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August 18, 2003

The Honorable Magalie Roman Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

**Re: California Independent System Operator Corporation,
Docket No. ER03-____-000
Amendment No. 56**

Dear Secretary Salas:

Pursuant to Section 205 of the Federal Power Act, 16 U.S.C. § 824d, and Sections 35.11 and 35.13 of the Federal Energy Regulatory Commission's ("Commission") regulations, 18 C.F.R. §§ 35.11, 35.13, the California Independent System Operator Corporation ("ISO")¹ respectfully submits for filing an original and six copies of an amendment ("Amendment No. 56") to the ISO Tariff. Amendment No. 56 modifies Tariff provisions regarding Dispatching and Scheduling Reliability Must-Run ("RMR") Energy to reflect the demise of the California Power Exchange ("PX"). Amendment No. 56 benefits the ISO by requiring that RMR Contract Energy be Scheduled against Demand before real-time, and benefits the Responsible Utilities responsible for paying RMR Contract charges by establishing a consistent and transparent credit-back price for RMR Contract Energy. The principles of Amendment No. 56 have been approved by the ISO Governing Board.

I. EXECUTIVE SUMMARY

Amendment No. 56 seeks to reform provisions of the Tariff put in place in 2000 to address problems related to Dispatching and Scheduling RMR

¹ Capitalized terms not otherwise defined herein are defined in the Master Definitions Supplement, ISO Tariff Appendix A, as filed August 15, 1997, and subsequently revised.

Units. These original provisions authorized the ISO to “pre-dispatch” RMR Units and set forth obligations to bid RMR Energy into the PX and established a process of notification, bidding and scheduling tied to PX timelines. Various aspects of these provisions became unworkable when the PX ceased operations in January 2001. Until recently, the ISO and RMR Owners have been able to operate under the conditions that existed after the PX ceased operations. Within the last month, however, some RMR Owners reported having difficulty Scheduling bilateral transactions to comply with the RMR Energy Scheduling requirements. Moreover, a recent Commission order indicated that one particular method for complying under such circumstances – Scheduling against “dummy” load to satisfy the ISO’s Balanced Scheduled requirement – could constitute a violation of the ISO’s Market Monitoring and Information Protocol.² Prompted by concerns of RMR Owners, Commission staff held a technical conference on July 29, 2003, to discuss remedies for these problems. At the conference, the ISO pledged to file Tariff changes proposing a way to retain the operational and contractual benefits of the pre-dispatch provisions but address the cessation of PX operations. The ISO proposes herein to require RMR Owners to Schedule their RMR Contract Energy via an Inter-Scheduling Coordinator (“Inter-SC”) Energy trade with the Scheduling Coordinator for the Utility Distribution Company affiliated with the Responsible Utility. This Inter-SC trade shall be deemed to take place at \$0/MWh for the purposes of determining the amount of the credit against the RMR Invoice.

II. BACKGROUND

The ISO’s initial market design proposed that RMR Units would be dispatched prior to the Day-Ahead Market. The Commission rejected this proposal in an order issued October 30, 1997 and directed the ISO to Dispatch RMR Units “after the PX preferred schedule is set, prior to congestion management”. *Pacific Gas & Electric Company, et al*, 81 FERC ¶ 61,122 at 61,556. Due to limitations of the PX’s computer systems, the ISO could not accommodate this timing. Instead, the ISO Dispatched RMR Units after the ISO issued Final Day-Ahead Schedules.

This practice created two problems. First, even though RMR Energy has to be produced to maintain the reliability of the ISO Controlled Grid, the ISO Tariff did not require that RMR Energy be included in any Market Participant’s Final Schedule, and it generally was not. The unscheduled RMR Energy would nonetheless appear in real-time, thereby forcing the ISO, in order to balance supply and Demand, to accept large volumes of decremental bids to accommodate this essential but unscheduled Energy. This glut of

² *American Electric Power Service Corporation, et al*, 103 FERC ¶ 61,345 (2003) (“June 25 Show Cause Order”) at paragraph 60.

Energy depressed the real-time Imbalance Energy price, encouraging Load-Serving Entities to under-schedule their Demand so as to serve their Demand at the depressed real-time price. Additionally, the ISO's Department of Market Analysis determined that the PX Day-Ahead price was inflated because the PX Day-Ahead Schedules did not reflect the RMR Energy that had to be produced to maintain the reliability of the ISO Controlled Grid.

On January 28, 2000, the ISO filed Tariff Amendment No. 26.³ Amendment No. 26 modified the Tariff to allow the ISO to Dispatch RMR Units (*i.e.*, notify the RMR Owners of the unit-specific hourly requirements for the next day) two hours before the deadline for submitting bids to the PX ("pre-dispatch"). Amendment No. 26 allowed RMR Owners to elect from the following two options how they would be compensated for their RMR Energy: 1) through the market, via a bilateral contract or participating in an exchange, or 2) at the terms prescribed in the RMR Contract. If an RMR Owner elected option 2, it was required to bid the RMR Energy into the PX Day-Ahead Market at a price of \$0/MWh to provide the greatest opportunity for that Energy to be Scheduled in the Day-Ahead Market. If an RMR Owner elected option 1, it was not required to Schedule the RMR Energy in the Day-Ahead Market, but was required to schedule it by the close of the Hour-Ahead Market. Amendment No. 26 provided that if an Owner failed to schedule the RMR Energy as required, the Owner was not entitled to any payment for the RMR Energy, either under the RMR Contract or through the market. The Commission approved Amendment No. 26 with minor modifications on March 31, 2000. The ISO implemented RMR pre-dispatch on June 1, 2000.

On December 15, 2000, the Commission issued an order eliminating the requirement for California's investor-owned utilities to serve their Demand through the PX and terminating the PX's wholesale rate schedules effective April 1, 2001.⁴ The PX announced it would cease operations effective January 31, 2001. In the same time frame, Pacific Gas & Electric Company's ("PG&E's") credit rating was downgraded below the minimum requirement for participation in the PX. Because PG&E owned Condition 2 RMR Units (which were required to bid their RMR Energy into the PX), on January 18, 2001, the ISO filed Tariff Amendment No. 37, which waived the RMR pre-dispatch requirements for RMR Owners to bid into the PX if they were unable to do so. The Commission approved Amendment No. 37 on March 14, 2001 to be effective on January 18, 2001.⁵

³ Docket No. ER00-1365.

