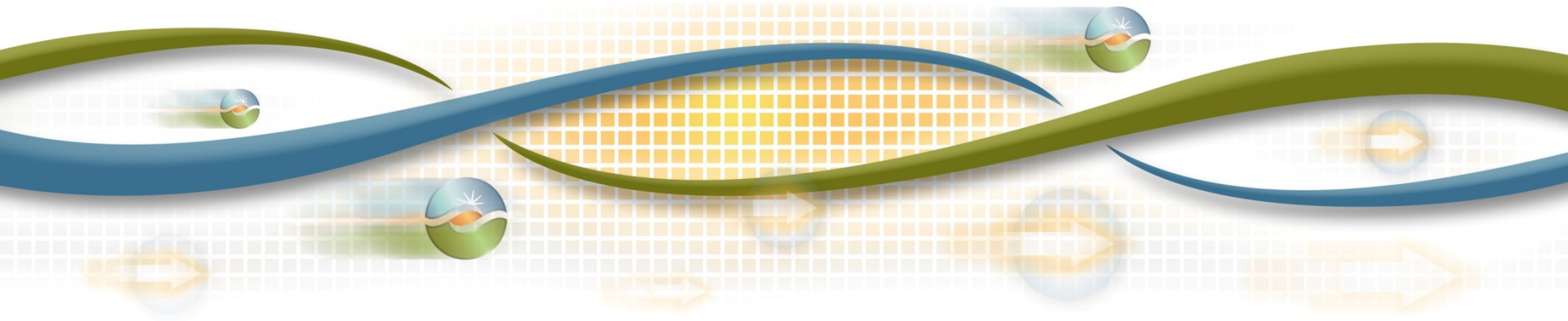


# Briefing on Market Design Initiatives

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Board of Governors Meeting  
General Session  
February 16, 2012



# Board approved two controversial items in August 2011.

- Flexible ramping constraint
  - Constraint addresses reliability and operational issues
  - Proposed compensation controversial
  - ISO committed to moving to a market based flexible ramping product

➤ *Board instructed Management to report back on progress of moving to flexible ramping product*
- Elimination of convergence bidding on the interties
  - Driving inefficient market outcomes
  - Exacerbating real-time imbalance energy offset costs

➤ *Board instructed Management to report back on progress of addressing residual issues related to the real-time imbalance energy offset*

# Flexible ramping constraint implemented on December 13, 2011.

- October FERC filing to implement ramping constraint
  - Several parties filed protests in regards to compensation and cost allocation
- FERC accepted filing on December 12 and set it for hearing and settlement discussion because ISO had not adequately demonstrated:
  - Differences between flexible ramping constraint and spinning reserve
  - Just and reasonableness of the compensation method
  - How proposed cost allocation reflects FERC cost allocation principles
- Flexible ramping constraint working as designed.

# Management has made significant progress towards completing flexible ramping product design.

- Management commenced stakeholder initiative in November.
  - Published straw proposal and two revised proposals
  - Hosted three stakeholder meetings
- Final proposal scheduled to be presented to the Board for decision in May.
  - Bid based product for upward and downward flexible ramp capacity
  - Compensation based on marginal value of the service based on bids and opportunity cost
  - Cost allocation will be developed based on guiding principles being developed in parallel initiative

# Cost allocation initiative will be key to addressing elements of the flexible ramping product design.

Key Milestones	Date
Started Cost Allocation Stakeholder Process	February 14
Guiding Principles Draft Final Proposal and Flexible Ramping Product Cost Allocation Straw Proposal	March 12
Flexible Ramping Product Cost Allocation Draft Final Proposal	April 2
Present Flexible Ramping Product for Board Decision	May 16-17

## Convergence bidding on the interties eliminated on November 29.

- On November 25, FERC issued an order that accepted the ISO proposal subject to the outcome of a technical conference.
- Technical conference discussion:
  - Further information on why eliminating convergence bidding on the interties is just and reasonable
  - Evaluate when the ISO will address the underlying cause of the problem

Management is committed to identifying market design enhancements that will enable reinstatement of convergence bidding on the interties.

- Management engaged a working group to develop a “pre-vetted” straw proposal
- Working group evaluated the pros and cons of alternative solutions
  - Impact on real-time imbalance energy offset costs
  - Enable convergence bidding on interties
- Working group unanimously requested more time to resolve issues.
  - Schedule extended from March to May Board decision

Management will bring a proposal to address the real time imbalance energy offset and convergence bidding at the interties to the Board for decision in May.

- Management is evaluating the recommendations of the working group.
- Straw proposal posted on February 13.
- Management anticipates including a straw proposal for FERC to consider in comments due on the technical conference in early March.