

California Independent System Operator Corporation
Fifth Replacement Electronic Tariff

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Appendix C

Locational Marginal Price

The CAISO shall calculate the price of Energy at Generation PNodes, Scheduling Points, and Aggregated Pricing Nodes, as provided in the CAISO Tariff. LMPs can be set by Bids to sell or purchase Energy. The CAISO establishes Trading Hub prices and LAPs as provided in the CAISO Tariff. The LMPs at PNodes, including Scheduling Points, and Aggregated Pricing Nodes include separate components for the marginal cost of Energy, Marginal Cost of Congestion, and Marginal Cost of Losses. As provided in Sections 6.5.3.2.2 and 6.5.5.2.4, Day-Ahead Market LMPs are calculated and posted on a Day-Ahead basis for each hour of the Day-Ahead Market for Energy and for each Dispatch Interval for the Real-Time LMPs.

A. LMP Composition

In each hour of the Day-Ahead Market for Energy, the CAISO calculates the LMP for each PNode, which is equal to the marginal cost of Energy available at the PNode in the hour, based on the Bids of sellers and buyers selected in the Day-Ahead Market for Energy as specified in the Day-Ahead Schedule. The CAISO designates a Reference Bus, r , for calculation of the System Marginal Energy Cost (SMECr). The CAISO uses a distributed Reference Bus to define an aggregate value of Energy for the CAISO Balancing Authority Area. The Locational Marginal Prices are not determined by resources that are not eligible to set the Locational Marginal Price, which includes resources that have constraints that prevent them from being marginal. For each bus other than the Reference Bus, the Transmission Provider determines separate components of the LMP for the marginal cost of Energy, Marginal Cost of Congestion, and Marginal Cost of Losses relative to the Reference Bus, consistent with the following equation:

$$LMP_i = SMEC_r + MCC_i + MCL_i$$

$$LMP_r = SMEC_r$$

where:

- SMEC_r is the LMP component representing the marginal cost of Energy (also referred to as λ) at the Reference Bus, r (System Marginal Energy Cost).

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- MCC_i is the LMP component representing the Marginal Cost of Congestion (also referred to as ρ) at bus i relative to the Reference Bus.
- MCL_i is the LMP component representing the Marginal Cost of Losses (also referred to as γ) at bus i relative to the Reference Bus.

B. The System Marginal Energy Cost Component of LMP

The SMEC shall be the same for each location throughout the system. SMEC is the sensitivity of the power balance constraint at the optimal solution. The power balance constraint ensures that the physical law of conservation of Energy (the sum of Generation and imports equals the sum of Demand, including exports and Transmission Losses) is accounted for in the network solution. For the designated reference location the CAISO will utilize a distributed Load Reference Bus for which constituent PNodes are weighted using the Reference Bus distribution factors. The Load distributed Reference Bus distribution factors are based on the Load Distribution Factors at each PNode that represents cleared Load in the Integrated Forward Market or forecast Load for MPM, RUC, HASP and RTM. In the Integrated Forward Market, in the event that the market is not able to clear based on the use of a distributed load Reference Bus, the CAISO will use a distributed generation Reference Bus for which the constituent nodes and the weights are determined economically within the running of the Integrated Forward Market based on available economic bids. In the event that the CAISO employs a distributed generation Reference Bus, it will notify Market Participants of which Integrated Forward Market runs required the use of this backstop mechanism. A distributed Load Reference Bus will be used for RUC, HASP and RTM regardless of whether a distributed Generation Reference Bus were used in the corresponding Integrated Forward Market run. Once the Reference Bus is selected, the System Marginal Energy Cost is the cost of economically providing the next increment of Energy at the distributed Reference Bus, based on submitted Bids.

C. Marginal Congestion Component Calculation

The CAISO calculates the Marginal Costs of Congestion at each bus as a component of the bus-level LMP. The Marginal Cost of Congestion (MCC_i) component of the LMP at bus i is calculated using the equation:

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$$MCC_i = -\left(\sum_{k=1}^K PTDF_{ik} * FSP_k\right)$$

where:

- K is the number of thermal or interface Transmission Constraints.