⁴ *San Diego Gas & Electric Company, et al*, 93 FERC ¶ 61,294 (2000).

⁵ *California Independent System Operator Corporation*, 94 FERC ¶ 61, 265 (2001) ("Amendment No. 37 Order").

Despite Amendment No. 37, the PX's demise created two problems. First, the PX Day-Ahead market served as a sizeable source of Demand against which to Schedule or "sink" RMR Energy, which was lost when the PX ceased operations. Second, the PX Day-Ahead price served as a transparent index for the market value of the RMR Energy. In that regard, when an RMR Owner elects to receive payment for RMR Energy under the RMR Contract, it receives two payments – one from the market for the market value of the RMR Energy, and a second payment from the ISO for the RMR Contract price for that Energy. The RMR Owner is then required to credit back the market value of the Energy on its invoice for payment under the RMR Contract. As a result, the RMR Owner, under Amendment No. 26, earned the RMR Contract price for its RMR Energy, the Load-Serving Entity whose load was served by the RMR Energy⁶ bought the RMR Energy at the PX Day-Ahead price, and the Participating Transmission Owner responsible for RMR Contract charges paid the difference between the price paid by the Load Serving Entity and the RMR Contract price. If the market value of the RMR Contract Energy exceeded the RMR Contract price, the Responsible Utility earned a credit.⁷ The transparent credit-back price (the PX Day-Ahead price) was no longer available when the PX ceased operations.

In approving Amendment No. 37, the Commission directed "the ISO and interested stakeholders to develop revisions to RMR Contracts to recognize the suspension of the PX spot markets."⁸ In early 2001 the ISO apprised its Governing Board of the problems created by the PX's demise and held numerous meetings with RMR stakeholders to try to develop solutions to these problems, but could not reach consensus with the affected parties. After many months of trying unsuccessfully to reach agreement, the effort was discontinued.

Despite the loss of the PX, and the inability of the ISO and stakeholders to develop alternate provisions, RMR pre-dispatch continued.⁹

⁶ Because the ISO must continuously balance supply with Demand, RMR energy is not "excess" energy that serves no Demand; when supply and Demand are balanced, that RMR Energy ultimately serves some Demand.

⁷ If the RMR Owner thought the market value of the RMR Energy would exceed the RMR Contract price, it almost certainly would elect to receive – and keep – the market value of the RMR Energy as payment in full.

⁸ *Id.*

⁹ On December 28, 2000, the ISO submitted proposed modifications to the RMR pre-dispatch provisions in Amendment No. 35.⁹ While the Commission did not accept all of the ISO's proposed modifications, the Commission noted that "[e]ven though the PX suspended operation of its Day-Ahead and Day-Of markets on January 31, 2001, the ISO's modifications are workable without the PX." *California Independent System Operator*, 94 FERC ¶ 61,266 (2001) ("Amendment No. 35 Order") at 61,294.

Recent developments, however, have made further operation under the terms of Amendment 37 impracticable. The Commission's June 25 Show Cause Order indicated that over-Scheduling Demand constituted a violation of the ISO's Market Monitoring and Information Protocol. Subsequently, two Mirant affiliates - Mirant Delta, LLC, Mirant Potrero, LLC, which together own and operate over 2,000 MW of RMR capacity – reported that Mirant had been over-Scheduling Demand to balance their pre-dispatched RMR Energy and meet the ISO's Balanced Schedule requirement. On July 15, 2003, Mirant filed for bankruptcy protection. Shortly thereafter, Mirant notified the ISO that it was having trouble finding a buyer for its pre-dispatched RMR Contract Energy.

On July 29, Commission staff convened a technical conference on this issue in Washington DC. Representatives from the ISO, Responsible Utilities, Generators, and other interested parties discussed three possible solutions:

1. **Waive the ISO's Balanced Schedule Requirement.** The ISO's current market design requires that Scheduling Coordinators submit Balanced Schedules, *i.e.*, Schedules in which supply equals Demand. RMR Owners that are not also Load Serving Entities argue that they are at a disadvantage to meet this requirement, because they do not have a ready source of Demand against which to balance RMR Energy. The ISO does not view a wholesale waiver of the Balanced Schedule requirement as a viable solution because waiving the Balanced Schedule requirement would require the ISO to make expensive, temporary, and time-consuming software changes at a time when the ISO is working to redesign its markets. The ISO intends to eliminate the Balanced Schedule requirement as part of its MD02 effort. The problem of Scheduling RMR Energy may be alleviated when the ISO implements the Integrated Day-Ahead Market as part of the MD02, because the ISO will require that RMR Energy be bid into the Day-Ahead Market.¹⁰
2. **Authorize scheduling "dummy" load.** Mirant indicated that it often balanced its pre-dispatched RMR Energy using "dummy" Load. Some parties have suggested that this practice be allowed to continue until the ISO implements the Integrated Day-Ahead Market. The ISO strongly opposes legitimizing this practice for several reasons. First, allowing RMR Owners to create and Schedule dummy Load will greatly reduce any incentive they would otherwise have to find a buyer for and

¹⁰ This problem may still exist if a large share of a Responsible Utility's Load is being served under self-scheduled contracts with suppliers different from those that own the RMR Units needed to provide for local reliability.

Schedule the RMR Energy against real Load. Second, and most importantly, Scheduling dummy load does nothing to address the operational and market problems of having unscheduled RMR Energy appear in real time. The RMR Energy will show up in real time, the dummy load will not, and the ISO will find itself with more generation than Demand in real time. This will put additional pressure on the ISO to accept decremental energy bids to balance the system in real time.¹¹ Yet it makes little sense to wait until real time to accommodate RMR Energy that was pre-dispatched a day in advance of the Trading Day.

