# Commitment Costs Comments

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# Principles for Registered Cost Option

- *Goldilocks principle:*
  - Avoid negative margins that discourage participation
  - Avoid large margins that encourage games
- *Proxy should be high enough to accommodate $/MWh variable costs*
  - E.g., fuel, emissions allowances, grid management charges
  - Exclude fixed cost components
- *Avoid burdensome recalculations long after fact*
  - E.g., if a small source previously exempt from CARB winds up exceeding 25,000 tons $CO_2$/yr
- *Motivate efficiency: incent reductions in variable costs*
  - Incentive stronger if payment not reduced if costs reduced
  - Compromise: base payment on benchmark costs rather than actual expenditures

# Registered Cost Limit

**Now**

+100%

Proxy

- Fuel risk
  - Price risk (daily prices)
  - Quantity risk: Correlation of $Q_{pas}$ & daily $P_{gas}$
    - → *Quantity-weighted $P_{gas}$*
      - *> monthly average price?*
- Miscellaneous costs
- $CO_2$
- Grid Management Charge
- Operational Flow Order
- Maintenance

- Variable fuel cost

**Proposed**

+25%

Proxy

***Questions:***

**•Are the new proxy components ~60% of the old proxy?**

**•Are fuel risk and miscellany ~40% of the old proxy?**

**•Were fuel risks previously over or under estimated?**