

Handy-Whitman Adjustment to CONE for FCA 5

November 8, 2010

Market Rule 1 Section 13.2.4.(c)

- “...if any of the following conditions are met, then the Capacity Zone’s Cone for the next Forward Capacity Auction shall be the same as the Capacity Zone’s CONE used in the previous Forward Capacity Auction, **adjusted using a rolling three-year average** of the Handy-Whitman Index of Public Utility Construction Costs:
 - (i) the price is set pursuant to the Capacity Clearing Price Floor described in Section III.13.2.7.3....”
- Requirement: Adjust CONE for FCA 5 based on the CONE used in FCA 4 times a rolling three year average of the Handy-Whitman Index.

ISO Procedure for Adjusting CONE

- Next CONE= Previous Cone times the average of the most recent six (semi-annual) values of the Handy Whitman Index at the conclusion of the previous FCA divided by the average of the most recent six (semi-annual) values at the conclusion of the FCA preceding the previous FCA
- Handy-Whitman Index Number
 - Index Number = $\frac{\text{cost at stated time}}{\text{cost at base period (1973)}} \times 100$
 - Index Number used: Total Other Production Plant (Line 28) of Handy-Whitman Index of Public Utility Construction Costs Bulletin No. 171

Calculation of CONE Using Index Values

- Most Recent Values as of FCA4 Result Filing (08/30/10)

Jul '07	Jan '08	Jul '08	Jan '09	Jul '09	Jan '10	Average
543	594	616	635	667	687	623.667

- CONE for FCA 4 times the average

CONE FCA 4		Average		CONE X Average
\$4.918	X	623.667	=	3067.194

- Most Recent (semi-annual) values at conclusion of the FCA preceding the previous FCA

Jan '07	Jul '07	Jan '08	Jul '08	Jan '09	Jul '09	Average
530	543	594	616	635	667	597.5

- CONE for FCA 5

CONE for FCA 4 X Average		Average		CONE FCA 5
3067.194	/	597.5	=	\$5.133

Result of Calculation

- The Handy Whitman Index values are only reported for two stated times (January and July) and their publication seems to lag those dates by 2-3 months.
- The forward capacity auctions (FCA 1 thru FCA 6) are in transition to an annual schedule. For example: FCA 4 was held 10 months after FCA 3
- CONE for FCA 5 filed with the Results Filing reflects a semi-annual adjustment factor trend not an annual trend. The CONE for FCA 6 will be equivalent (Jul '08 thru Jan '11 / Jan '08 thru Jul '10)
- After FCA 6 the CONE for FCA 7 should reflect an annual adjustment trend (Jul '09 thru Jan '12 / Jul '08 thru Jan '11)

Updated Calculation of CONE for FCA 5

- Most Recent Values using Jul '10 Index Value

Jan '08	Jul '08	Jan '09	Jul '09	Jan '10	Jul '10	Average
594	616	635	667	687	700	649.833

- CONE for FCA 4 times the average

CONE FCA 4		Average		CONE X Average
\$4.918	X	649.833	=	3195.879

- Most Recent (semi-annual) values at conclusion of the FCA preceding the previous FCA

Jan '07	Jul '07	Jan '08	Jul '08	Jan '09	Jul '09	Average
530	543	594	616	635	667	597.5

- Revised CONE for FCA 5

CONE for FCA 4 X Average		Average		CONE FCA 5
3195.879	/	597.5	=	\$5.349