$PTDF_{ik}$ is the Power Transfer Distribution Factor for the generator at bus i on interface k which limits flows across that constraint when an increment of power is injected at bus i and an equivalent amount of power is withdrawn at the Reference Bus. The industry convention is to ignore the effect of losses in the determination of PTDFs.

- FSP_k is the constraint Shadow Price on interface k and is equivalent to the reduction in system cost expressed in \$/MWh that results from an increase of 1MW of the capacity on interface k .

The Shadow Price at a given binding Transmission Constraint is the value per MW of the next increment of generation that would flow across the constrained path by relaxing the binding Transmission Constraint. The PTDF of a PNode with respect to a transmission path (and direction on the path) measures the change in the power flow through the path (positive or negative, with respect to the designated direction on the path) as a result of an incremental injection at the Node, balanced by incremental change of Load at the Reference Bus.

D. Marginal Losses Component Calculation

The CAISO calculates the Marginal Cost of Losses (MCL_i) at each bus i as described in Section 27.1.1.2. The MCL component of the LMP at any bus i within the CAISO's Balancing Authority Area is calculated using the equation:

$$MCL_i = MLF_i * SMEC_r$$

Where:

- MLF_i is the marginal loss factor for PNode i to the system Reference Bus, based on an AC power flow solution. The marginal loss factor at a PNode is the incremental change in the quantity (MW) of transmission losses in the network resulting when serving an increment of Load at the PNode from the Reference Bus.
 - MLF_i is equal to $1 - \partial L / \partial G_i$, where: L is system losses, G_i is "generation injection" at PNode i , $\partial L / \partial G_i$ is the partial derivative of system losses with

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respect to generation injection at bus i , that is, the incremental change in system losses associated with an incremental change in the generation injections at bus i holding constant other injection and withdrawals at all buses other than the Reference Bus and bus i .

- SMEC_r is the SMEC at the Reference Bus, r .

E. Trading Hub Price Calculation

The CAISO calculates Existing Zone Generation Trading Hub prices, as provided in Section 27.3, based on the LMP calculations described in this Attachment and in Section 27.2.

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F. Load Zone Price Calculation

The CAISO calculates LAP prices as described in Sections 27.2.2.

G. Intertie Scheduling Point Price Calculation

The CAISO calculates LMPs for Scheduling Points, which are represented in the FNM as PNodes or aggregations of PNodes, external to the CAISO Balancing Authority Area, through the same process that is used to calculate LMPs within the CAISO Balancing Authority Area. In some cases, facilities that are part of the CAISO Controlled Grid but are external to the CAISO Balancing Authority Area connect some Intertie Scheduling Points to the CAISO Balancing Authority Area, and in these cases the Scheduling Points are within external Balancing Authority Areas. In both of these cases, the Scheduling Points are represented in the FNM. The CAISO places injections and withdrawals at the Scheduling Point PNodes to represent Bids and Schedules whose supporting physical injection and withdrawal locations may be unknown, and the LMPs for Settlement of accepted Bids are established at the Scheduling Point PNodes.

G.1 Intertie Scheduling Point Price Calculation for IBAA

G.1.1 Scheduling Point Prices

As described in Section 27.5.3, the CAISO's FNM includes a full model of the network topology of each IBAA. The CAISO will specify Resource IDs that associate Intertie Scheduling Point Bids and Schedules with supporting injection and withdrawal locations on the FNM. These Resource IDs may be specified by the CAISO based on the information available to it, or developed

