



California ISO
Shaping a Renewed Future

Commitment Costs Comments

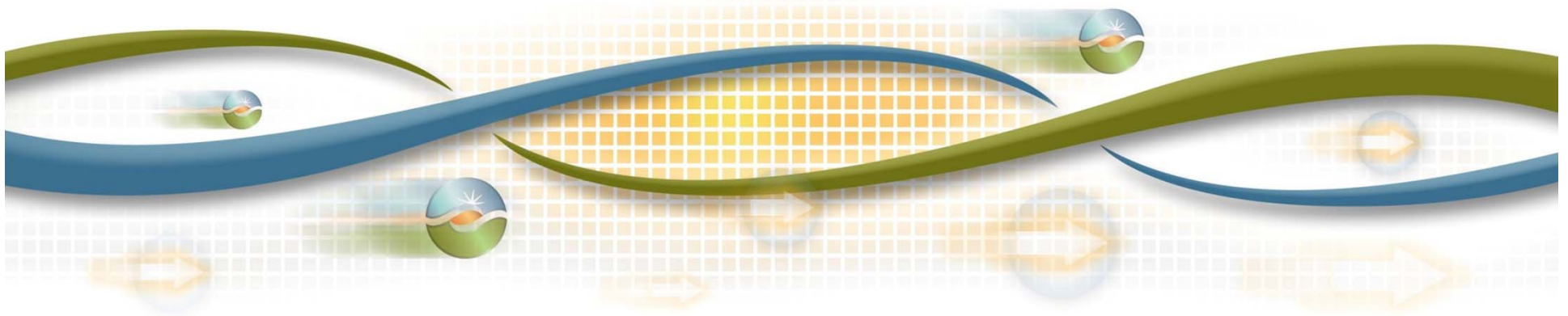
Market Surveillance Committee meeting

March 30, 2012

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Chair, CAISO MSC

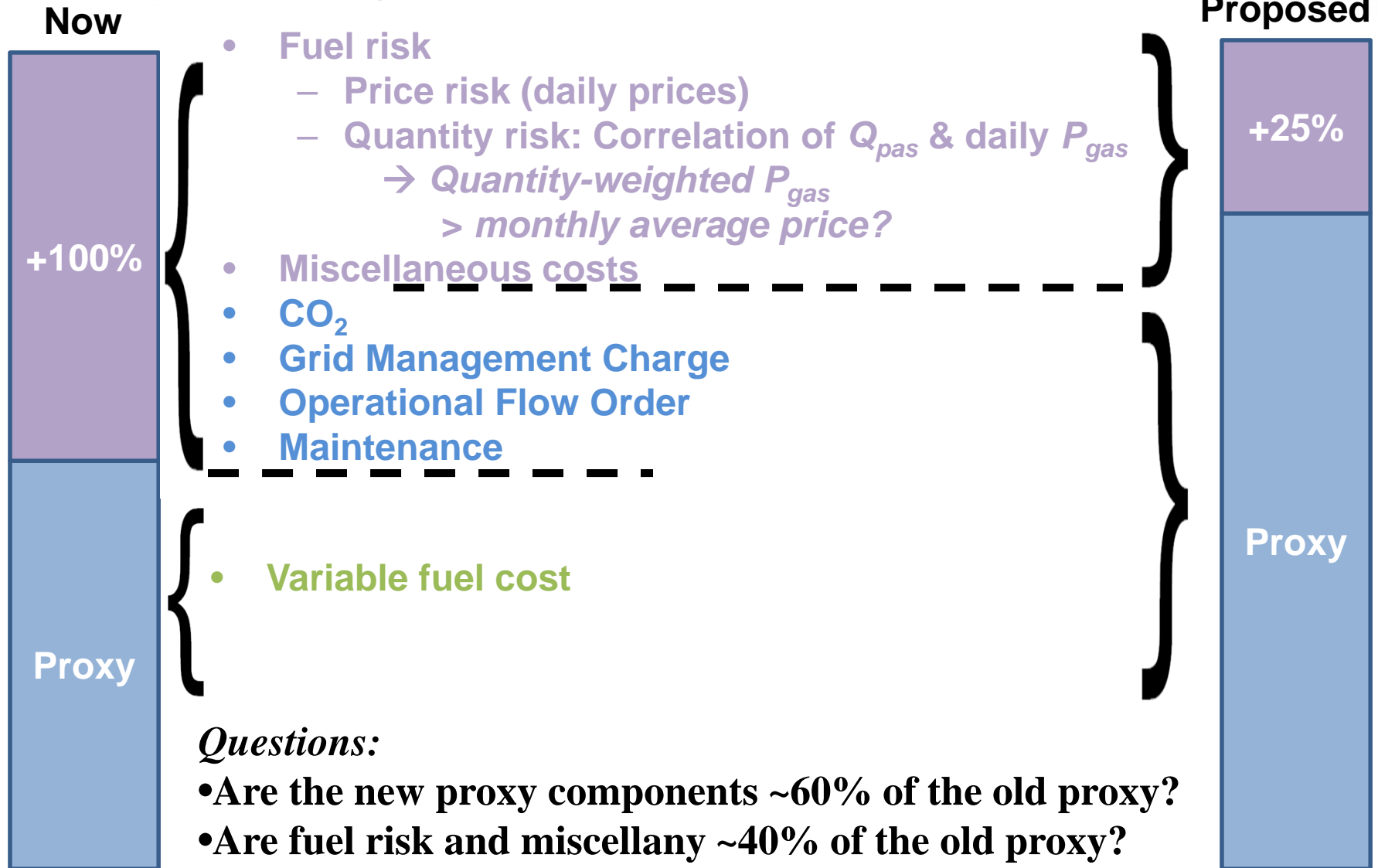
The Johns Hopkins University



Principles for Registered Cost Option

- *Goldilocks principle:*
 - Avoid negative margins that discourage participation
 - Avoid large margins that encourage games
- *Proxy should be high enough to accommodate \$/MWh variable costs*
 - E.g., fuel, emissions allowances, grid management charges
 - Exclude fixed cost components
- *Avoid burdensome recalculations long after fact*
 - E.g., if a small source previously exempt from CARB winds up exceeding 25,000 tons CO₂/yr
- *Motivate efficiency: incent reductions in variable costs*
 - Incentive stronger if payment not reduced if costs reduced
 - Compromise: base payment on benchmark costs rather than actual expenditures

Registered Cost Limit



Questions:

- Are the new proxy components ~60% of the old proxy?
- Are fuel risk and miscellany ~40% of the old proxy?
- Were fuel risks previously over or under estimated?