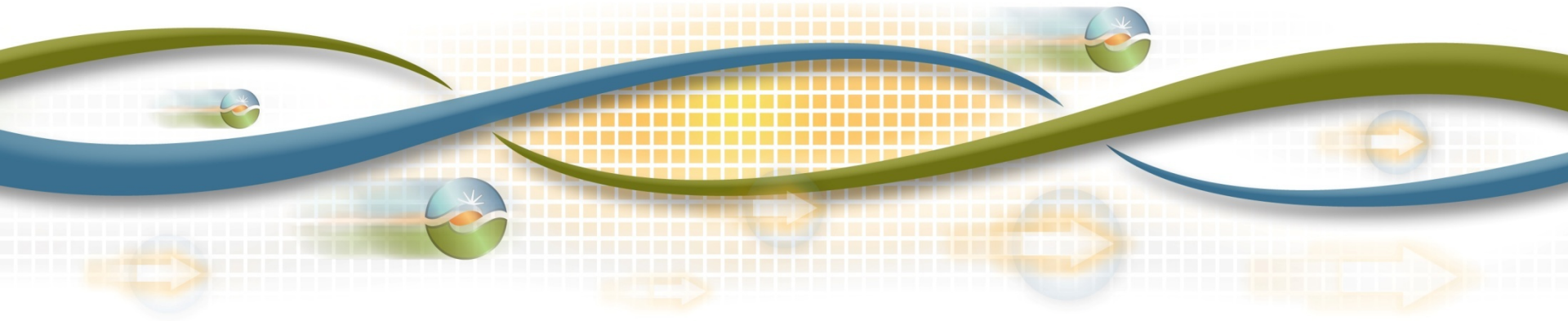


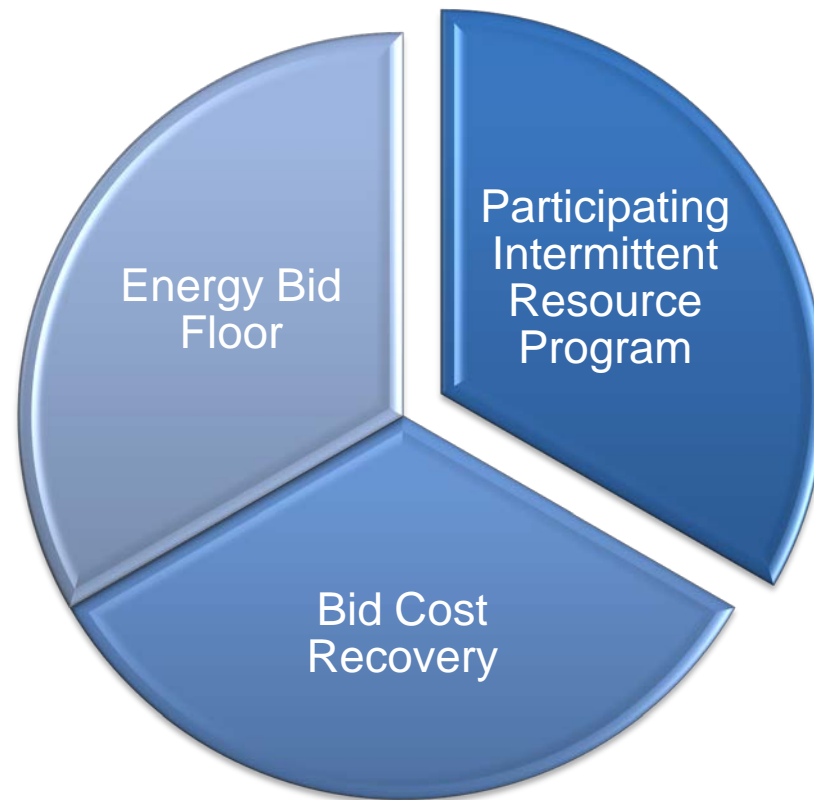
Decision on Renewable Integration – Market and Product Review Phase 1

