Decision on variable operations and maintenance cost review 2023

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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.