

RECO's Compromise VOM Proposal



Orange & Rockland

Concerns of the coalition

- The AEP and PJM proposals will have significant impact if/when other impending energy market changes are implemented.
- Combined with PJM's fast-start or convex hull proposal, the changes included in the AEP and PJM proposals are likely to result in exponentially higher costs for load.
- The coalition believes that toggling costs between markets based on the prices in those markets produces uncertainty, confusion, poor precedent and a general lack of transparency.
- Reasonable minds can and do differ on where VOM costs belong, but the coalition believes that there is a reasonable compromise possible on this issue.

Elements of RECO's proposal

1. All units can include up to the Manual 15 defined VOM estimates for each technology type.
 - No multipliers
 - No exceptions
 - VOM adders will only be allowed in the unit's incremental energy offer
 - The Manual 15 VOM estimates for technology type will be updated once every two years according to the U.S. Bureau of Labor Statistics index.
2. The PJM/AEP proposals include a provision that allows units that fail to clear in the capacity market to offer their VOM in their energy offer; the RECO proposal eliminates this provision.

Up to Manual 15 VOM values, not more

- Units will be allowed to include VOM costs in their cost based energy offer up to the updated values included in Manual 15.
- No generating units will be allowed to exceed the Manual 15 VOM estimates.
- All generating units that would like to offer more competitively (below Manual 15 values or their actual costs) will still be allowed to do so at their discretion.
 - If a unit wants to offer below its actual VOM costs, it can do so.
 - If a unit wants to offer at the Manual 15 levels it will be given ‘safe harbor’, i.e. those costs will not be questioned by the IMM.
 - This offers generators price certainty, reduces administrative burden, and reduces risk.

Proposed M15 and EIA estimates

Unit Type	Proposed M15 VOM	EIA ¹
Combined Cycle (F Series)	\$3.50/MWh	\$3.50/MWh
Advanced Combined Cycle (H Series)	\$3.50/MWh	\$2.00/MWh
Combustion Turbine (LM-6000)	\$3.50/MWh	\$3.50/MWh
Advanced Combustion Turbine (F Series)	\$3.50/MWh	\$10.70/MWh
Reciprocating Engine	\$3.50/MWh	\$5.85/MWh
Subcritical Coal	\$4.00/MWh	N/A
Supercritical Coal	\$4.00/MWh	\$4.60/MWh
Subcritical Gas	\$3.50/MWh	\$1.30/MWh
Nuclear	\$3.00/MWh	\$2.30/MWh
Biomass	\$4.00/MWh	\$4.20/MWh
Wind, Solar, Hydro	\$0.00/MWh	\$0.00/MWh

¹ See <https://www.eia.gov/analysis/studies/powerplants/capitalcost/>, 2016 Report, accessed June 14, 2018.

Units that fail to clear in the capacity auctions...

- PJM/AEP Proposal

- Units that fail to clear in the capacity auction will be able to include ACR-related maintenance costs in their energy offer.

- RECO Proposal

- Units that fail to clear in the capacity market may not include ACR-related maintenance costs in their energy offer.
- Not clearing in the capacity auction is a signal that the unit is uneconomic and should consider retiring.

Additional Considerations...

- The Manual 15 revisions necessary to implement this proposal may need to be refined.
- Additional changes to the Operating Agreement may be necessary, but this was unclear at the time of posting.