Greg Cook
Director, Market & Infrastructure Policy

Board of Governors Meeting
General Session
December 15-16, 2011



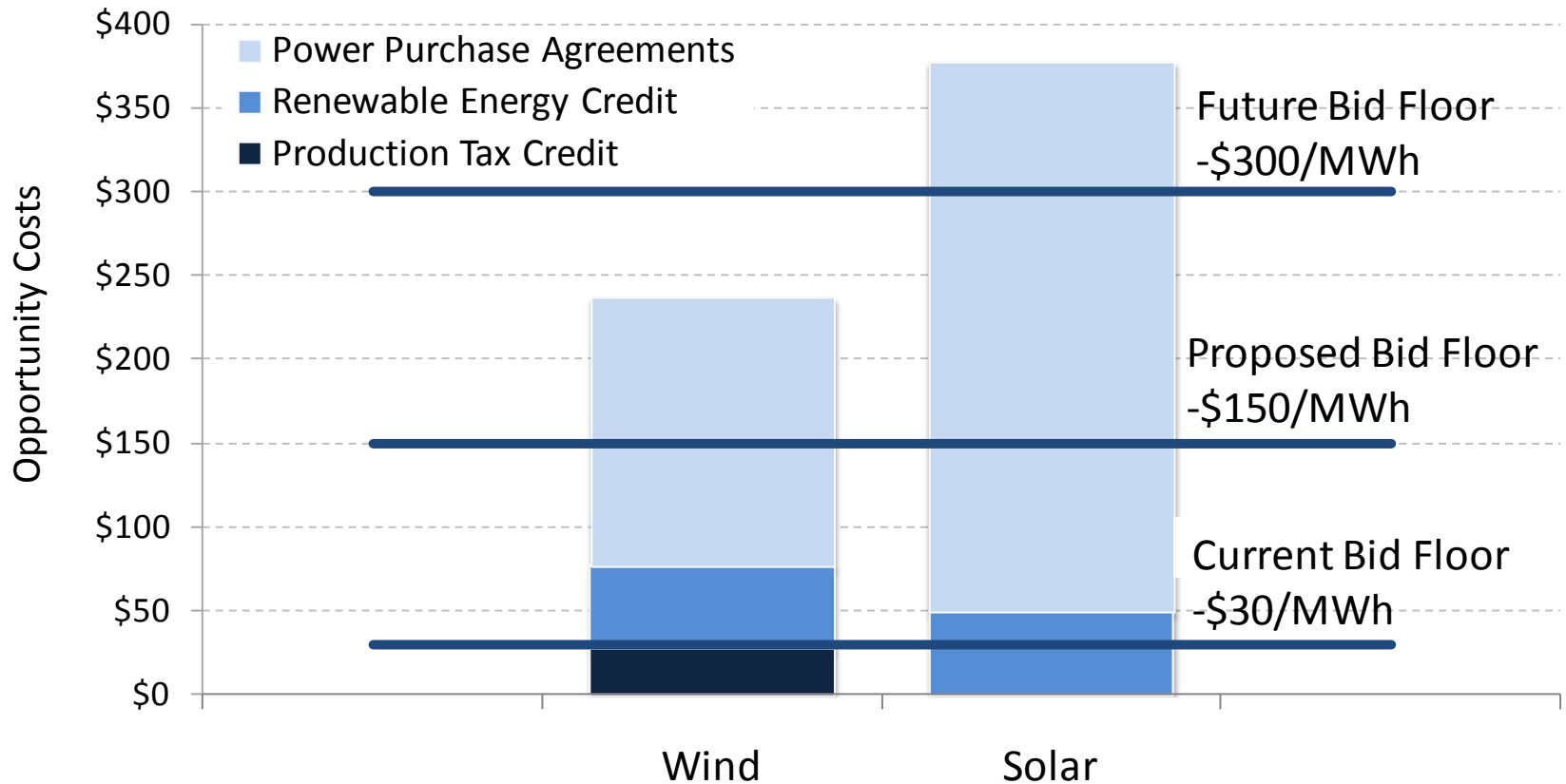
The scope of the Renewable Integration Market and Product Review Phase 1 originally encompassed three elements.



