

Decision on Regulatory Must-Take Generation Scheduling Priority

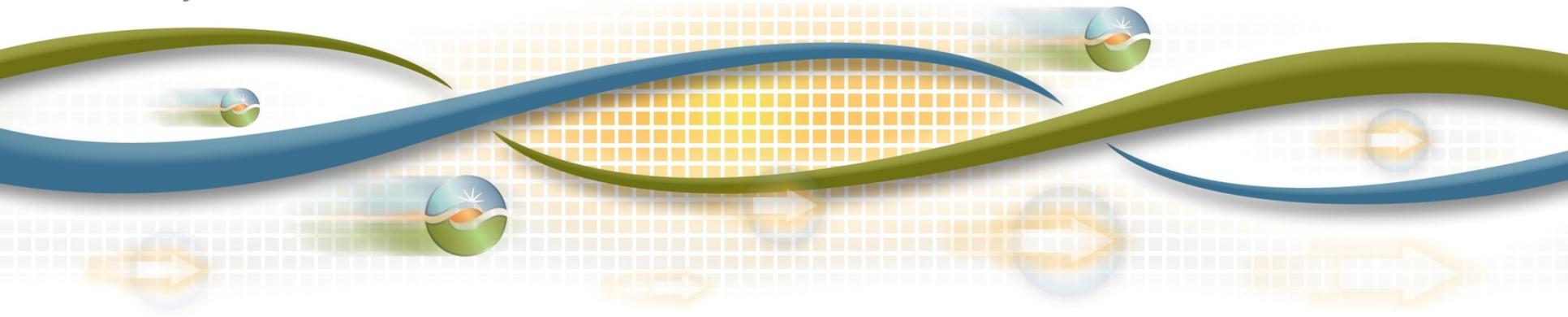
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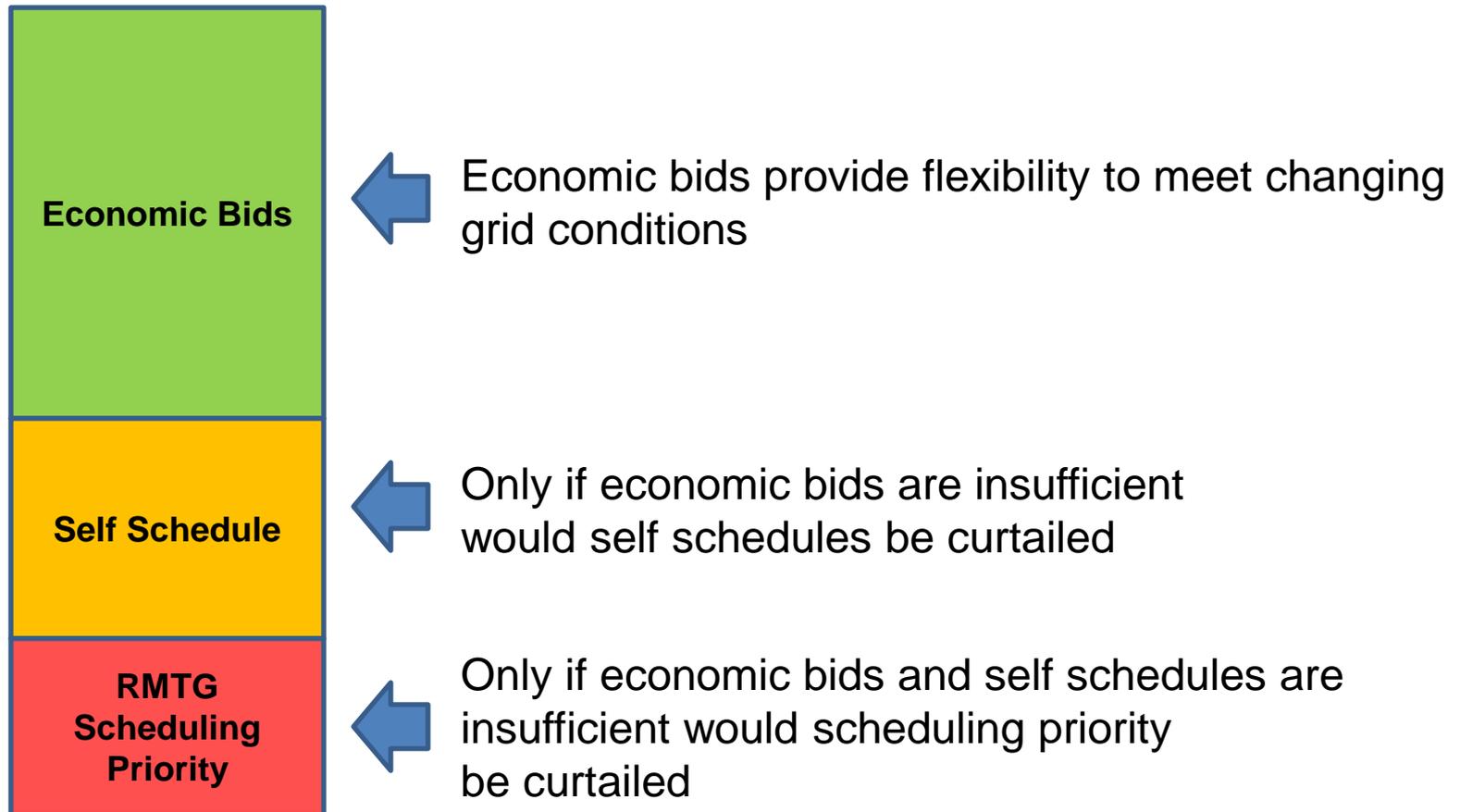
Historically, “regulatory must-take” resources have received scheduling priority in the ISO market and been exempted from tariff provisions.

