

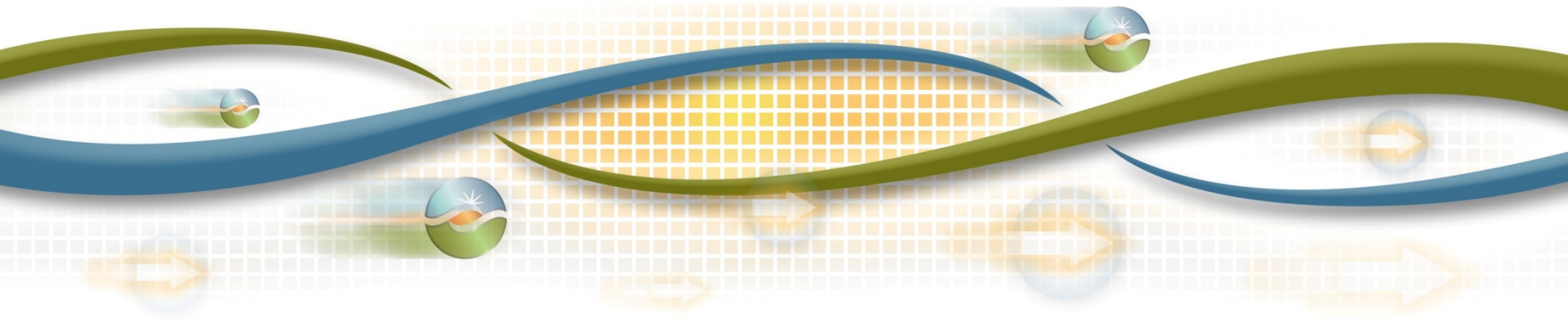


California ISO
Shaping a Renewed Future

Briefing on commitment costs policy initiative

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In 2012, the Board approved provisions to allow generators to recover additional start-up and minimum load costs.

- One provision provided for limited recovery of gas pipeline flow penalties due to ISO dispatch.
- FERC filing did not include this provision due to subsequent concerns about undermining pipeline reliability.
- In September 2014, ISO started a new stakeholder initiative to revisit the policy.
 - Goal was to fully mitigate pipeline reliability concerns.

The ISO has not been able to find a path forward that fully addresses pipeline reliability concerns.

- Worked with stakeholders, including interstate and intrastate pipeline companies.
- Unable to find a resolution that effectively addresses competing issues:
 - Supplier concerns related to recovery of gas procurement costs including pipeline penalties, and
 - Potential negative impacts on reliability of gas system.

Management will further consider this issue in light of key industry changes that are underway.

- Increased ISO activities to coordinate with gas companies on operation of both electric and gas systems.
- Activity in FERC's gas/electric coordination rulemaking, which will likely include adding later gas nomination times.
- Southern California Gas Company's proposal to implement new rules for operational flow orders.

Stakeholders generally support the ISO position on pipeline penalties, but some have other concerns related to cost recovery.

- Most stakeholders do not oppose ISO taking no action.
 - Some concerned that they continue to be at risk of unrecoverable pipeline penalty costs.
- Some stakeholders primary concern is that ISO is not doing enough to address recovery of actual gas costs incurred due to ISO dispatch.

ISO has undertaken several initiatives to increase bidding flexibility and address recovery of gas costs.

- Commitment costs enhancements tariff provisions (filed with FERC and expected to be in place this winter).
- Commitment costs enhancements phase 2 initiative (underway).
- Bidding rules initiative (underway).

Management believes this initiative should be closed and will monitor changes in the gas industry.

- During 2015 ISO will monitor gas industry changes before reconsidering how, or whether, gas penalties should be treated in ISO market.
- Stakeholder concerns expressed in this initiative will be explored in bidding rules initiative.
- If action on penalty recovery is needed in future, ISO would start a new stakeholder initiative.