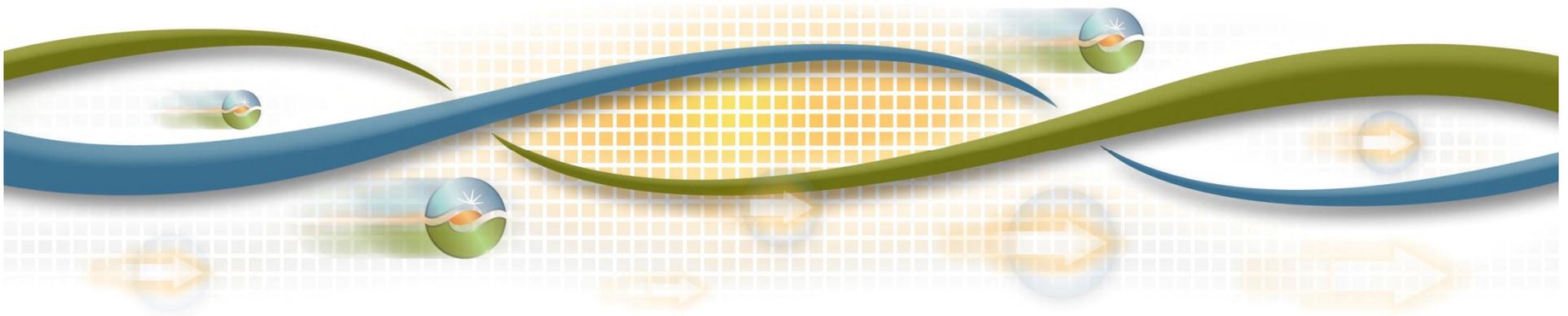


Real-Time Imbalance Offset

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Increases in Real-Time Imbalance offset charge has been an ongoing concern since start of MRTU

- Driven by differences between HASP and Real-Time prices
- Currently allocated to measured demand
- Costs approximately 100 million in 2010
- January 2011 cost = 17 million
- February 2011 cost = 19 million

Current trend shows potential for costs to reach 200M in 2012

ISO committed to revisit allocation if costs increased

- Interplay between virtual demand cleared in day-ahead and virtual supply or physical supply clearing HASP can increase uplift
- Uplift showing upward trend but we expect to go down based on improvements to forecast and new constraint
- However, even with improvements uplift may continue to be a problem periodically

Challenges around developing allocation mechanism based on “cost causation”

- Stakeholder process in 2009 was contentious and no new allocation method was developed
- Uplift is driven by HASP – RT price divergence which is caused by a number of different factors that are dynamic

Possible options for consideration:

- Options for Short Term

1. Change to allocation methodology combined with continued efforts to converge prices

- Simple allocation to all measured demand and supply
- More complex two tier allocation

2. More aggressive measures to reduce uplift and address price divergence

- Settle all HASP transactions at Real-Time price
- Settle only virtual bids at real-time price

- Options for Long Term

- More extensive market design changes such as 15 minute market or full Hour-Ahead market