

Decision on Commitment Costs Refinements

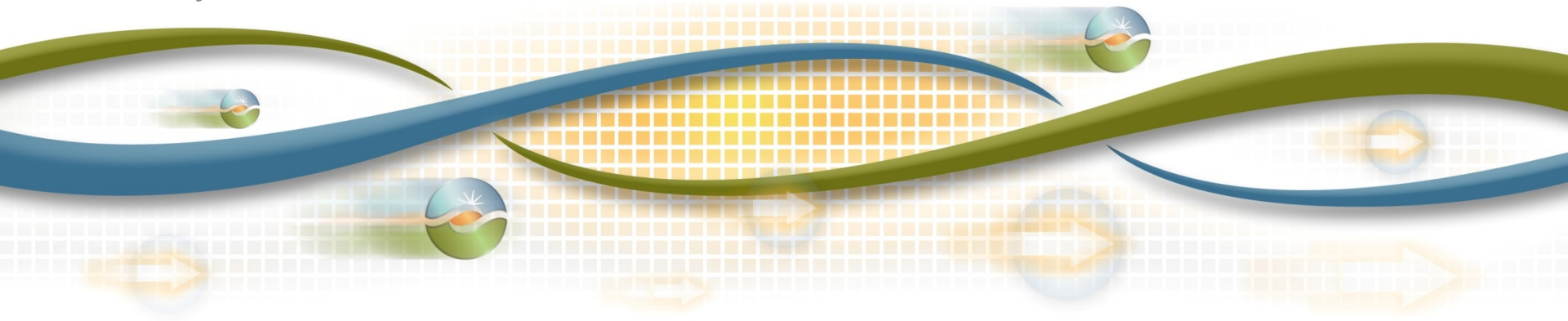
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ISO market provides resources with the ability to indicate and recover costs of committing a resource.

- Resources incur costs when starting up and when running the resource at or above its minimum output level
 - If a resource's daily market revenues are insufficient to cover its commitment costs, a “make-whole” payment is provided
- Resources have two options for specifying start-up and minimum load costs:
 - Proxy cost option calculated daily by the ISO
 - Registered cost option which is capped at a percentage above the proxy cost value and fixed for 30 days

The ISO also uses cost-based calculations in other circumstances:

- Default energy bids are used when a resource has been determined to have local market power
- Generated bids are used when a resource adequacy resource does not meet its obligation to bid into the ISO market

Management proposes enhancements to the current proxy cost calculations and registered cost cap:

- Refinements to proxy cost calculations of
 - Start-up costs
 - Minimum load costs
 - Default energy bids
 - Generated bids
- Change to the cap on registered cost values from 200% to 150% of the projected proxy cost value
- Ex post payment for operational flow order or emissions penalties attributable to ISO dispatch

Management recommends that additional elements be included in proxy cost calculations.

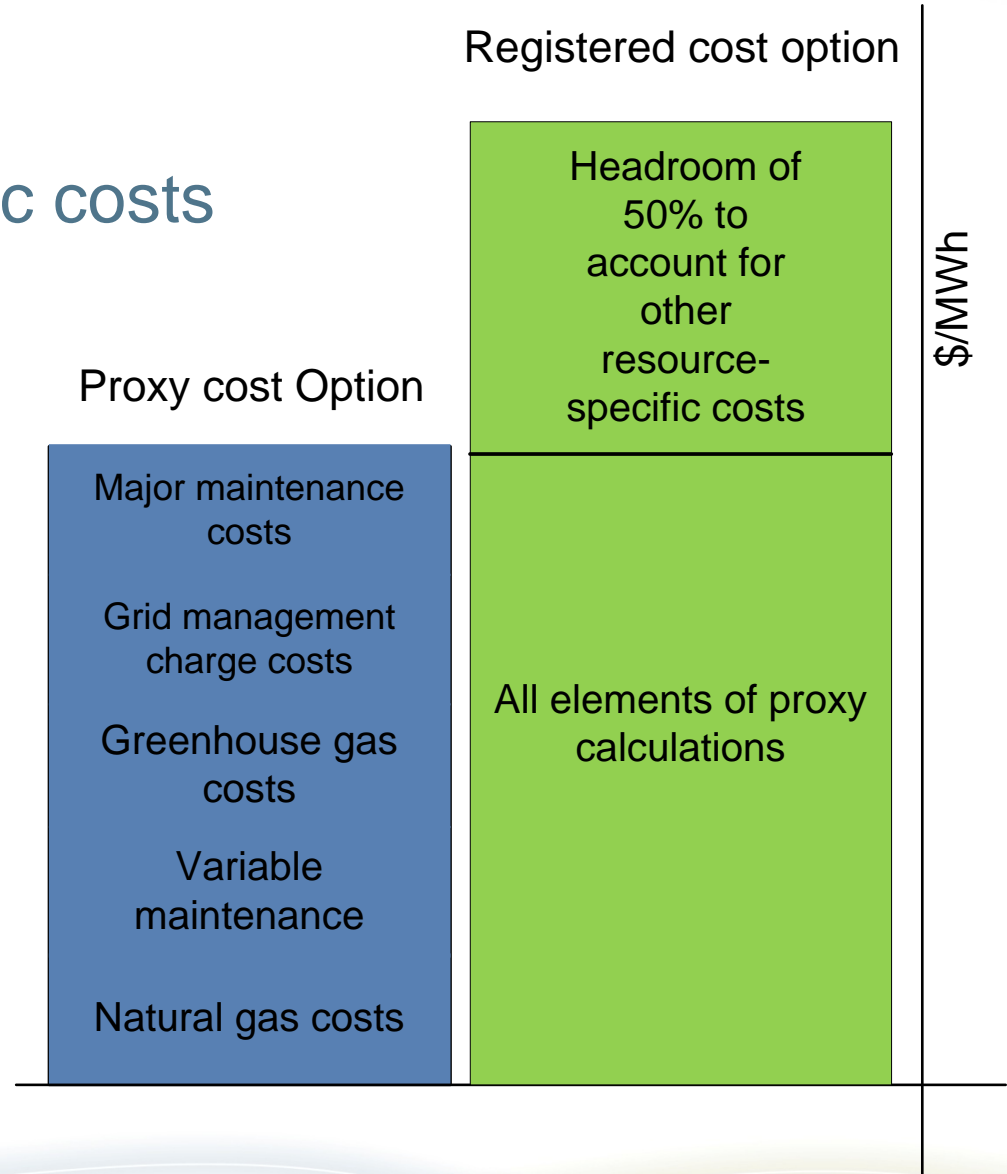
- Cost of greenhouse gas allowances under the California Air Resources Board cap-and-trade program (per-MWh cost)
 - Applies to start-up, minimum load, default energy bids and generated bids
- Grid management charge (per-MWh cost)
 - Applies to start-up, minimum load, default energy bids and generated bids
- Generator major maintenance expenses (based on run hours and/or starts)
 - Applies to start-up and minimum load

The registered cost option provides “headroom” for additional resource-specific costs

Too high of a cap on registered costs can incent adverse market behavior

Too low of a cap may not provide sufficient “headroom” for resource-specific costs

➔ Proxy cost enhancements provide for lower registered cost cap



Management recommends the Board approve the proposed commitment cost enhancements.

- Provides for more accurate proxy cost valuation of commitment costs.
- Allows for a reduction in the registered cost cap to provide better market incentives.
- Proposal is largely supported by stakeholders.