- Scheduling priority previously given to:
 - 100% of capacity from qualifying facility with a grandfathered contract under the Public Utility Regulatory Policies Act of 1978;
 - Nuclear units;
 - Pre-existing power purchase contracts with minimum energy take requirements.
- Effective November 23, 2011, qualifying facilities must enter into new standard forms of purchase power agreements and comply with the tariff

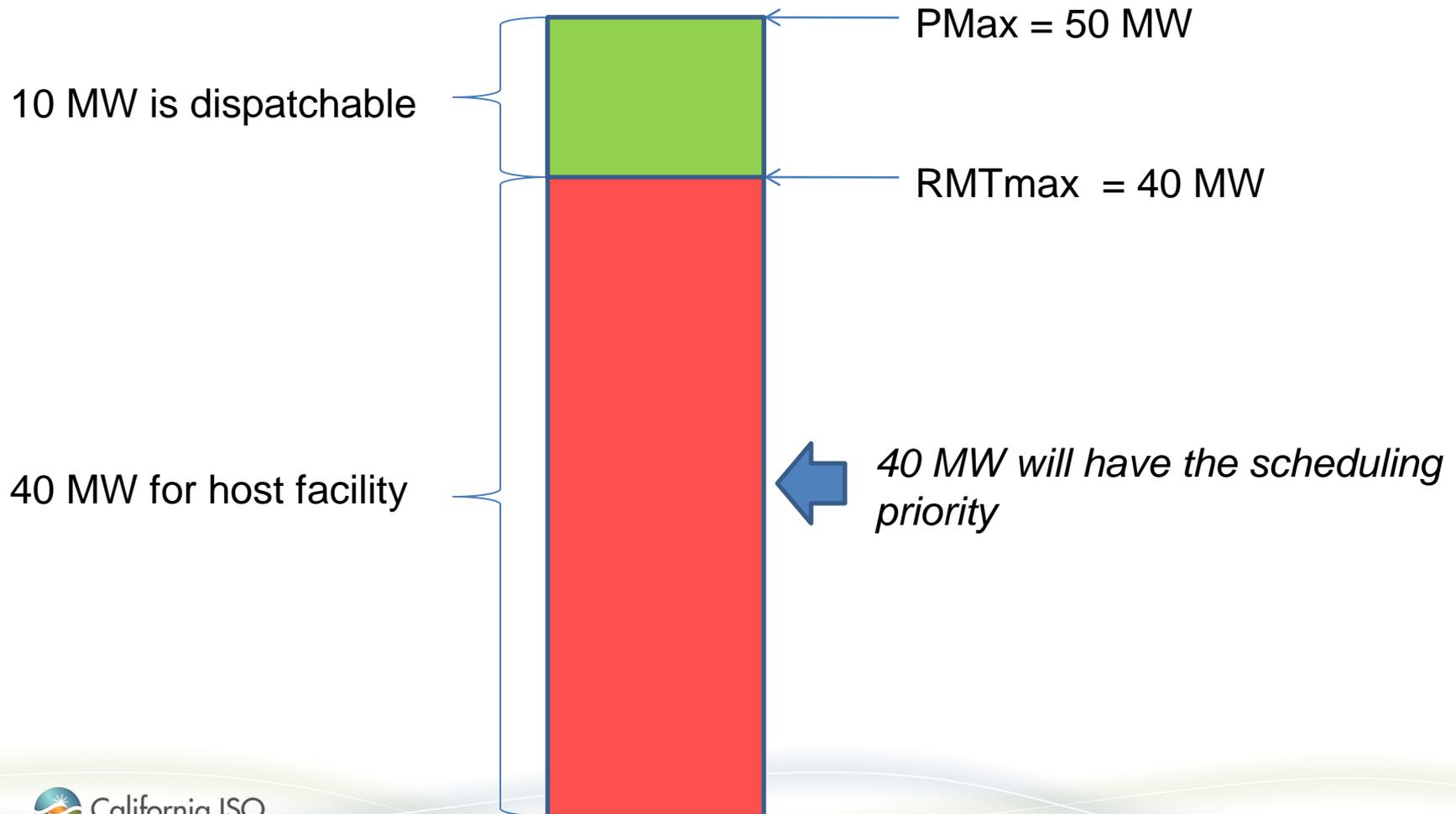
ISO proposes to provide limited scheduling priority to combined heat and power resources.

