



Decision on Extension of Grid Management Charge through 2010

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We request approval to extend the current grid management charge.

- Expires at the end of 2009
 - Remains under the \$197 million cap
 - Includes one change as requested by stakeholders
- Requesting approval to modify the market usage forward energy (MUFE) charge code
 - Stakeholders do not want inter scheduling coordinator trades (ISTs) to be included in the MUFE charge code.
 - ISTs are currently charged a market usage charge while not having any physical energy on the grid.

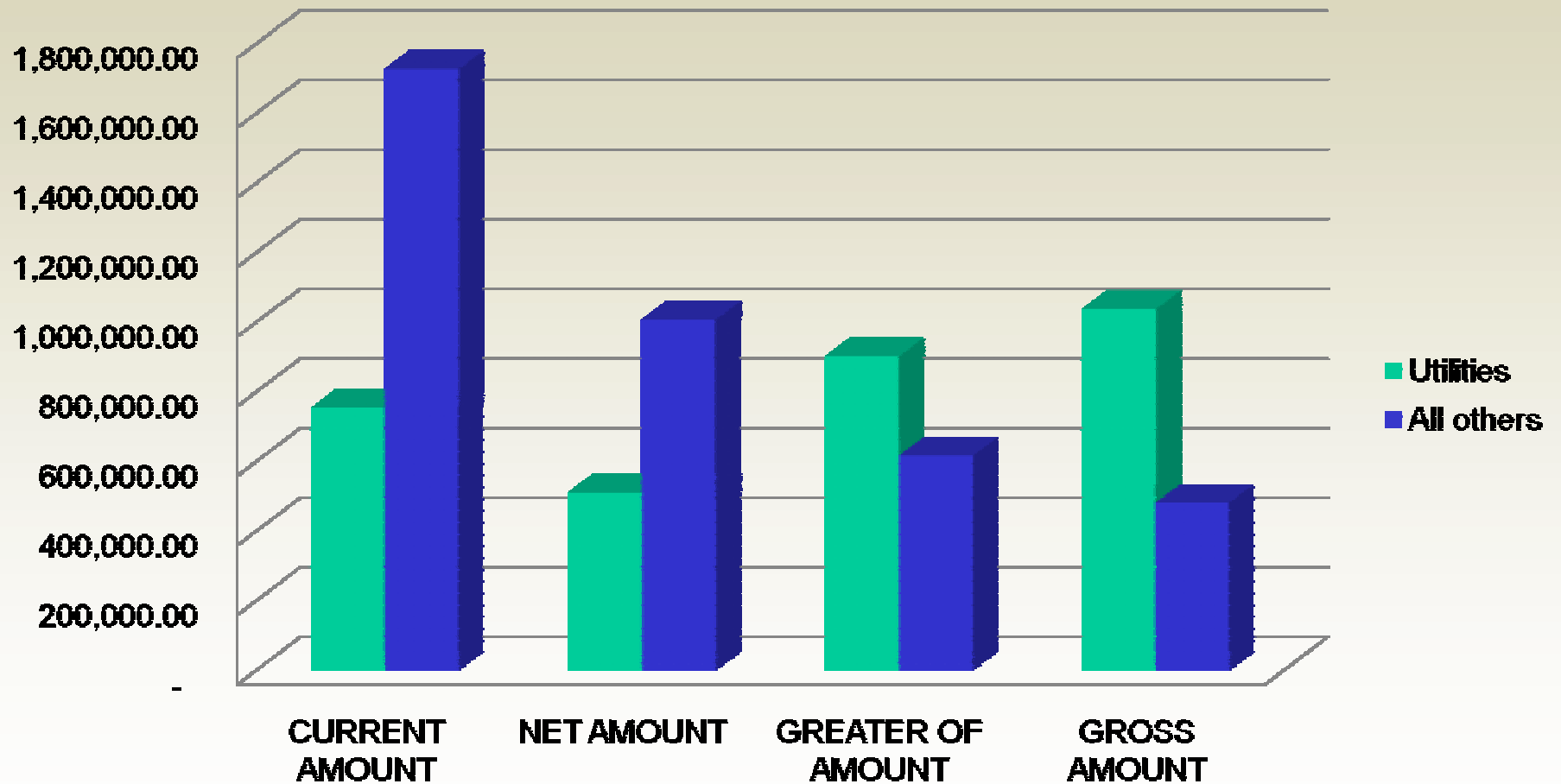
The MUFEE charge is designed to recover the ISO's forward market costs.

- Nets supply and demand and subtracts inter scheduling coordinator trades to determine the billable quantity
 - Abs $[(\text{generation} + \text{imports}) + (\text{load} + \text{exports}) - \text{ISTs}]$
 - Rate = ISO costs / forecast MWh's
 - The controversy is around the denominator

The ISO reviewed three options, all of which remove ISTs

- Netting option
 - Maintains the current formula
 - Tends to benefit those SCs with supply and demand in their portfolio
- Gross option
 - Adds supply and demand together
 - Tends to benefit those SCs with only supply or demand in their portfolio
 - Best captures cost causation
- “Greater of” option
 - Only uses the greater of an SCs supply or demand
 - Compromise between netting and gross

Below is a monthly example of the three utilities and all others:



Between August and October, stakeholders had three opportunities to contribute.

- A whitepaper with two options; netting or gross
- A straw proposal recommending netting
- A final proposal recommending the “greater of” option

The positions of the parties:

- All parties but one support the removal of ISTs
- The utilities and CDWR support netting
- NCPA supports the current formula
- Most other parties prefer gross but will support the “greater of” option as an interim solution

Management recommends the “greater of” option.

- The ISO looked at cost causation and bill impact as the primary factors
 - The ISO supports the gross methodology from a cost causation standpoint
 - This creates a significant bill impact for SC's with both supply and demand
- The ISOs final proposal acts as a gross calculation for most SCs, but mitigates the bill impact for those with supply and demand.