



# Frequently Mitigated Units

EMC  
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Market Monitoring Unit

- Proposed approach to frequently mitigated units
  - Per FERC Order of May 6
- Final proposal
  - Removed net revenue test
  - Added unit specific avoidable cost option
  - Details of avoidable costs



- Threshold for additional compensation
  - 80% of run hours offer capped
  - No run hour limitation
  - Conditions per FERC Order

- Payment of avoidable costs in addition to marginal cost
  - \$40 per MWh default option
  - \$40 adder replaces 10 percent adder to costs
- Option of unit-specific avoidable cost per MWh adder
  - Discussion with MMU
  - Criteria/definitions for avoidable costs specified
  - Option to go to FERC after 60 days if no agreement

- Avoidable costs
  - Costs which would be avoided if unit not operated
- Avoidable Costs
  - Fuel costs and short run variable costs
  - Long run variable costs
    - Inspections/overhauls (annualized)
  - Annual out of pocket direct costs
    - Direct labor
    - Repair parts
    - Site electric and communications
    - Property taxes
- Avoidable Cost approach does not include:
  - Allocation of general corporate overheads (see details)
  - Capacity costs

- Units agree to provide cost data for verification
  - Fuel costs
  - O&M costs
  - Other compensated avoidable costs
- Required review of maintenance practices and expenditures at compensated units
  - Units agree to comply with good utility practice



## Summary of Proposal for November FERC Filing

- Offer plus adder included in:
  - cost-based offers;
  - dispatch;
  - LMP when marginal



## Summary of Proposal for November FERC Filing

Cost Category	Avoided Costs
<b>Operations and Maintenance Labor</b>	
On Site Based O&M Employees of Owner	Yes
Off Site Based O&M Employees of Owner Working at Site or Equipment Offsite	Yes
Contract Labor Working at Site or Equipment Offsite	Yes
Employee Benefit Expenses	Yes
<b>Administration Expenses</b>	
Employee Expenses	Yes
Environmental Fees	Yes
Safety & Operator Training	Yes
Plant Office Supplies & Expenses	Yes
Communications	Yes
Annual Plant Test, Inspection and Analysis	Yes
<b>Maintenance Expense (Other than Labor)</b>	
Cost of Parts Installed on Plant	Yes
Chemical and Materials Consumed During Maintenance	Yes
Rented Maintenance Equipment	Yes
<b>Variable Expenses (CDTF)</b>	
Basic Fuel Costs	No
Starts	No
Major Equipment Overhaul Accrual (Maintenance Adder)	No
Ash Removal	No
Emissions Allowances	No
Starts	No
<b>Variable Expenses (Other)</b>	
Water Treatment Chemicals and Lubricants	Yes
Water, Gas & Electric not for Power Generation	Yes
Waste Water	Yes
<b>Financial Expenses on Eligible Equipment and Infrastructure</b>	
Rent or Leases	No
Debt Principal and Interest Payments	No
Depreciation	No
Sales and Use Tax	No
<b>Financial (Other)</b>	
Return on Investment	No
Salvage Value	No
Opportunity Costs	No
<b>Carrying Costs and Corporate Level Expenses</b>	
Carrying Cost of Equipment Spare Parts	Partial
Carrying Cost of Fuel Inventory	Partial
Corporate Level Expenses	Partial



- **Short term carrying charges for maintaining reasonable levels of inventories of fuel and spare parts that result from short term operational unit decisions as measured by industry best practice standards are considered avoidable.**
  - **Short term is defined as the time period in which a reasonable replacement of inventory for normal, expected operations can occur.**
  
- **Corporate level expenses that are directly linked to providing tangible services required for the operation of the unit are considered avoidable.**