

Technical Session: Fuel Optimization Plan

Docket NEPR MI-2023-0004



May 23, 2024



Agenda

- Goals of Technical Session
- Fuel Optimization Initiatives
 - Relation to other dockets
- Next steps



Goals of Technical Session



Goals of Technical Conference and Procedural History

- Clarify procedural structure and relationship to other dockets
- Explore issues raised by proposed initiatives
- Discuss initiatives implemented in FY24
- Discuss initiatives not implemented in FY24



Fuel Optimization Initiatives



Categorizing Initiatives

- Initiatives where implementation will be addressed in other dockets first
 - #5 Price risk management
 - #7 Fuel swap and fuel conversion activities
- Initiatives implemented in FY24
 - #1 Reduce the fixed premium for ULSD
 - #2 Fuel reliability enhancements for ULSD
 - #4 Spot purchase option for FO and ULSD
- Pending initiatives
 - #3 Change in FO escalator and reduction of FO adder
 - #6 Payment terms management
 - #8 Asset supplementing initiatives



Initiatives w/ other dockets

➤ #5 Price risk management

- Subject of Docket No. NEPR-MI-2022-0004
- Energy Bureau agrees that price risk management could be valuable
- P3 Authority disagrees with Genera re: the formula to calculate cost savings
- Is it premature to set a compensation structure before there is an approved price risk management approach from Docket No. NEPR-MI-2022-0004?



Initiatives w/ other dockets

- #7 Fuel swap and fuel conversion initiatives
 - Palo Seco and Mayaguez are subject of Docket No. NEPR-MI-2024-0004
 - Savings depend on impact on dispatch of different plants (with different fuels and heat rates)
 - Is it appropriate to develop the record of initiative costs/benefits/impacts in Docket No. NEPR-MI-2024-0004 and then return to savings claims in an updated FOP?

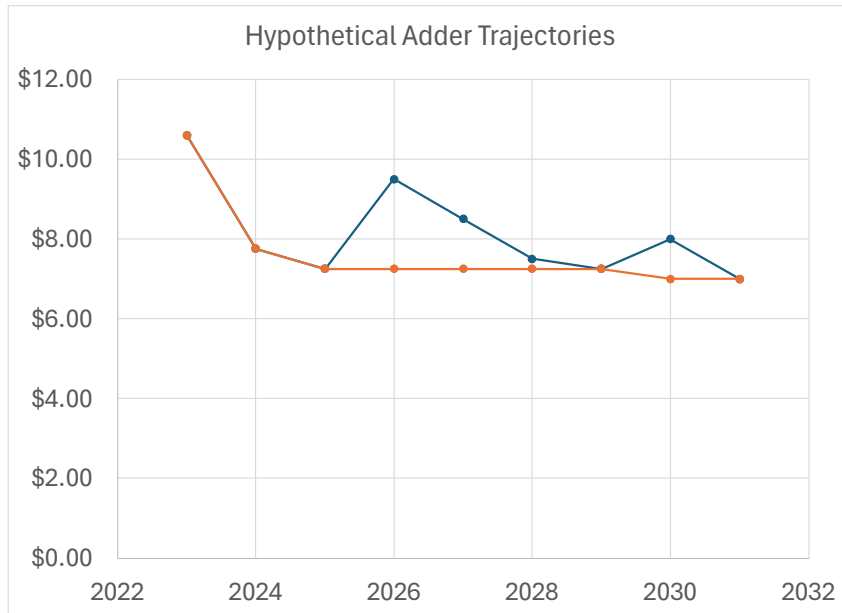


Initiatives implemented in FY24

- **#1 Reduce the fixed premium for ULSD**
 - Genera has secured an ULSD contract with a lower adder than the previous contract
 - Genera proposes that each year's premium will be compared against the previous year's premium to calculate savings (GPR-PREB-NEPRMI20230004-2024015-ATTA #1(a))
 - Genera proposes no penalty if the premium increases in subsequent years (GPR-PREB-NEPRMI20230004-2024015-ATTA #1(b))
 - Raises issues with regard to Genera's incentive to reduce overall costs



Baseline for fuel adder savings



- Seek a definition of the baseline for savings calculations that aligns Genera and ratepayer interests
- Desire to maintain Genera incentive to lower overall costs at all price points

Under Genera's proposed structure, at 4 million barrels/year, Genera incentive over time would be:
Higher blue trajectory: \$13.2 million
Lower orange trajectory: \$7.2 million



Initiatives implemented in FY24

- #2 Fuel reliability enhancements for ULSD
 - Supplier to provide additional working capacity
 - Minimum stock reserve of 100,000 barrels at their storage location
 - Therefore, the cost of the second (additional) barge is no longer required. (est. \$6.2M)
 - One-time savings
 - Over what time period are savings calculated?
 - What happens to Genera's savings claim if savings are lost, then re-acquired?



Initiatives implemented in FY24

- #4 Spot purchase option for FO and ULSD
 - Genera can purchase up to 25% of these fuels from other suppliers if they offer a lower adder than the base contract
 - How does Genera monitor the market to determine the right time and vendor to make a spot purchase?



Pending initiatives

- #3 Change in FO escalator and reduction of FO adder
 - Very similar to #1 (reduce adder for ULSD)
 - Raises similar issues regarding appropriate baseline



Pending initiatives

➤ #6 Payment terms management

- One-time cost to shift to shorter payment time
- E.g., to shift by 30 days, would require 13 months of fuel purchases in 12 months
- Where would these funds come from?
- Note that shifting back to longer time would allow “return of capital” (e.g., pay for only 11 months of fuel in 12 months)



Pending initiatives

- #8 Asset supplementing initiatives
 - Similar to #7 fuel swap/conversion
 - Would impact dispatch
 - Would have implications of/for resource plan
 - PREB would need to approve the supplemental generation, in addition o savings claim mechanism
GPR – PREB – NEPRM20230004 – 20240415 – ATTA #13 (a)



Next Steps



Next steps

- Genera to make any clarifying filings required from today's discussion
- Comments from public & stakeholders due June 7
- Energy Bureau will consider the record and develop order or further process as required