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pursuant to a Market Efficiency Enhancement Agreement. Once these Resource IDs are established, the CAISO will determine Intertie Scheduling Point LMPs based on the injection and withdrawal locations associated with each Intertie Scheduling Point Bid and Schedule by the appropriate Resource ID. In calculating these LMPs the CAISO follows the provisions specified in Section 27.5.3 regarding the treatment of Transmission Constraints and losses on the IBAA network facilities. Unless otherwise required pursuant to an effective MEEA, the default pricing for all imports from the IBAA(s) to the CAISO Balancing Authority Area will be based on the SMUD/TID IBAA Import LMP and all exports to the IBAA(s) from the CAISO Balancing Authority Area will be based on the SMUD/TID IBAA Export LMP. The SMUD/TID IBAA Import LMP will be calculated based on modeling of supply resources that assumes all supply is from the Captain Jack substation as defined by WECC. The SMUD/TID IBAA Export LMP will be calculated based on the Sacramento Municipal Utility District hub that reflects Intertie distribution factors developed from a seasonal power flow base case study of the WECC region using an equivalencing technique that requires the Sacramento Municipal Utility District hub to be equivalenced to only the buses that comprise the aggregated set of load resources in the IBAA, with all generation also being retained at its buses within the IBAA. The resulting load distribution within each aggregated set of load resources within the IBAA defines the Intertie distribution factors for exports from the CAISO Balancing Authority Area.

G.1.2 Applicable Marginal Losses Adjustment

For import Schedules to the CAISO Balancing Authority Area at the southern terminus of the California-Oregon Transmission Project at the Tracy substation or at the applicable Scheduling Point that connects the CAISO Balancing Authority and the Western Area Power Administration system, the CAISO will replace the Marginal Cost of Losses at the otherwise applicable source for such Schedules with the Marginal Cost of Losses at the Tracy substation or at the applicable Scheduling point that connects the CAISO Balancing Authority Area and the Western Area Power Administration system, provided that the Scheduling Coordinators certify as discussed further below that the Schedules originate from transactions that use: (a) the California-Oregon Transmission Project; or (b) transmission facilities owned by the Western Area Power

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Administration within the SMUD/TID IBAA. In addition, as described further below, the Scheduling Coordinator must certify that the Schedules are subject to: (a) charges for losses by the Western Area Power Administration for the use of transmission facilities owned by the Western Area Power Administration within the SMUD/TID IBAA; or (b) charges for losses by the Transmission Agency of Northern California for the use of the California-Oregon Transmission Project. The CAISO will establish Resource IDs that are to be used only to submit Bids, including Self-Schedules, for the purpose of establishing Schedules that are eligible for this loss adjustment.

Prior to obtaining such Resource IDs, the relevant Scheduling Coordinator shall certify that it will only use this established Resource ID for Bids, including Self-Schedules, that originate from transactions that use: (a) the California-Oregon Transmission Project; or (b) transmission facilities owned by the Western Area Power Administration within the SMUD/TID IBAA. In addition, the Scheduling Coordinator must certify that the Schedules are subject to: (a) charges for losses by the Western Area Power Administration for the use of transmission facilities owned by the Western Area Power Administration within the SMUD/TID IBAA; or (b) Transmission Agency of Northern California for the use of the California-Oregon Transmission Project. Further, by actually using such Resource ID, the Scheduling Coordinator represents that such Bids, including Self-Schedules, that originate from transactions that use: (a) the California-Oregon Transmission Project; or (b) transmission facilities owned by the Western Area Power Administration within the SMUD/TID IBAA. In addition, the Scheduling Coordinator must certify that the Schedules are subject to: (a) charges for losses by the Western Area Power Administration for the use of transmission facilities owned by the Western Area Power Administration within the SMUD/TID IBAA; or (b) Transmission Agency of Northern California for the use of the California-Oregon Transmission Project. Schedules and Dispatches settled under such Resource IDs shall be subject to an LMP which has accounted for the Marginal Cost of Losses as if there were an actual physical generation facility at the Tracy Scheduling Point or at the applicable Scheduling Point that connects the CAISO Balancing Authority Area and the Western Area Power Administration system as opposed to the Marginal Cost of Losses under the IBAA LMPs specified in Section