3. **Mandate that the RMR Energy be Scheduled against some party's real Load in the Day-Ahead time frame and assigned a pre-determined price.** This solution has two benefits. First, it addresses the operational problems created by RMR Energy appearing unscheduled against Demand in the Real Time Imbalance Energy Market. Second, it provides a transparent means to value the RMR Energy, and, correspondingly, provides a transparent market value credit-back price on the RMR Invoice as required in the RMR Contract.

III. PROPOSED TARIFF MODIFICATIONS

The ISO proposes to amend its Tariff as described below.

- A. **Scheduling.** The Scheduling Coordinator for each RMR Unit that has elected to receive the RMR Contract price shall Schedule that RMR Contract Energy requirement in an Inter-Scheduling Coordinator ("Inter-SC") Energy Trade with the Scheduling Coordinator for the Utility Distribution Company affiliated with the Responsible Utility for the RMR Unit (the "Applicable UDC SC"). If an RMR Unit is located so as to provide service to more than one Responsible Utility,¹² the ISO shall make a Section 205 filing to allocate how the RMR Contract Energy is to be shared between Applicable UDC SCs.¹³

¹¹ See, e.g., the Department of Market Analysis's July 18, 2003 Market Analysis Report on June 2003 to the ISO Board of Governors at page 4. This report is available at <http://www.caiso.com/docs/09003a6080/24/7c/09003a6080247c7c.pdf>.

¹² The ISO Tariff defines a Responsible Utility as "The utility which is a party to the T[ransmission] C[ontrol] A[greement] in whose Service Area the Reliability Must-Run Unit is located or whose Service Area is contiguous to the Service Area in which a Reliability Must-Run Unit owned by an entity outside of the ISO Controlled Grid is located."

¹³ This is consistent with how the ISO Tariff directs that costs for an RMR Unit that provides service to more than one Responsible Utility are treated. See ISO Tariff, Section 5.2.8.

- B. Deeming a value for the SC Credit.** For the purposes of the credit against the RMR invoice, this Inter-SC trade shall be deemed to take place at \$0/MWh.
- C. Timing of Dispatch Notices.** The ISO will notify the RMR Owner of their RMR Energy requirements for the operating day at 5 AM on the day before the operating day. The RMR Owner will have forty-five minutes to elect the payment option for their RMR Energy and notify the ISO of that election.¹⁴ The ISO will then notify the Applicable UDC SC of the amount of RMR Contract Energy – *i.e.*, the amount of RMR Energy for which the RMR Owner seeks the RMR Contract price – by 6 AM, four hours before the deadline for submitting Initial Preferred Schedules to the ISO. Any RMR Energy the ISO Dispatched after 6 AM is not required to be Scheduled against Demand.¹⁵
- D. Forecast requirement.** To allow the Applicable UDC SC to better plan how to use its resources to serve its load, the ISO will provide the Applicable UDC SC with a rolling 12-month non-binding forecast of hourly RMR Energy requirements from all RMR Units for which the affiliated Responsible Utility pays the RMR Contract charges updated each month. The ISO will provide a forecast of total RMR Energy. The ISO cannot predict what of this RMR Energy will be RMR Contract Energy or RMR Market Energy because the RMR Owner makes that election.

PG&E proposed this forecast at the July 29 technical conference. The ISO has reluctantly agreed to provide this forecast, but wants to be clear that this forecast of RMR information would be going to Applicable UDC SC (the entity purchasing Energy on behalf of the UDC), not to the Responsible Utility (the entity responsible for RMR Contract charges). The Responsible Utility already receives all relevant RMR Dispatch Notices – the same information that the ISO

¹⁴ Current practice allows the RMR Owners one hour to elect to be paid the price specified in the RMR Contract or to be paid through the market for their RMR Energy. The RMR Owner representatives at the July 29, 2003 technical conference did not object to advancing the election deadline by fifteen minutes.

¹⁵ From July 1, 2002 through June 30, 2003, the ISO Dispatched over 8.2 million MWh of RMR Energy. The amount of RMR Energy that the ISO Dispatched after the Day-Ahead time frame was approximately 747,000 MWh – approximately nine percent of the total RMR Energy Dispatched. Of that 747,000 MWh, approximately 615,000 MWh was Dispatched after the Hour-Ahead time frame, leaving only approximately 132,000 MWh of RMR Energy Dispatched in the Hour-Ahead time frame. Since RMR Energy Dispatched after the Hour-Ahead time frame cannot be Scheduled anyway, it is only the amount of Hour-Ahead RMR Energy that the ISO currently requires to be Scheduled – approximately 1.6% of the total – that would not be Scheduled according to the ISO's instant proposal.

will use to provide this forecast to the Applicable UDC SC. While the ISO understands the value of this forecast to the Applicable UDC SC that now has to Schedule this RMR Contract Energy against its Demand, the ISO is concerned that providing this information to one particular class of Market Participant may violate the intent of Order No. 889 to provide information in a open, non-discriminatory fashion. The ISO requests the Commission address this issue in its ruling on this proposed Amendment.

- E. **Exemption from penalties.** PG&E indicated in discussions with the ISO that it believed it might not be able to accommodate the RMR Contract Energy in its Balanced Schedules even after making commercially reasonable efforts to do so. Accordingly, two options remain: 1) the Applicable UDC SC and the RMR Owner would have to adjust their Inter-SC trades to reflect the amount of RMR Contract Energy that the Applicable UDC SC could accommodate, or 2) the Applicable UDC SC would have to inflate its Demand Schedule to accommodate the RMR Energy and meet the Balanced Schedule requirement. While the ISO does not generally support option 2, it is willing to waive penalties (such as the overscheduling load penalties proposed in Amendment No. 55, Docket ER03-1102) and charges that might accrue if the Applicable UDC SC takes commercially reasonable efforts to accommodate the RMR Contract Energy and provides information to the ISO as to why it could not.

