

Briefing on Intertie Pricing and Settlement

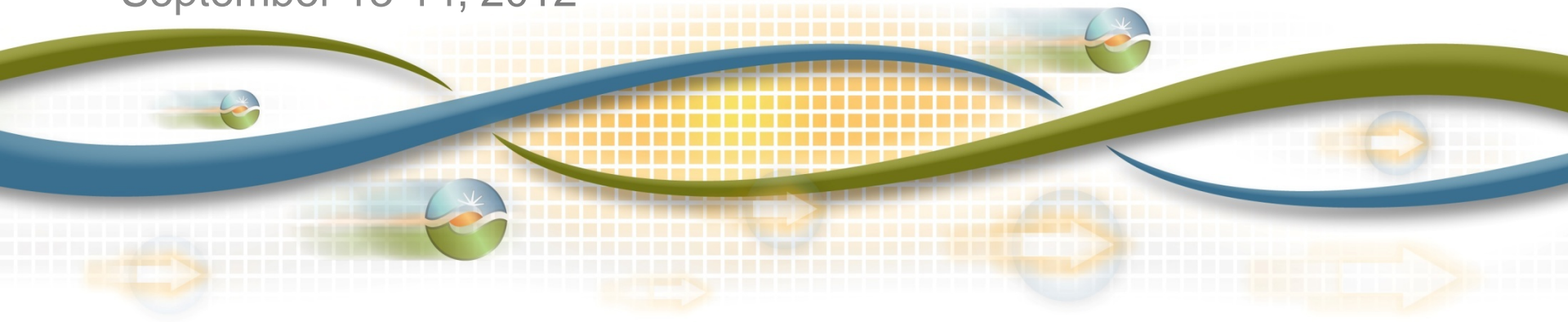
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Last year, the ISO initiated a stakeholder process to address several intertie pricing matters.

- Initiative targeted solutions to three separate but interrelated issues:
 - Real-time imbalance energy offset
 - Convergence bidding at interties
 - Price inconsistencies caused by intertie constraints
- ISO worked with stakeholders using working group meetings, stakeholder meetings, and individual outreach for over a year.

Management concluded that the proposal creates more risks than benefits.

- Risks of proposed design:
 - ✓ Potential for new gaming opportunities
 - ✓ Potentially reduce liquidity of physical intertie bids
 - ✓ New uplift costs due to make-whole payments to intertie transactions
 - ✓ Added complexity
- Benefits of proposed design:
 - ✓ mitigate real-time imbalance energy offset costs
 - ✓ Reinstatement of convergence bidding on interties
 - No evidence of insufficient liquidity on the interties
 - Current ability to hedge using internal nodes or other scheduling practices

Management determined issues can be more effectively addressed in new initiative to consider changes to real-time market structure.

- New approach allows the ISO to comprehensively address intertie pricing issues and compliance with FERC Variable Energy Resources Order
 - FERC VER Order requires the ISO and other balancing authorities to offer 15 minute intertie scheduling opportunity
 - The FERC Order opens the door to market changes to address issues related to the current hour ahead scheduling process.
- New stakeholder process will commence this month and be completed in Q3 2013.