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G.1.1 of this Appendix. The CAISO may request information on a monthly basis from such Scheduling Coordinators to verify these certifications. Any such request shall be limited to transactions that use the designated Resource IDs during the six month prior period to the date of the request. The CAISO will calculate a re-adjustment of the Marginal Cost of Losses at the Tracy substation or at the applicable Scheduling Point that connects the CAISO Balancing Authority Area and the Western Area Power Administration system to reflect the otherwise applicable source for such Schedules for any Settlement Interval in which the CAISO has determined that the Scheduling Coordinator's payments did not reflect transactions that meet the above specified certification requirements. Any amounts owed to the CAISO for such Marginal Cost of Losses re-adjustments will be recovered by the CAISO from the affected Scheduling Coordinator by netting the amounts owed from payments due in subsequent Settlements Statements until the outstanding amounts are fully recovered.

For export Schedules from the CAISO Balancing Authority Area at the southern terminus of the California-Oregon Transmission Project at the Tracy substation or at the applicable Scheduling Point that connects the CAISO Balancing Authority Area and the Western Area Power Administration system, the CAISO will replace the Marginal Cost of Losses at the otherwise applicable sink for such Schedules with the Marginal Cost of Losses at the Tracy substation or at the applicable Scheduling Point that connects the CAISO Balancing Authority Area and the Western Area Power Administration system, provided that the Scheduling Coordinator certifies, as discussed below, where the export Schedules use: (a) the California-Oregon Transmission Project; or (b) any transmission facilities owned by the Western Area Power Administration within the SMUD/TID IBAA. In addition, the Scheduling Coordinator must certify that the affected Schedules are charged losses by: (a) the Western Area Power Administration for the use of transmission facilities owned by the Western Area Power Administration within the SMUD/TID IBAA; or (b) Transmission Agency of Northern California for the use of the California-Oregon Transmission Project. The CAISO will establish Resource IDs that are to be used only to submit Bids, including Self-Schedules, for the purpose of establishing Schedules that are eligible for this loss adjustment. Prior to obtaining such Resource IDs, the relevant Scheduling Coordinator shall

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certify that it will only use this established Resource ID for Bids, including Self-Schedules, where the export Schedules use: (a) the California-Oregon Transmission Project; or (b) any transmission facilities owned by the Western Area Power Administration within the SMUD/TID IBAA. In addition the Scheduling Coordinator must certify that the affected Schedules are charged losses by: (a) the Western Area Power Administration for the use of transmission facilities owned by the Western Area Power Administration within the SMUD/TID IBAA; or (b) Transmission Agency of Northern California for the use of the California-Oregon Transmission Project. Further, by actually using such Resource ID, the Scheduling Coordinator represents that such Bids, including Self-Schedules, are used for the above specified conditions.

Schedules and Dispatches settled under such Resource IDs shall be subject to an LMP which has accounted for the Marginal Cost of Losses as if there were an actual physical generation facility at the Tracy Scheduling Point or at the applicable Scheduling Point that connects the CAISO Balancing Authority Area and the Western Area Power Administration system as opposed to the Marginal Cost of Losses under the IBAA LMPs specified in Section G.1.1 of this Appendix. The CAISO may request information on a monthly basis from such Scheduling Coordinators to verify that schedules for such Resource IDs meet the above specified conditions. Any such request shall be limited to transactions that use the designated Resource IDs during the six month prior period to the date of the request.

The CAISO will calculate a re-adjustment of the Marginal Cost of Losses at the Tracy substation or at the applicable Scheduling Point that connects the CAISO Balancing Authority Area and the Western Area Power Administration system to reflect the otherwise applicable sink for such Schedules for any Settlement Interval in which the CAISO has determined that the Scheduling Coordinator's payments did not reflect transactions that met the above specified conditions. Any amounts owed to the CAISO for such Marginal Cost of Losses re-adjustments will be recovered by the CAISO from the affected Scheduling Coordinator by netting the amounts owed from payments due in subsequent Settlements Statements until the outstanding amounts are fully recovered.

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