The ISO and PG&E eventually agreed that the Applicable UDC SC would have to make “commercially reasonable efforts” to accommodate the RMR Contract Energy in the Balanced Schedules it submits to the ISO. The ISO believes that while the parties agreed on the use of this term, they may not agree on what “commercially reasonable efforts” are. According to the proposed provisions in this Amendment No. 56, the RMR Owner provides the Applicable UDC SC with the RMR Contract Energy through an Inter-SC transfer. The Responsible Utility pays the RMR Owner the RMR contract price for this Energy. For the purposes of establishing the amount of the SC Credit in the RMR Invoice, this Inter-SC transfer is valued at \$0/MWh. The Inter-SC trade, however, is not deemed to have an explicit value. The market value of the RMR Contract Energy is ultimately determined either by the avoided cost of a resource the Applicable UDC SC would have used to serve its Demand if its Demand was not served by the RMR Contract Energy or by the price the Applicable UDC SC earns by selling the RMR Contract Energy to a third party. This distinction – that the price associated with the SC Credit is not the same thing as the market value of the RMR Contract Energy to the Applicable UDC SC – can lead to different interpretations of the term “commercially

reasonable efforts.” For example, if the market value of RMR Contract Energy traded from the RMR Owner to the Applicable UDC SC was deemed to be \$0/MWh, then the standard for determining what is “commercially reasonable” seems clear. In that case, it would be “commercially reasonable” for the Applicable UDC SC to sell the RMR Contract Energy at any positive non-zero price or back down any resource with a positive cost to take the RMR Contract Energy. If the market value of the Inter-SC trade is not explicitly specified, then there is no explicit standard to determine what is “commercially reasonable” and the interpretation of that term becomes much more subjective. An Applicable UDC SC to whom RMR Contract Energy has been traded has an incentive to maximize the value of that RMR Contract Energy. If the Applicable UDC SC believes that not Scheduling this RMR Contract Energy and selling this RMR Contract Energy in the real-time market instead maximizes the value of this RMR Contract Energy, this would create an incentive that would undermine the operational benefits of RMR pre-dispatch, namely, from Scheduling the RMR Energy against Demand before real-time so the RMR Energy does not appear unscheduled in real-time. The ISO respectfully seeks and appreciates any guidance the Commission would be willing to provide on applying the “reasonable commercial efforts” standard.

- F. **Penalty for Unscheduled and Undelivered RMR Energy.** In Tariff Amendment No. 35, the ISO proposed a penalty to eliminate a perverse incentive that could exist when an RMR Owner fails to Schedule RMR Energy. According to the pre-dispatch language of Amendment No. 26 approved by the Commission, an RMR Owner is not entitled to any payment for RMR Energy that it fails to bid and schedule with the pre-dispatch provisions of the Tariff. An RMR Owner who fails to Schedule their RMR Energy therefore has an incentive to not deliver their RMR Energy if the savings they realize by not generating the RMR Energy are greater than the Availability Payment they would lose by not delivering the RMR Energy. The Commission approved this penalty in the Amendment No. 35 Order.

The language implementing this penalty, however, was included only in the section setting forth the RMR Market Option and was inadvertently left out of the section setting forth the RMR Contract Option. There is no reason why this penalty should apply to RMR Market Energy and not RMR Contract Energy. The same incentive to not provide RMR Energy that was not Scheduled if the fuel cost savings realized from not generating the RMR Energy exceeds the lost Availability Payment under the RMR Contract exists in both situations.

To correct this oversight, the ISO proposes to add the penalty

language approved by the Commission in the Amendment No. 35 Order in Section 2.2.12.2.3.1 to Section 2.2.12.2.2 so that it applies both to RMR Contract Energy as well as RMR Market Energy.

The ISO proposes to “sink” the RMR Contract Energy against the Demand of the Applicable UDC SC because the Applicable UDC is the load-serving affiliate of the Responsible Utility. The ISO has Dispatched this RMR Contract Energy to meet the Responsible Utility’s local reliability requirements. Because one cannot label electricity at the source as it is produced and then observe where that electricity came from as it is “consumed”, it is not possible to say that the RMR Energy actually serves only the Applicable UDC’s Load. For example, where an RMR Unit is located within a network pocket with limited import transmission capability and with more Demand than import capability, the RMR Energy can be reasonably considered to serve the Load within that constrained area. In other cases, such as when an RMR Unit has been Dispatched at its minimum operating level to provide voltage support at a specific location, it is difficult to represent that the RMR Energy is serving a specific Load in that area. Nonetheless, conjecture about where that RMR Energy is “consumed” aside, one thing is certain – the RMR Energy was Dispatched to maintain the local reliability of the Responsible Utility’s system. Recognizing where the need for RMR Energy comes from and what entities most directly benefit from RMR Energy, the current ISO Tariff allocates all RMR Contract charges to the applicable Responsible Utility. Section 5.2.8 of the ISO Tariff provides:

The costs incurred by the ISO under each Reliability Must-Run Contract shall be payable to the ISO by the Responsible Utility in whose Service Area the Reliability Must-Run Generating Units covered by such Reliability Must-Run Contract are located or, where a Reliability Must-Run Generating Unit is located outside the Service Area of any Responsible Utility, by the Responsible Utility or Responsible Utilities whose Service Areas are contiguous to the Service Area in which the Generating Unit is located, in proportion to the benefits that each such Responsible Utility receives, as determined by the ISO.

This allocation satisfies the principle of cost causation. The RMR Energy is produced to provide for the reliability of the Responsible Utility’s local transmission system. If the Responsible Utility’s local transmission system was capable of serving its affiliated UDC’s Load and still meet established reliability criteria without the RMR Energy, the ISO would not need to designate RMR Units or Dispatch RMR Energy in that local area. Moreover, the Responsible Utility is the entity best situated to control RMR Contract charges because it can reduce or eliminate those charges by upgrading its transmission facilities. Some Responsible Utilities assert that RMR Energy

benefits all parties who use their transmission system, and even more broadly, benefits all entities within the ISO Control Area. They further assert that RMR charges should therefore be allocated to all Scheduling Coordinators using the ISO Controlled Grid. However, requiring all Scheduling Coordinators to schedule a portion of this RMR Energy against their Load does not reflect the reality of RMR requirements or RMR costs.¹⁶ Consequently, just as RMR costs are allocated to the Responsible Utility in whose service area the RMR Unit is located (or adjacent to), the responsibility for “sinking” the RMR Contract Energy should be assigned to the SC for the UDC affiliated with the same Responsible Utility.

