Decision on Price Correction Make-Whole Payment to Accepted Demand Bids

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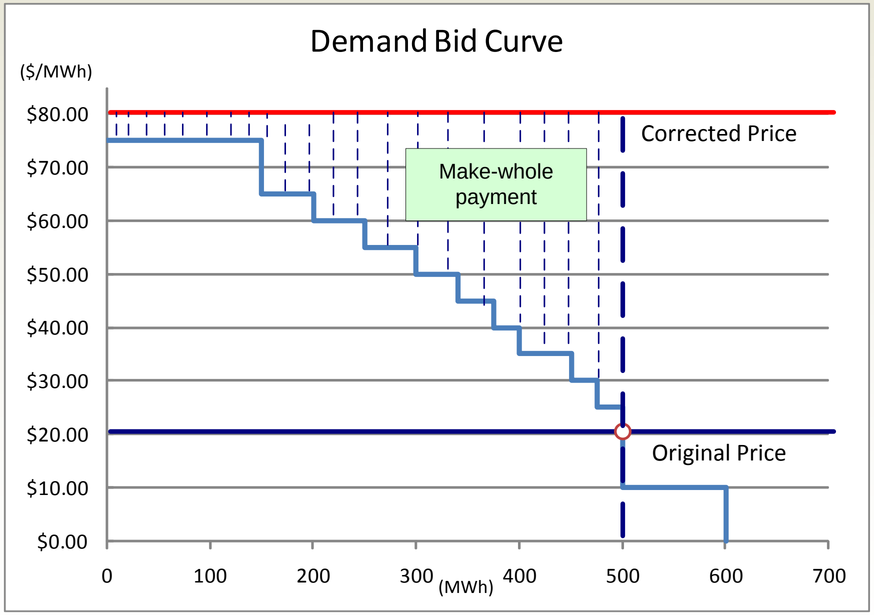
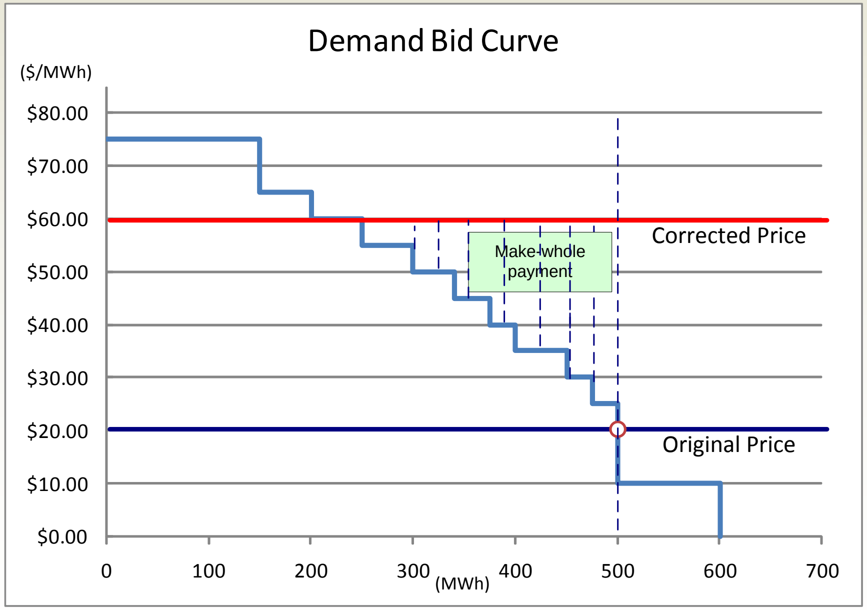
Price corrections can cause buyers to pay prices higher than they were willing to.

- Prices are corrected when invalid market solutions occur;
- Settlement provisions already in place to make-whole supply resources; and
- Need policy to address price corrections resulting in prices charged to demand that are higher than bid offer price.

When prices are adjusted upward demand bids that cleared the market may no longer be economic.

- *Make-whole payment based on difference between bid curve and corrected price*





Downward trend of price corrections and low make-whole payment costs justify simple, low cost solution.

- Make-whole payments would have averaged approximately $400k during first 3 months of new market.
- More recently, make-whole payment costs have averaged less than $50k per month.
- Propose to recover costs through current neutrality charges.

Stakeholders generally agree with proposal but raised the following concerns:

- Calculate payment based on lowest bid segment accepted;
- Allocate costs to supply; and
- Revisit if costs increase over time
  - ISO will post monthly report of the cost impact of the make-whole payments

Management requests Board approval for the proposal.

- Fairly compensates market participants
- Implementation targeted for summer 2010