

Variable Maintenance Operations Cost

	Consensus Design Criteria	Level	Status Quo	2011 CDS Brainstormed Potential Component Solutions						
				A	B	C	D	E	F	G
1	A Clear definition of VOM should be developed.	High	VOM from FERC form accounts, 10/20 year history.	VOM is the additional expenses resulting from electric production excluding long term fixed costs and TFRC.	VOM is the incremental cost for electric production outside of TFRC					
2	A Clear definition of cost categories eligible for VOM (VOM vs. ACR)	High	Overhauls for CT & CC in VOM. Steam Overhaul & Inspection in ACR.	Cost categories should include 1) short term consumables, 2) long term capital costs, 3) major component replacement/capital projects.	VOM should include 1) short term marginal cost. ACR should include 2) annual avoidable, 3) long term fixed.	Electric production non-fuel related costs and expenses resulting from unexpected equipment failures considering accepted life cycles and average failure rates.	Cost categories should include 1) short term marginal cost 2) annual avoidable, 3) long term fixed. Replacement is not VOM unless you are replacing something that should have lasted much longer Repair is variable.	Expected Replacement and Overhauls are ACR. Short term "patches" are VOM.	*** Further documentation for 10/17/2011 CDS meeting -- Define short term marginal costs	
3	A preferred source for determining VOM should be adopted	High	10/20 Year History escalated and levelized by either operating hours or fuel usage.	Only Actual current Costs should be included.	Industry Averages will be used.	Consumable Costs should be based on the method in the company's fuel cost policy	Forward Forecasted costs instead of actual cost to reflect operational configuration changes.	A detailed list of allowable items.	Generalized description of the type of items that can be included.	
4	Provides for a smooth transition to a new method	High	No Transition Required.	Change VOM methodology as of 2015/2016 BRA Auctions. New ACR 5/2012, New VOM 6/1/2015.	Switch to new VOM methodology as of Jan 1, 2012. Anything moved out of VOM will be adding into ACR offers for 2015/2016 DY at the 5/2012 BRA.	Costs may be transitioned immediately as these costs may already be included in the (RPM price - ACR). Implementation when language approved	Switch to new VOM methodology as of June 1, 2012. Anything moved out of VOM will be added into ACR offers for 2015/2016 DY at the 5/2012 BRA.	No Transition Required.		
5	Create a clear procedure for calculation of VOM Costs	High	Current M15 language is unclear.	Numerical calculation of VOM	Unit owner specific VOM cost policy	Consumable via a cost policy.	Numerical Calculation of VOM (special exceptions to be defined within the cost policy)			
6	Procedures distinguish among clearly defined categories of costs.	High	FERC accounting definitions are be used as guidance.	Repairs that are not post-pon-able and premature replacements should be included in VOM.	Replacement and Overhauls should never be included in VOM	Inspections, surveys, Preventative Maintenance should be considered fixed cost (baseline maintenance) and included in ACR or APIR.	All Categories (includes but not limited to - Short Run Marginal Cost, Repairs, Replacement, Overhauls) of Costs should be recoverable somewhere.	Short Term Fixes/Repairs should be included in VOM	Only Short Term Marginal Cost (Fuel and Consumable) shall be included (Excludes repairs, replacements, and capital).	Long Term Fixes/ replacements should be included in either ACR or APIR.

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7	Addresses Capital versus Expense accounting practices	Medium	Manual is silent on Individual Company capitalization policy.	Procedures and practices should be flexible enough to accommodate reasonable accounting practices of the resource's owner	PJM unit of property book. (PJM will come up with a consistent unit of property book)	No Capital costs are allowed in VOM	VOM and Capital Expenditures are to be defined by the nature of the work and not the accounting policy.			
8	A simple method available as an alternative	Low	No alternative method in M15.	Alternative available if generator has no or limited expense history	Alternative available if Generator has no resources to calculate VOM costs.	Standardized policy for VOM.	Non-consumable (Repair Cost) via administratively set value or established rules.	Class average to be made available for unit types.	Theoretical VOM by unit types to be published.	
9	Development of a clear calculation procedure so that the VOM calculated by the MMU and by market participants result in the same number. (MMU can verify resulting VOM value).	High	Calculation Procedure unclear	Consumables recovered defined within a unit's cost policy.	MMU has audit rights to maintenance expense items.					
10	Procedures can accommodate units under Long term Service Agreements.	Medium	LTSA's are only addressed for CT & CCs in the current M15	VOM and Capital Expenditures are to be defined by the nature of the work and not the contractual agreement.	Existing treatment of contract costs are grandfathered.	LTSA should calculate cost similar to other non-LTSA units.	LTSA contracts should be reviewed by MMU for reasonable allocation of costs.			