The ISO’s proposal is reflected through the following proposed modifications to the Tariff:

- Section 2.2.12.2 has been amended to provide an absolute time (5 AM) when the ISO will issue Dispatch Notices to RMR Owners instead of a time referenced to the now-defunct PX markets.
- Section 2.2.12.2.1 has been amended to
 - Provide for the RMR Owners to notify the ISO of their elections at 5:45 AM;
 - Create the terms “RMR Market Energy” and “RMR Contract Energy”.
- Section 2.2.12.2.2 has been amended to:
 - Provide for the ISO to notify the SC for the Applicable UDC SC of the amount of RMR Contract Energy it needs to “sink” against their Demand through an Inter-SC trade with the RMR Owner by 6:00 AM;

¹⁶ Consider the differences between PG&E and Southern California Edison (“SCE”). While SCE’s non-coincident peak Demand for 2002 (19,430 MW) is comparable to PG&E’s peak Demand for the same period (21,011 MW), PG&E’s need for RMR Units and RMR Energy far exceeds SCE’s. While the ISO has designated 5,754 MW of generating unit capacity as RMR capacity for which PG&E is the Responsible Utility, the ISO has only designated 1,070 MW of generating capacity as RMR capacity for which SCE is the Responsible Utility. In 2002, the ISO Dispatched 4,228,493 MWh of RMR Energy to maintain local reliability in the PG&E area in 2002, but Dispatched only 678,349 MWh of RMR Energy to maintain local reliability in the SCE area. Finally, total (fixed and variable) RMR costs for PG&E in 2002 were nearly \$321 million, while total RMR costs for SCE in 2002 were \$56 million. This clearly demonstrates that RMR requirements and costs cannot be assumed to be proportional to Demand. Allocating RMR charges and responsibilities proportionally to all Demand within the ISO Control Area would inequitably shift costs.

- Provide that, where there may be more than one Applicable UDC SC (such as where an RMR Unit benefits more than one Responsible Utility), the ISO will make a Section 205 filing to indicate how the responsibility to sink RMR Contract Energy will be allocated among those UDC SCs;
 - Deem the value of the Inter-SC trade to be \$0/MWh for purposes of the SC Credit in the RMR Contract;
 - Include a penalty approved by the Commission as part of Amendment No. 35 but inadvertently omitted from this Section 2.2.12.2.2. This modification is discussed in detail *supra*.
- A new Section 2.2.12.2.2.1 has been added to exempt the Applicable UDC SC from penalties and charges that may apply if 1) the Applicable UDC SC cannot accommodate all the RMR Contract Energy after taking all commercially reasonable steps to do so, 2) the Applicable UDC SC maintains records of the steps it took to accommodate or sell the RMR Energy and provides those records to the ISO. This section has been drafted to reflect the reality that while the ISO may be able to identify and waive penalties before the penalties appear on a settlement statement, it is much more difficult to eliminate charges before the penalties appear on a settlement statement. At this time, no party has identified any charges that would apply to this situation. An SC with over-Scheduled Demand would pay, rather than be paid, for over-Scheduled Demand that did not materialize in real-time if the Imbalance Energy price was negative. However, the ISO does not view a negative Imbalance Energy price as a “charge”, but as a market outcome. Since over-Scheduling Demand helps create the conditions that could lead to a negative Imbalance Energy price, the ISO is reluctant to insulate an entity that has an incentive to over-Schedule Demand (in this case, to accommodate RMR Contract Energy) from that outcome.
- Section 2.2.12.2.3.1 has been amended to:
 - Eliminate references to the PX;
 - Correct a typographical error (a reference to “this Section 2.2.12.2.2” in Section 2.2.12.2.3).
- Section 2.2.12.2.3.2 has been amended to change the requirement for an RMR Owner who did not Schedule all of their RMR Market Energy in the Day-Ahead market to do so through in the Hour-Ahead market through a bilateral transaction, not through the PX markets.

- Section 2.2.12.2.3.2.1 has been amended to reflect the impossibility of any RMR Market Energy being Scheduled via an award in the PX markets.
- Section 2.2.12.2.3.3 has been amended to reflect the fact that there currently are no forward markets into which to bid and to clarify that the RMR Energy discussed in this section is RMR Market Energy.
- Section 2.2.12.2.4 has been amended to eliminate any requirement to Schedule RMR Energy instructed after 5:00 AM.
- A new Section 2.2.12.2.5 has been added to set forth the ISO's requirement to provide a non-binding forecast of hourly RMR Energy to the Applicable UDC SC.

IV REPORT ON RMR CONTRACT RE-EXAMINATION PROCESS

At the July 29 technical conference, PG&E requested that the ISO begin a stakeholder process to re-examine and possibly amend provisions of the RMR Contract that experience or changed circumstances may suggest need to be changed. To add urgency to that process, PG&E proposed that the modifications contained in this Amendment expire on February 29, 2004. In discussions after the technical conference, PG&E and the ISO were unable to determine what RMR processes would remain after the provisions herein expired. As a result, rather than having these provisions simply expire on February 29 2004, the ISO proposes that the ISO, Responsible Utilities and RMR Owners submit reports to the Commission on the status of efforts to amend the RMR Contract on February 29, 2004. Instead of imposing this one-time requirement by modifying the Tariff, the ISO respectfully requests that the Commission direct that these reports be prepared when it issues its order on this Amendment.

IV EFFECTIVE DATE

The ISO respectfully requests that the provisions of this Amendment be put into effect 60 days from the date filing, on October 14, 2003.

