



Decision on variable operations and maintenance cost review proposal

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The variable operations and maintenance (O&M) cost initiative has two components

- 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 a consultant
 - 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
 - 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 certain default values may be too low
 - Department of Market Monitoring is supportive of 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

Management requests the Board approve the proposed variable operations and maintenance proposal

The EIM governing body under its advisory role supports this proposal

The proposal

- 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