

Decision on variable operations and maintenance cost review 2023

Kevin Head

Sr Market Engineering Specialist, Market Analysis

Joint Board of Governors and WEIM Governing Body Meeting

General Session

September 20, 2023

Management proposes to update default variable operations and maintenance (VOM) adder values to account for inflation

- Pursuant to the ISO business practice manuals, the default VOM adder values are reviewed at least once every three years
- Since the last review, inflation rates have been historically high
- To allow for more accurate bid submission, Management proposes to update the current default VOM adders by applying an 18.73% inflation adjustment

Resources reflect their operations and maintenance costs in their bids through the default VOM adders

- VOM adders are a component of most resources' default energy bids and commitment costs which cap the bid price considered by the ISO's markets
- VOM adders are set to a pre-determined "default" value but, if these do not reflect a particular resource's costs, a resource-specific value can be negotiated with ISO staff
- Default VOM adders vary by fuel type and technology

Management recommends using inflation data to update the default VOM adder values

- The currently effective default VOM adder values use 2019 as an inflation reference year
- The proposed inflation adjustment of 18.73% is derived from the change in the Consumer Price Index from December 2019 to June 2023
- Inflation-adjusted default VOM adder values will allow resources to submit more accurate bids into ISO markets

Stakeholder feedback was incorporated into the final proposal by updating the inflation reference year

- Salt River Project requested that the inflation adjustment use a June 2023 inflation reference point
 - *Management agreed, resulting in a change to the originally proposed values*
- Salt River Project also requested more frequent reviews of the default VOM adder values and updates based on forecasted, rather than historical, reference points
 - *Management believes that the availability of the negotiated option mitigates the need to adjust the proposal for these suggestions*

Management requests the Board and the WEIM Governing Body approve the proposed variable operations and maintenance cost review proposal

- The proposal enables resources to submit more accurate cost-based bids into ISO markets
- The proposal decreases the administrative burden on market participants and ISO staff by seeking to minimize the need for VOM adder negotiations