V. COMMUNICATIONS

Communications regarding this filing should be addressed to the following individuals, whose names should be placed on the official service list established by the Secretary with respect to this submittal:

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VII. SERVICE

The ISO has served copies of this letter, and all attachments, on the California Public Utilities Commission, the California Energy Commission, the California Electricity Oversight Board, on all parties with effective SC Service Agreements under the ISO Tariff, and on all parties in Dockets ER00-1365 (Amendment No. 26), ER01-836 (Amendment No. 35) and ER01-991 (Amendment No. 37). In addition, the ISO is posting this transmittal letter and all attachments on the ISO's Home Page.

VII. ATTACHMENTS

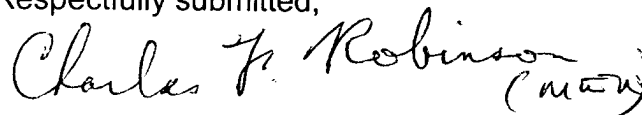
The following documents, in addition to this letter, support this filing:

Attachment A	Revised Tariff sheets
Attachment B	Black-lined Tariff provisions
Attachment C	Notice of this filing, suitable for publication in the Federal Register (also provided in electronic format).

The Honorable Magalie Roman Salas
August 18, 2003
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Two extra copies of this filing are also enclosed. Please stamp these copies with the date and time filed and return them to the messenger. Please feel free to contact the undersigned if you have any questions concerning this matter.

Respectfully submitted,

A handwritten signature in black ink that reads "Charles F. Robinson" with a circled "m" and "w" in parentheses below the name.

Charles F. Robinson
Anthony J. Ivancovich
Counsel for The California Independent
System Operator Corporation

Enclosures

ATTACHMENT A

timing requirements of Section 2.2 where, because of error or delay, the ISO is unable to meet the timing requirements. Any such waiver shall be published on WEnet.

2.2.12.2 Reliability Must Run Information. By no later than 5:00 a.m. on the day before the Trading Day, the ISO will notify Scheduling Coordinators for Reliability Must-Run Units of the amount and time of Energy requirements from specific Reliability Must-Run Units that the ISO requires to deliver Energy in the Trading Day to the extent that the ISO is aware of such requirements (the "RMR Dispatch Notice"). The Energy to be delivered for each hour of the Trading Day pursuant to the RMR Dispatch Notice (including Energy the RMR Owner is entitled to substitute for Energy from the Reliability Must-Run Unit pursuant to the RMR Contract) shall be referred to as the "RMR Energy".

2.2.12.2.1 No later than 5:45 a.m. on the day before the Trading Day, any RMR Owner receiving an RMR Dispatch Notice as indicated in this Section 2.2.12.2 (the "Applicable RMR Owner") must notify the ISO through the RMR Owner's Scheduling Coordinator (the "Applicable RMR SC"), with regard to each hour of the Trading Day identified in the RMR Dispatch Notice whether it intends to satisfy its obligation to deliver RMR Energy (i) by delivering RMR Energy pursuant to a market transaction ("RMR Market Energy"), and receiving only market compensation therefore (the "RMR Market Option"), or (ii) by delivering RMR Energy as a contract transaction ("RMR Contract Energy"), and accepting payment under the relevant RMR Contract (the "RMR Contract Option"). If the Applicable RMR Owner so notifies the ISO by March 1, 2001, for calendar year 2001, and by January 1 of any subsequent calendar year, the RMR Owner may during that calendar year notify the ISO directly of its choice of payment option, rather than through the Applicable RMR Owner's Scheduling Coordinator. If the Applicable RMR Owner elects to provide notice of its choice of

2.2.12.2.2 RMR Contract Option -- No later than 6:00 a.m. on the day before the Trading Day, the ISO shall, for each hour for which the Applicable RMR Owner elects the RMR Contract Option, direct the Applicable RMR SC and the Scheduling Coordinator for the UDC affiliated with the Responsible Utility for the RMR Units to enter into an Inter-Scheduling Coordinator Energy Trade for the entire amount of the RMR Contract Energy dispatched from those RMR units for that hour. Where there is more than one Applicable UDC SC, the ISO will file an allocation of the responsibility for the RMR Contract Energy under Section 205 of the Federal Power Act. For the purposes of establishing the SC Credit amount in the RMR Contract, the Inter-Scheduling Coordinator Energy Trade shall deem the RMR Contract Energy price to be \$0/MWh. The Applicable RMR SC and the Applicable UDC SC shall include in their Preferred Day-Ahead Schedules and their Preferred Hour-Ahead Schedules the total amount of the RMR Contract Energy for each hour. Whether or not the RMR Contract Energy is in the Final Schedule, the Applicable RMR Owner must deliver the RMR Contract Energy pursuant to the RMR Dispatch Notice. Notwithstanding anything to the contrary in the RMR Contract, neither the Applicable RMR Owner nor the Applicable RMR SC shall be entitled to any payment from any source for RMR Contract Energy that is not scheduled as required by this Section 2.2.12.2.2. All RMR Energy delivered under this option shall be deemed delivered under a Nonmarket Transaction for the purposes of the RMR Contract. In the event that the RMR Contract Energy is not delivered for any hour, (i) if the RMR Contract Energy had been scheduled, the Applicable RMR Owner shall not be entitled to an Availability Payment under the RMR Contract and the Applicable RMR SC shall pay for the Imbalance Energy necessary to replace that RMR Energy; and (ii) if the RMR Contract Energy had not been scheduled, the Applicable RMR Owner shall not be entitled to an Availability Payment under the RMR Contract and, if the variable costs saved by the Owner's failure to deliver the RMR Contract Energy (which shall be equal to the Variable Cost Payment determined pursuant to Schedule C in the RMR Contract) are greater than the

foregone Availability Payment under the RMR Contract, the Applicable RMR Owner shall pay the difference between the variable costs saved and the Availability Payment.