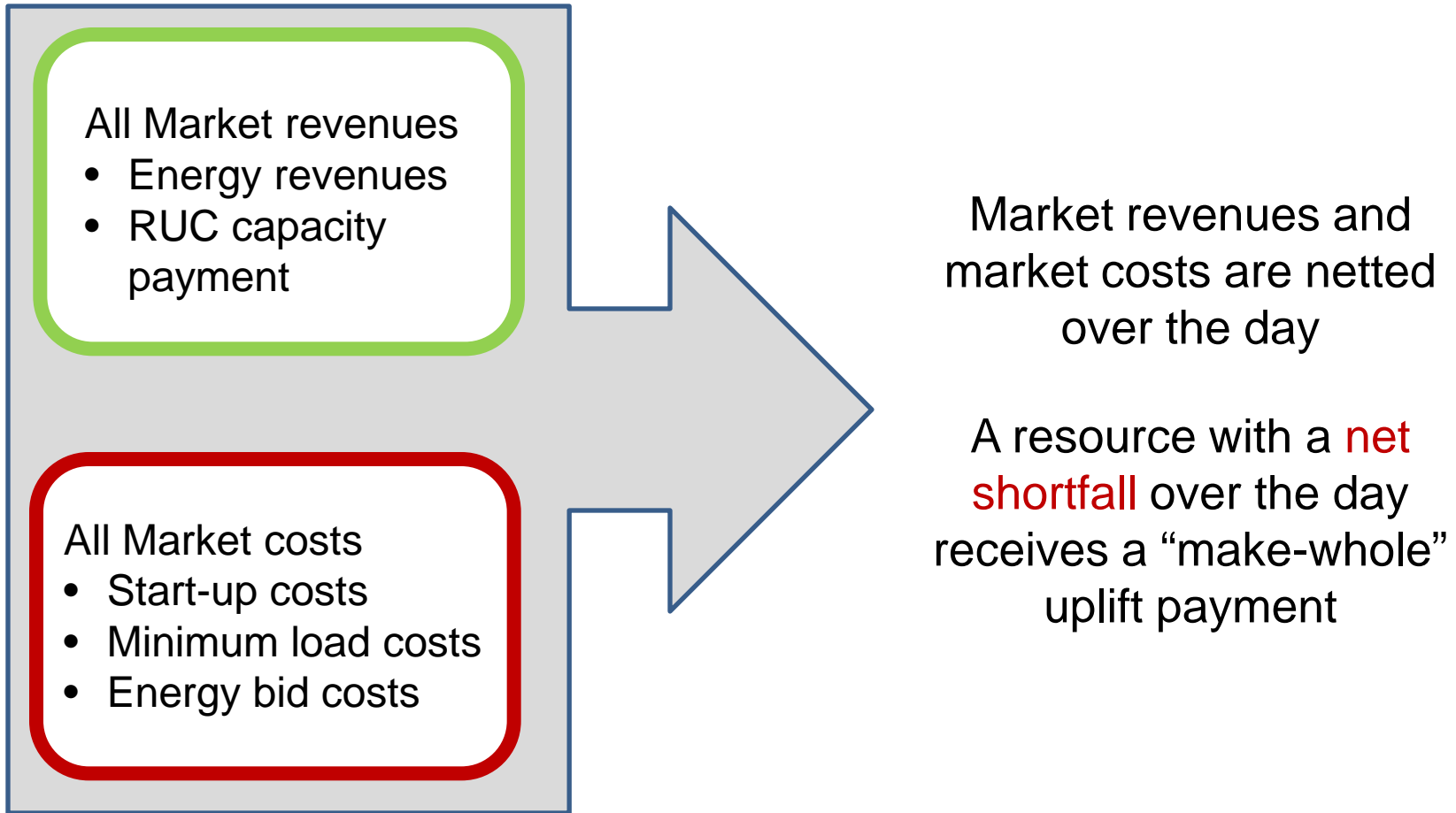
Potential changes to participating intermittent resource program deferred due to unresolved concerns.

- PIRP implemented in 2002 to mitigate risks of real-time deviations of intermittent resources
 - Pay resources based on ISO forecast derived real time schedules
 - Deviations from schedule are charged or paid monthly average price
 - Socialization of costs caused by PIRP settlement
- PIRP insulates resources from changes in real-time prices
 - No incentive to adjust output in response to changes in real-time operational conditions
 - Without PIRP, current market structure does not provide opportunity to schedule resources after day ahead market
- PIRP changes will be further considered in 2012
 - Allow decremental bidding for PIRP resources