- Limited to capacity dedicated to serving industrial host requirements
 - Not to exceed predetermined limit (RMTmax)
 - Not to interfere with any bilateral contractual agreements
 - Not to exceed on an hourly basis actual industrial requirement
- Remaining capacity will be able to participate in the ISO market
 - Self schedules
 - Economic bids

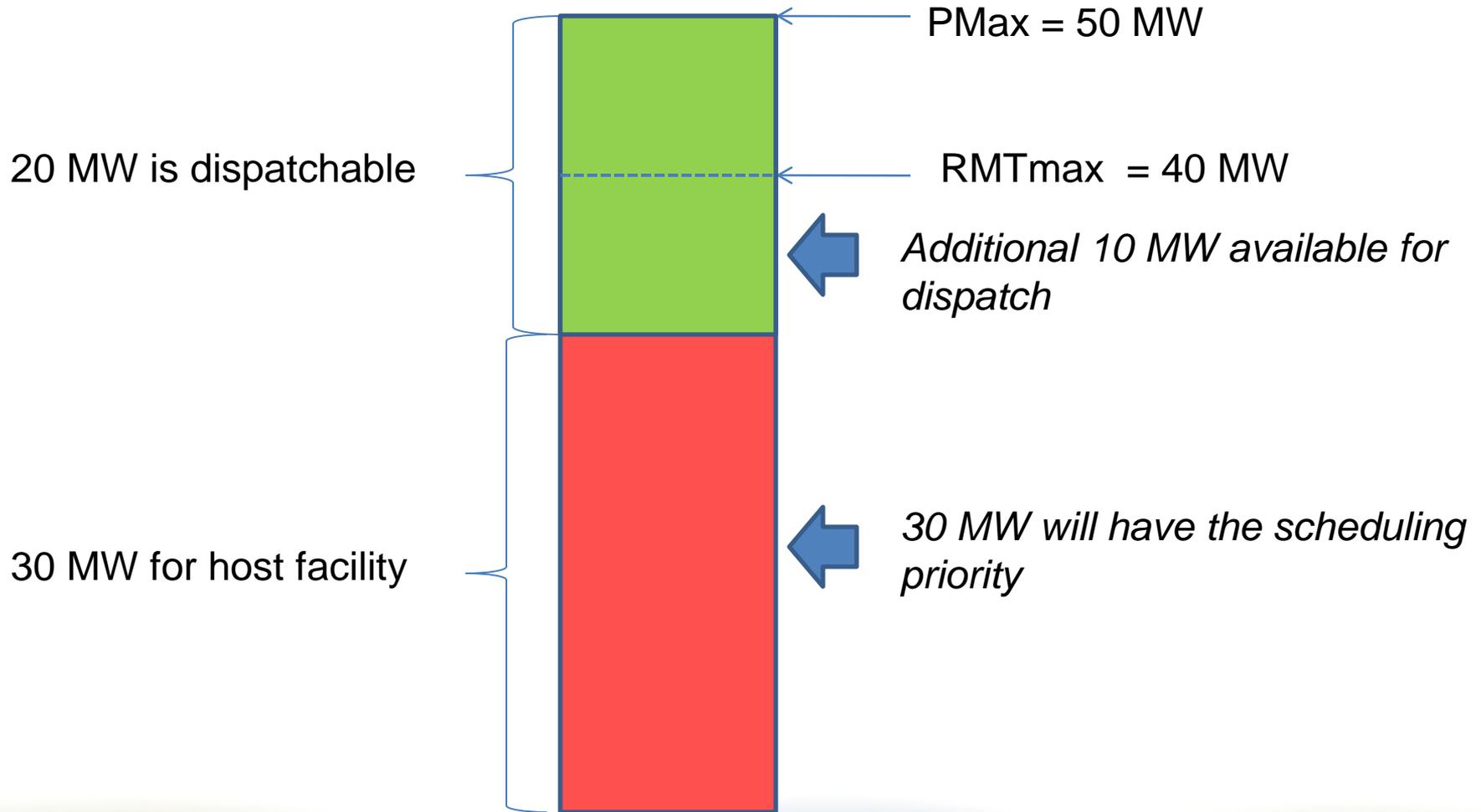
Scheduling priority protects host industrial process from curtailment when participating in the ISO market.



Proposal should provide more dispatch flexibility from existing combined heat and power resources.



The scheduling priority is only used up to actual host's hourly industrial requirement for each hour.



Stakeholder process has seen some evolution toward consensus among participants, however concerns remain.

- Utilities concerned that the proposal will result in more resources qualifying for higher scheduling priority than currently exists today.
 - Concerned about the practicality of enforcing accurate RMTmax values
- The combined heat and power resource representatives generally support proposal.
 - Remaining concerns regarding how much flexibility the utility has to determine the amount scheduled under the scheduling priority.

Management recommends the Board approve the provisions to facilitate combined heat and power resource's participation in the ISO market.

- The proposal increases dispatch flexibility within the existing generation fleet and provides for the development of new resources.
 - Minimizes the risk to industrial facilities of participating in ISO market
 - Increases market participation by industrial facilities with cogeneration