2.2.12.2.2.1 The Applicable UDC SC shall make all commercially reasonable efforts to match the RMR Contract Energy to Demand, including, but not limited to, changing the dispatch of resources the Applicable UDC SC can re-dispatch, to the extent commercially feasible, and selling the RMR Contract Energy. If the Applicable UDC SC, having made all such efforts, is unable to match all RMR Contract Energy with Demand, then the Applicable UDC SC may nonetheless submit a Balanced Schedule that includes all the RMR Contract Energy. If 1) the Applicable UDC SC makes all commercially reasonable efforts to match the RMR Contract Energy with Demand, and 2) notifies the ISO by the deadline for submitting Day-Ahead Initial Preferred Schedules to the ISO of each hour and the preliminary amount of RMR Contract Energy not matched with Demand, then the ISO shall (a) accept the Balanced Schedule as if the Demand portion of that Balanced Schedule represented an accurate forecast, and (b) waive any charge or penalty that may be associated with a deviation from a Balanced Schedule caused solely by the Applicable UDC SC accepting RMR Contract Energy.

Within 5 days of the end of each month, the Applicable UDC SC shall provide the ISO with the amount of RMR Contract Energy not matched with Demand in each hour of the Final Hour-Ahead Schedules for that month, and the ISO shall add that amount to the positive amount of any Tolerance Band and any other similar value used to determine or penalty, or exemption from penalty, associated with a difference between scheduled and metered resources or Demand. The Applicable UDC SC shall maintain records of the commercially reasonable efforts it took to match the RMR Contract Energy with Demand, including 1) the terms under which Energy was offered but not sold, and 2) the estimated marginal cost in relevant hours, to the extent reasonably available, of those contract or physical resources from which scheduled Energy could have been decremented if the Applicable UDC SC were

unconditionally obligated to re-dispatch such resources to match all RMR Contract Energy with Demand, *provided that* such cost information need not be maintained or supplied to the ISO if a) decrementing the resource would conflict with any applicable statutory, regulatory, environmental, contract or other legal obligation or constraint, or physical or operating limitation consistent with Prudent Utility Practice, and b) the Applicable UDC SC maintains records identifying such resources and conflicts. The Applicable UDC SC shall supply such information to the ISO upon request for any hour in which the Applicable UDC SC was required to accept RMR Contract Energy, was unable to match all of the RMR Contract Energy with Demand, and, but for the exemption in this Section 2.2.12.2.2.1, would be subject to penalty such as that under Section 11.2.4.1.2. If the Applicable UDC SC, acting in accordance with Section 11.4.2 and SABP 4.4, disputes a charge assessed by the ISO solely on account of the Applicable UDC SC accepting RMR Contract Energy that should not have been assessed in accordance with this Section 2.2.12.2.2.1, the ISO shall 1) waive such charge, provided that the Applicable UDC SC has demonstrated that it made all commercially reasonable efforts to match the RMR Contract Energy to Demand in accordance with this Section 2.2.12.2.2.1, and 2) incorporate the relevant data in the Applicable UDC SC's Final Settlement Statement. The Applicable UDC SC may obtain confidential treatment for such information it provides in accordance with this Section 2.2.12.2.2.1 that is clearly marked as "Confidential" consistent with the requirements of Section 20.3 of the ISO Tariff.

2.2.12.2.3 RMR Market Option – This Section 2.2.12.2.3 provides how an Applicable RMR Owner electing the RMR Market Option shall satisfy its obligation to deliver RMR Energy.

2.2.12.2.3.1 For each hour for which an Applicable RMR Owner has selected the Market Option, the Applicable RMR Owner (i) may bid into a power exchange market any amount of the RMR Market Energy and (ii) may schedule as a bilateral Day-Ahead transaction any amount of RMR Market Energy.

The Preferred Day-Ahead Schedule of the Applicable RMR SC shall include as RMR Market Energy for each hour the sum of the amount awarded to the Applicable RMR Owner in any power exchange market for that hour and the amount scheduled as a bilateral Day-Ahead transaction for that hour. If the Preferred Day-Ahead Schedule of the Applicable RMR SC for any hour includes Adjustment Bids for the RMR Unit, the Adjustment Bid shall specify the RMR Market Energy as the minimum MW output to which the Applicable RMR SC will allow the RMR Unit to be redispatched for that hour.

Notwithstanding anything to the contrary in the RMR Contract, neither the Applicable RMR Owner nor the Applicable RMR SC shall be entitled to any payment from any source for RMR Market Energy that is not scheduled as required by this Section 2.2.12.2.3. In the event that the RMR Market Energy is not delivered for any hour, (i) if the RMR Market Energy had been scheduled, the Applicable RMR Owner shall not be entitled to an Availability Payment under the RMR Contract and the Applicable RMR SC shall pay for the Imbalance Energy necessary to replace that RMR Market Energy; and (ii) if the RMR Market Energy had not been scheduled, the Applicable RMR Owner shall not be entitled to an Availability Payment under the RMR Contract and, if the variable costs saved by the Owner's failure to deliver the RMR Market Energy (which shall be equal to the Variable Cost Payment determined pursuant to Schedule C in the RMR Contract) are greater than the

foregone Availability Payment under the RMR Contract, the Applicable RMR Owner shall pay the difference between the variable costs saved and the Availability Payment.

2.2.12.2.3.2 If the Applicable RMR SC's Preferred Day-Ahead Schedule does not include the entire amount of RMR Market Energy for any hour, the Applicable RMR Owner must schedule any remaining RMR Market Energy for that hour as a bilateral transaction for that hour in the RMR SC's Preferred Hour-Ahead Schedule.

2.2.12.2.3.2.1 The Applicable RMR SC's Preferred Hour-Ahead Schedule for each hour shall include all RMR Market Energy specified in the RMR Dispatch Notice for that hour. If the Preferred Hour-Ahead Schedule of the Applicable RMR SC for any hour includes Adjustment Bids for the RMR Unit, the Adjustment Bid shall specify the RMR Market Energy as the minimum MW output to which the Applicable RMR SC will allow the RMR Unit to be redispatched for that hour.

2.2.12.2.3.3 Whether or not the RMR Energy is in a Final Schedule, the Applicable RMR Owner must deliver the RMR Energy pursuant to the RMR Dispatch Notice. Notwithstanding anything to the contrary in the RMR Contract, neither the Applicable RMR Owner nor the Applicable RMR SC shall be entitled to any payment from any source for RMR Market Energy that is not scheduled as required by this Section 2.2.12.2.3.

