

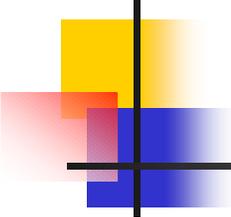
Opinion on LMP and MDO2

Market Surveillance Committee of
the California ISO

Presented by

Jim Bushnell

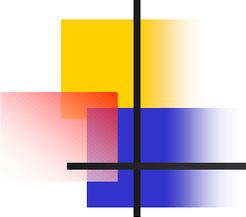
Member, Market Surveillance Committee



Summary

- n Concerns have been raised about the role of LMP in MD02
 - n Particularly the uncertainty about impacts of local prices
 - n Calls for substantial testing of the system before implementing it

- n We share these concerns, but feel that the current plan for implementing MD02 addresses them



Where are we now?

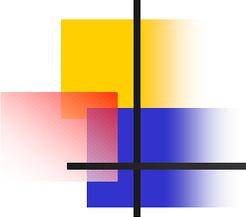
(1)

- n Majority of energy purchases are locked up under long-term commitments
 - n Mitigates market-power and minimizes impact of spot market on rates

Where are we now?

(2)

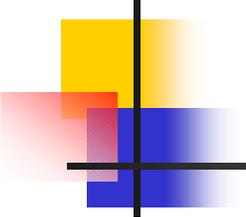
- n System operation is still decentralized, poorly coordinated, and hard to manage
 - n Contracts magnify the need for better spot market coordination
 - n Concerns from ISO that problems with current system will get worse as new generation comes on line
 - n Virtually everyone acknowledges the need to reform current practices, opposition as centered on "LMP"



Where are we now?

(3)

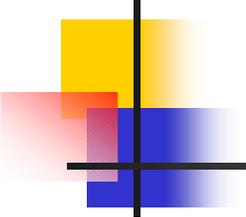
- n Implementing LMP is not a radical change
 - n Difference between LMP and pricing resolution
 - n LMP approach has been applied in several other markets
 - n Potential savings from adopting existing software?
- n LMP would not be applied to retail loads
 - n No uncertainty about differential impact on customers



Where are we now?

(4)

- n Testing is different than simulation
 - n Ex-ante simulation of differential impact of LMP vs. some other form of congestion management will be largely guesswork
 - n LMP will be applied to generation, impact on local demand under actual operations can be calculated before any further decisions are made on applying LMP to load



Where are we now?

(5)

- n LMP and MD02 are not easily separated
 - n Generation does/will earn different prices when there is transmission congestion whether we have LMP or not
 - n Demand will not pay different prices when there is congestion whether we have LMP or not