

Decision on MRTU Price Cap and Floor

Lorenzo Kristov Principal, Market Architect

ISO Board of Governors Meeting General Session October 28-29, 2008

Management recommends adopting price cap and floor on all MRTU markets.

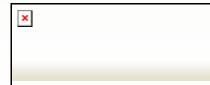
- Why a price cap and floor on MRTU markets?
 - Prudent action for start of MRTU markets
 - Approved bid caps limit what participants can bid, but do not cap the resulting prices
 - "Safety cap" limits financial impacts of extreme prices
 - What could cause extreme prices?
 - Changes in market participant behavior
 - Unusual grid or market circumstances



Management recommends price cap and price floor at +/- \$2500.

• Why \$2500?

- Prices outside range of +/- \$2500 expected to be rare
 - Market simulations show day-ahead prices rarely outside this range
 - Five-minute real-time prices, at specific locations, expected to be more variable
- Cap range is high enough to allow proper and needed market price signals
- Prices at cap level will have limited cost impact when they do occur – buyers are charged:
 - Hourly averages of 5-minute interval prices
 - Large-area geographic averages of locational prices



Proposed cap will not compromise diligence of investigation of extreme prices.

Why Management will continue to assess the ongoing need for (and level of) the cap and floor during the first year of MRTU operation.