” values for O&M adders

- Proposes updates to default O&M adder values, i.e. values that can be used in lieu of negotiations
 - Default values for variable operations costs were derived from study performed by Nexant on behalf of ISO
 - Default values for variable maintenance costs were developed internally by ISO through a robust open process
- Default values could be included in three O&M adders
- Default values are resource-specific
 - Default O&M adder values are broken out by technology (see appendix)
 - Participants still have the option to negotiate a resource specific adder if needed

Stakeholders are broadly supportive with some caveats

- Comments on policy-related matters
 - Some participants expressed concerns that some default values may be too low
 - Department of Market Monitoring is supportive of the initiative
- Management response to comments
 - Default values strike a balance between being sufficiently conservative and being attractive enough to minimize negotiations
 - If default values are too low to account for a resource's higher costs, the negotiated option remains available
 - Implementation date has been moved to January 2022

The VOM proposal improves the efficiency and flexibility of the ISO markets by providing for more accurate accounting of O&M costs

- Increases the flexibility available that market participants can use to reflect O&M costs in their bids
- Provides transparency and certainty into the ISO's processes for updating default O&M adder values
- Decreases the administrative burden of negotiations