



Decision on Modifications to Bidding Provisions for Commitment Costs

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Proposal provides design enhancements to improve the efficiency of generation unit commitment.

- Modifications to start-up and minimum load rules
 - Bidding rules
 - Cost calculations
- Mitigation rules for multi-stage generation transition costs

Today, generation unit owners have two options for establishing start-up and minimum load costs.

- Proxy cost option – start-up and minimum load values are calculated daily based on gas price indices.
- Registered cost option – unit owners supply specific values for start-up and minimum load.
 - Costs remain fixed for 30 days.
 - Registered costs must be less than 200 percent of projected proxy costs.

Modifications to rules allow greater flexibility for bidding and reporting costs.

- Independent election of proxy or registered cost option for start-up and minimum load.
 - Current rule requires election of the same option for both.
- Daily bidding option for start-up and minimum load for resources that have selected proxy cost option.
 - Bids cannot exceed proxy cost value.
 - Current rules do not allow daily bidding option.

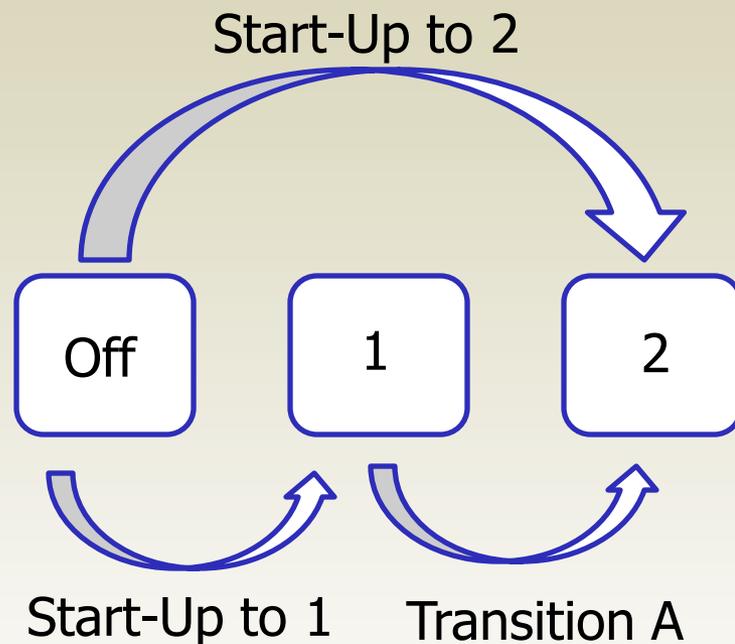
Refinements to improve calculation of start-up and minimum load costs

- Re-evaluation of default O&M cost component of minimum load every three years.
 - O&M costs are fairly stable.
 - Option for a negotiated O&M value remains.
- Change of natural gas delivery point price used for Southern California generators' proxy calculations.
 - North of Path 15 – PG&E CityGate (unchanged)
 - South of Path 15 – SoCal CityGate (currently SoCal Border)

Transition costs for multi-stage generation needed to address potential economic withholding.

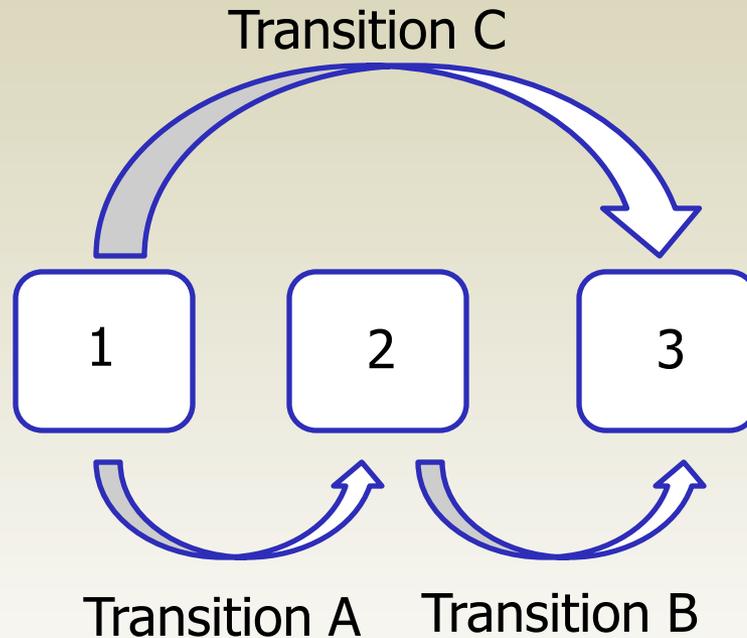
- Upward transition costs are bound by two rules which establish cost based boundaries.
- Downward transition costs determined by a heat input value
- Transition costs eligible for bid cost recovery.
- Transition cost limits provide adequate headroom to cover actual costs.

Rule 1 constrains the sum of upward transition costs between offline and an online configuration.



$$100\% \text{ Start-Up to 2} \leq \text{Start-Up to 1} + \text{Transition A} \leq 125\% \text{ Start-Up to 2}$$

Rule 2 constrains the sum of the costs of nested upward transitions.



$$100\% \text{ Transition C} \leq \text{Transition A} + \text{Transition B} \leq 125\% \text{ Transition C}$$

Management requests Board approval of the proposal.

- Broad stakeholder support for modifications.
- Transition costs to be filed with FERC immediately and included in implementation of multi-state generation in October 2010.
- Refinements to start-up and minimum load implementation targeted for Fall 2011.