

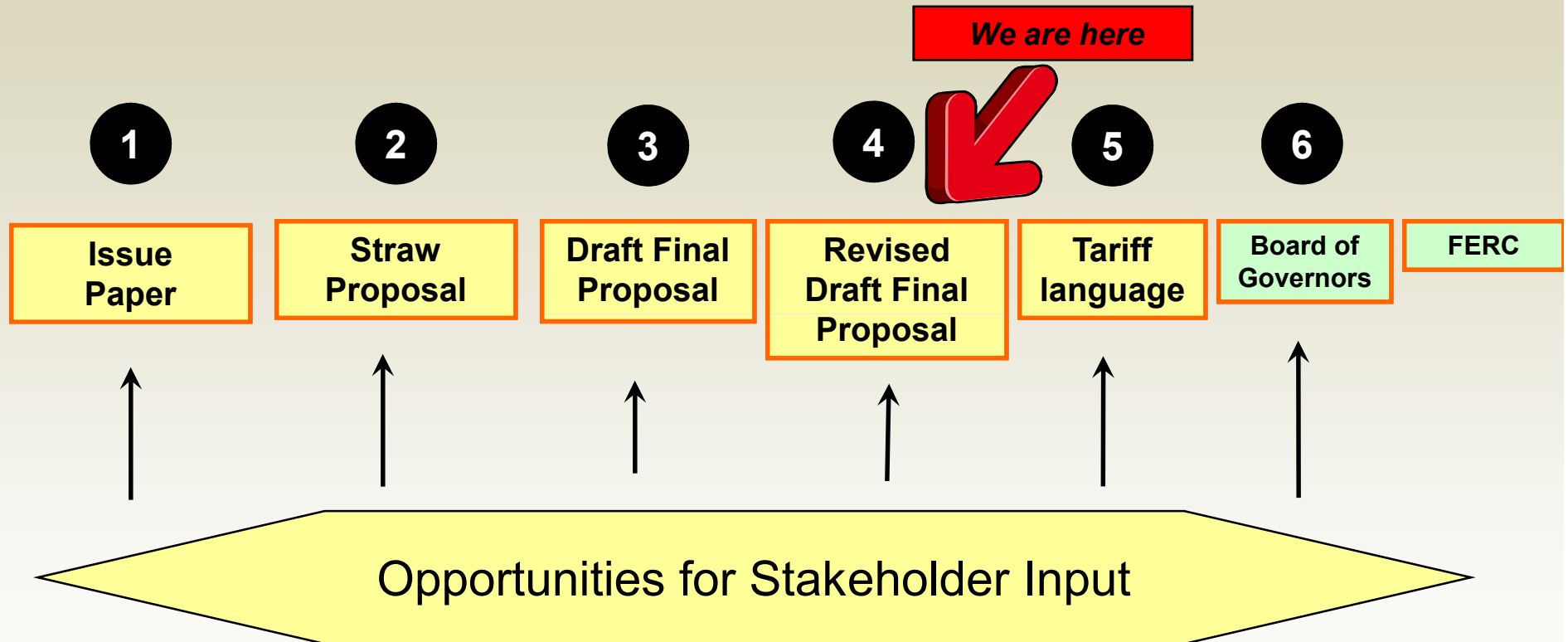


Capacity Procurement Mechanism and Exceptional Dispatch

Market Surveillance Committee Meeting
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We are in the revised draft final proposal phase of the stakeholder process.



The backstop procurement mechanism and Exceptional Dispatch need to be updated.

- FERC has established sunset date of March 31, 2011 for
 - Current backstop provisions (the Interim Capacity Procurement Mechanism, or “ICPM”)
 - Pricing elements of Exceptional Dispatch
 - Bid mitigation element of Exceptional Dispatch
- There is a continuing need for a backstop mechanism and Exceptional Dispatch
- FERC has ordered that successor tariff be filed 120-days prior to March 31, 2011, i.e., by December 1, 2010

The backstop allows the ISO to procure capacity to maintain grid reliability if:

- Load-serving entities fail to meet Resource Adequacy (“RA”) requirements;
- RA requirements are met, but procured RA is insufficient to meet local reliability constraints;
- Unexpected conditions, such as a major transmission outage, create need to procure additional capacity above procured RA capacity; or
- ISO requires capacity not covered by RA, Reliability Must-Run contract or existing ICPM through issuance of an Exceptional Dispatch.

Exceptional Dispatch is a term used to describe a commitment or dispatch done manually by the ISO.

- Used where unit commitments and/or energy dispatches made by market software did not fully address a particular reliability need
- Can be issued to address
 - Generation or transmission facilities issues
 - Local or system needs
- To extend possible ISO utilizes solutions selected by market applications before issuing an Exceptional Dispatch

Exceptional Dispatch bid mitigation prevents resources from exercising market power.

- Mitigates bids for Exceptional Dispatches in two circumstances
 - Exceptional Dispatches issued to mitigate congestion on non-competitive paths
 - Exceptional Dispatches made under “delta dispatch” procedures

ISO proposes to extend the majority of the existing backstop and Exceptional Dispatch tariff.

- Current provisions are working reasonably well - ISO proposes to extend them
- Some enhancements are proposed that fall into the following two categories
 - Price paid for capacity (needs to be updated - been two years since current price was established)
 - Tools to address growing amount of intermittent generation in supply fleet going forward

The proposal contains 11 key elements.

1. File Capacity Procurement Mechanism (“CPM”) and Exceptional Dispatch tariff provisions with no sunset date
2. Provide that ICPM procurement with term that extends beyond March 31, 2011 can be carried forward into CPM and paid CPM rate after March 31 without doing a new CPM procurement
3. Pro-rate compensation paid to CPM capacity that later goes out on planned outage after being procured under CPM

The proposal (continued)

4. Improve current criteria for selecting from among eligible capacity for CPM procurement by adding a criterion to establish a preference for non-use-limited resources over use-limited resources
5. Improve current criteria for selecting from among eligible capacity for CPM procurement by adding a criterion to establish an ability to select for needed operational characteristics

The proposal (continued)

6. Procure capacity to allow certain planned transmission or generation maintenance to occur
7. Procure capacity in situations where the output of intermittent RA resources is significantly lower than their RA values
8. Procure capacity that is needed for reliability but is at risk of retirement

The proposal (continued)

9. Base compensation paid for CPM on “going-forward fixed costs” plus a 10% adder (\$55/kW-year per CEC report), or higher price filed/approved at FERC, with price updated every two years
10. Compensate Exceptional Dispatch at same rate as compensation paid under CPM, or supplemental revenues option
11. Mitigate bids for Exceptional Dispatches: (1) to mitigate congestion on non-competitive paths, and (2) made under “delta dispatch” procedures

Next Steps

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| Oct 14 | MSC posts Draft Opinion |
| Oct 18 | MSC holds stakeholder call to adopt Opinion |
| Nov 1-2 | ISO presents proposal to Board of Governors |
| Dec 1 | ISO files tariff at FERC |