

# Part V (RMR) Compensation

DESTF

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IMM



Monitoring Analytics

# Basic Principles of Compensation

- **Most fundamental principle of compensation is that that the rules be clear and unambiguous.**
- **Open ended and vague compensation rules create uncertainty and inefficiency.**
- **It should be clear to generators and customers exactly what costs are includable.**
- **It should be clear to generators and customers exactly what the review and verification process for costs is.**
- **Compensation should be based on actual costs and revenues and not on the guaranteed payment of estimated costs.**

# Basic Principles of Compensation

- **Pay for the all of the actually incurred costs of providing the service**
- **Pay incentive**
- **Do not pay sunk costs**
- **Do not convert a market asset into a fully regulated asset**
- **Do not use regulated utility rate case model**
- **Current tariff provisions need to be rewritten**
- **There should be one definition of compensation**
- **Do not build in arbitrary limits on costs**
- **Process for repayment if unit not retired after RMR**

# Investment Costs

- **New investment costs required to continue to operate plant:**
  - **Return on and of capital.**
  - **Structure as:**
    - Immediate payment; or
    - CRF over remaining life of asset
  - **Salvage value as offset**
- **Process for verifying need.**
- **Process for reviewing and verifying costs.**

# Maintenance Costs

- **Maintenance costs**
  - **All maintenance costs associated with maintaining the unit's availability to operate and with actual operations**
  - **Parts inventory additions**
  - **Salvage value as offset**
- **Process for verifying need.**
- **Process for reviewing and verifying costs.**

# Short Run Marginal Costs

- **Short run marginal costs**
  - **Fuel: actual costs rather than market value**
    - Existing fuel inventory: pay salvage value
    - New fuel: actual incurred costs
  - **Actual cost of emissions allowances incurred to operate plant**
  - **Actual costs of consumables incurred to operate plant**
  - **Residual salvage value of fuel and consumables as offset**
- **Process for verifying need.**
- **Process for reviewing and verifying costs.**

# Incentive Payment

- **Incentive**
  - **X percent times (all costs; maintenance costs)**
- **Nonperformance reduction to incentive**



# Do Not Include

- **Do not include:**
  - **General overheads**
  - **Rate case elements**
  - **Previously incurred costs**
    - Capital costs
    - Inventory costs





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