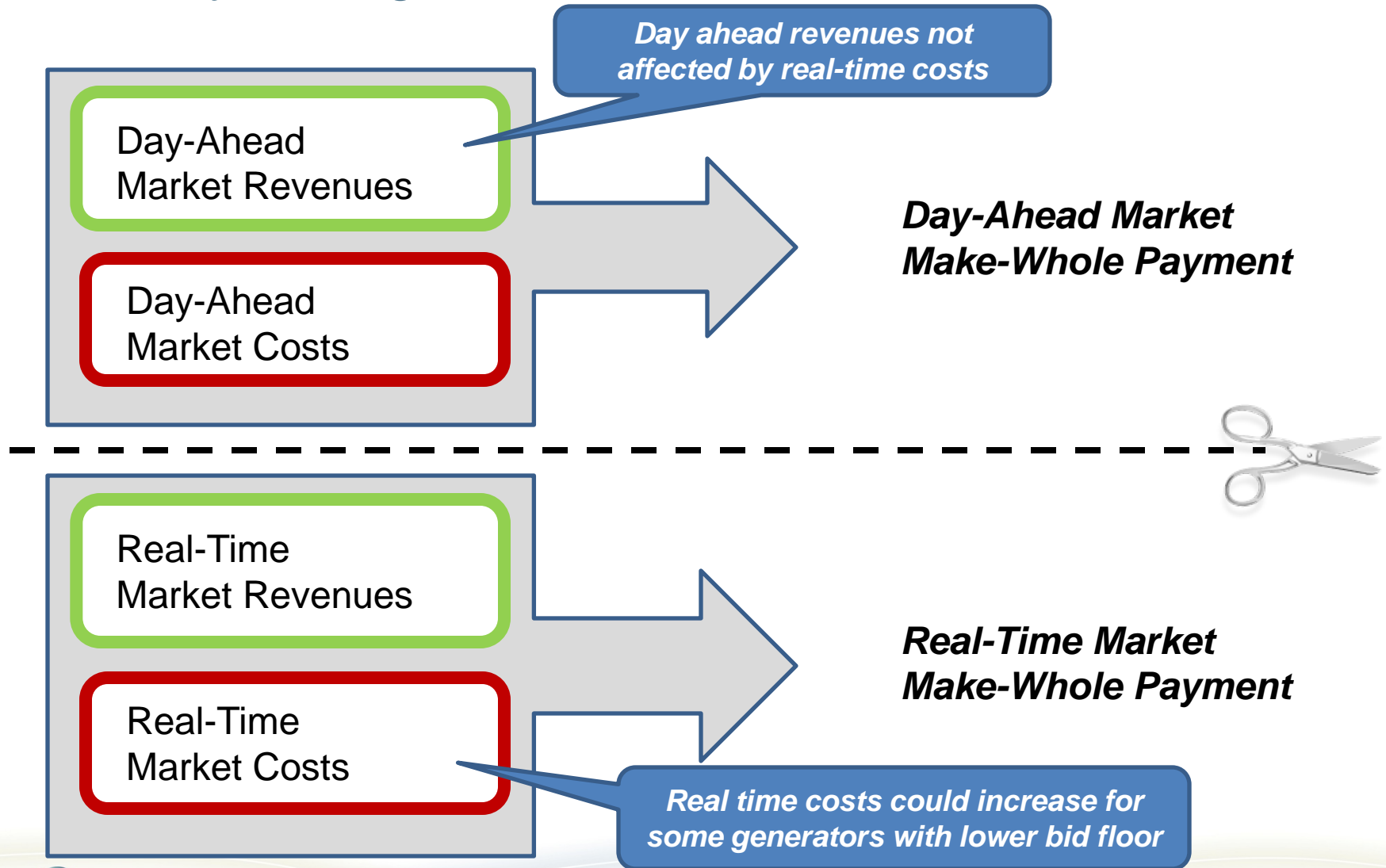
The energy bid floor must be low enough to incent resources to be available for curtailment of output.



Bid cost recovery provides for a make-whole payment when a resource's revenues do not cover its costs.



Management recommends the separation of bid cost recovery netting.



In response to stakeholder feedback, additional bid cost recovery measures will be further vetted.

- A follow-on stakeholder process will further consider mitigation measures to align incentives to follow ISO dispatch instructions
- Management will seek Board approval for the recommended changes resulting from further refinement and stakeholder feedback in March 2012
- All changes to bid cost recovery will be filed with FERC and implemented together as a package

Stakeholders' comments on Management's proposal

Energy Bid Floor

- General support for lowering the bid floor

Bid Cost Recovery

- General support for separating the netting

Participating Intermittent Resource Program

- Significant concerns remain

Management recommends the Board approve the policy to implement Renewable Integration Market and Product Review Phase 1.

- Lowering the energy bid floor will incent additional decremental bidding.
 - Impact analysis after the first year
- Changing bid cost recovery netting in alignment with lowering the bid floor will incent more real-time bids.
 - Additional market design time for mitigation measures
- Proposal will not be filed with FERC until Board approval is obtained for bid cost recovery mitigation measures.