Load Caucus Position on FCM Working Group Issues

The load parties have reviewed the issues identified by the ISO's Internal Market Monitor, the ISO Market Development staff and the other stakeholders. While we continue to believe that the current FCM design remains sound, we have identified the following issues which may warrant attention in the nearer term, either in conjunction with the FCM Working Group or through the ongoing stakeholder process .

1. Changes to Alternative Price Rule (APR) vs. Dynamic Quantity Procurement (DQP) vs. UI's Option C – The load parties are in the process of evaluating these alternatives, particularly the interaction and relationship between the incentives provided under the APR, the DQP and the Option C mechanisms. Another important consideration is how the definition of Out of Market resources will change in the future. The load parties as a group are not prepared to take a position on any of these alternatives at this point. This issue should be dealt with at the FCM Working Group level.

2. Local Sourcing Requirement (LSR): "As-Is" vs. "At Criteria" – It appears that the primary rationale for moving to an "At Criteria" approach for calculating LSR is that ISO does not have a call on the energy for the surplus non-FCM resources. The load parties believe that much of this surplus capacity will, in fact, be bid into the Energy markets. Based on this the load parties would propose that a fraction of this surplus capacity be included in the LSR calculation. Initially, this fraction could be 50%. As we gain experience during the 2010 and 2011 delivery periods, the fraction should be adjusted to reflect actual experience. This issue should be dealt with at the FCM Working Group level.

3. LSR Calculation: Resource Adequacy Standard vs. Transmission Security Analysis (TSA) – The ISO has proposed using the greater of the probabilistic Resource Adequacy standard or the deterministic TSA standard in calculating the LSR. The rationale appears to be that the TSA requirement represents a legitimate reliability need. While this is true, the TSA requirements tend to focus more on shorter-term extreme events and tend to be driven more by resource mix issues and the level of individual contingencies than the overall level of resources in a particular region. In fact, it is possible that even if resources were procured through the FCA to meet a TSA requirement, that the underlying reliability problems would not fully be resolved. To address these concerns, the load parties would propose to continue to base the LSR on the Resource Adequacy standard. To the extent that the TSA requirement exceeds the Resource Adequacy requirement, the incremental need would be addressed primarily through the Locational Forward Reserve Market (LFRM). Under this approach, the Locational Forward Reserve Market (LFRM) requirement would be increased by this amount. This may necessitate changing the LFRM pricing mechanism, but such changes could be implemented as part of the

ongoing stakeholder process. Fallback solutions could also include rejection of specific unit's delist bids and having such units continue under reliability agreements as specified under the tariff. Another fallback option would be to seek solutions through the Regional System Planning process. As part of this process, continue to review and clearly define the assumptions used in the TSA-related reliability analysis. These changes should be considered as part of the ongoing stakeholder process and not in the FCM Working Group.

4. Tie Benefits: "As-Is" vs. "At Criteria" – Consider opportunities to continue reflecting some fraction of the surplus capacity in the neighboring Control Areas in the Tie Benefit calculations. This should be done for both the primary auction and the subsequent reconfiguration auctions. This issue should be dealt with as part of the ongoing stakeholder process and not in the FCM Working Group.

5. Demand Resources: These issues should be dealt with in the stakeholder process currently underway in the Markets Committee.