2.2.12.2.4 If, at any time after 5:00 a.m. on the day before the Trading Day, the ISO determines that it requires additional Energy from specific Reliability Must-Run Units during the Trading Day, the ISO will notify Scheduling Coordinators for such Reliability Must-Run Units of the amount and time of the additional Energy requirements from such Reliability Must-Run Units (the "Supplemental RMR Dispatch Notice").

If the owner of the RMR Unit or the Applicable RMR SC for the RMR Unit specified in the Supplemental RMR Dispatch Notice has not already notified the ISO of a payment option for any hour of the Trading Day included in the Supplemental Dispatch Notice at the time the Supplemental Dispatch Notice is issued, the RMR Owner shall do so no later than three hours before the hour specified in the Supplemental RMR Dispatch Notice for each such hour that is at least four hours after the issuance of the Supplemental Dispatch Notice.

2.12.2.5 On a monthly basis, the ISO shall provide the UDC affiliated with the Responsible Utility for RMR Units with a non-binding forecast of its hourly aggregate RMR Energy from those RMR Units for the next twelve months.

ATTACHMENT B

2.2.12.2 Reliability Must Run Information. By no later than 5:00 a.m. on the day before two hours ~~before the close of the PX Day Ahead Market for the Trading Day~~, the ISO will notify Scheduling Coordinators for Reliability Must-Run Units of the amount and time of Energy requirements from specific Reliability Must-Run Units that the ISO requires to deliver Energy in the Trading Day to the extent that the ISO is aware of such requirements (the "RMR Dispatch Notice"). The Energy to be delivered for each hour of the Trading Day pursuant to the RMR Dispatch Notice (including Energy the RMR Owner is entitled to substitute for Energy from the Reliability Must-Run Unit pursuant to the RMR Contract) shall be referred to as the "RMR Energy".

2.2.12.2.1 No later than 5:45 a.m. on the day before one hour before the close of the PX Day Ahead ~~Market for the Trading Day~~, any RMR Owner receiving an RMR Dispatch Notice as indicated in this Section 2.2.12.2 (the "Applicable RMR Owner") must notify the ISO through the RMR Owner's Scheduling Coordinator (the "Applicable RMR SC"), with regard to each hour of the Trading Day identified in the RMR Dispatch Notice, whether it intends to satisfy its obligation to deliver RMR Energy (i) by delivering RMR Energy pursuant to a market transaction ("RMR Market Energy"), and receiving only market compensation therefore (the "RMR Market Option"), or (ii) by delivering RMR Energy as a contract transaction ("RMR Contract Energy"), and accepting payment under the relevant RMR Contract (the "RMR Contract Option"). If the Applicable RMR Owner so notifies the ISO by March 1, 2001, for calendar year 2001, and by January 1 of any subsequent calendar year, the RMR Owner may during that calendar year notify the ISO directly of its choice of payment option, rather than through the Applicable RMR Owner's Scheduling Coordinator. If the Applicable RMR Owner elects to provide notice of its choice of payment option directly, the ISO will not accept notice from the Applicable RMR Owner's Scheduling Coordinator during the relevant calendar year. Notwithstanding anything to the contrary in any RMR Contract, the Applicable RMR Owner may not elect to satisfy its obligation to deliver the RMR Energy specified in the RMR Dispatch Notice by delivering that RMR Energy pursuant to a transaction in the Real Time Market.

2.2.12.2.2 RMR Contract Option -- No later than 6:00 a.m. on the day before the Trading Day, the ISO shall, for each hour for which the Applicable RMR Owner elects the RMR Contract Option ("Contract Hour"), direct the Applicable RMR SC and the Scheduling Coordinator for the UDC affiliated with the Responsible Utility for the RMR Units to enter into an Inter-Scheduling Coordinator Energy Trade for it shall bid the entire amount of the RMR Contract Energy dispatched from those RMR Units for that hour. Where there is more than one Applicable UDC SC, the ISO will file an allocation of the responsibility for the RMR Contract Energy under Section 205 of the Federal Power Act. For the purposes of establishing the SC Credit amount in the RMR Contract, the Inter-Scheduling Coordinator Energy Trade shall deem the RMR Contract Energy price to be \$0/MWh. into the PX Day-Ahead Market at zero dollars per MWh, unless the Applicable RMR Owner is precluded from bidding into the PX because of law, regulation, the applicable PX rate schedule, or the unavailability of the PX Day-Ahead Market. The Applicable RMR SC and the Applicable UDC SC shall include in their its-Preferred Day-Ahead Schedules and their Preferred Hour-Ahead Schedules the total amount of the RMR Contract Energy for each Contract Hour, unless the Applicable RMR Owner's total Energy award in the PX Day-Ahead Market for that Contract Hour is less than the total amount of RMR Energy for that Contract Hour, in which case the Preferred Day-Ahead Schedule shall include that lesser amount. If the Applicable RMR Owner's total Energy award in the PX Day-Ahead Market for any Contract Hour is less than the full amount of the RMR Energy for that Contract Hour, the Applicable RMR Owner shall bid the remaining RMR Energy for that Contract Hour into the next PX Market for such Contract Hour at zero dollars per MWh. The Applicable RMR SC shall include the entire RMR Energy for each Contract Hour in its Preferred Hour-Ahead Schedule for each such hour, unless the Applicable RMR Owner's Energy award in the PX markets for that Contract Hour is less than the total RMR Energy for such hour, in which case the Applicable RMR SC shall include that lesser amount. Whether or not the RMR Contract Energy is in the Final Schedule, the Applicable RMR Owner must deliver the RMR Contract Energy pursuant to the RMR Dispatch Notice. Notwithstanding anything to the contrary in the RMR Contract, neither the Applicable RMR Owner nor the Applicable RMR SC shall be entitled to any payment from any source for RMR Contract Energy that is not bid and scheduled as required by this Section 2.2.12.2.2. All

RMR Energy delivered under this option shall be deemed delivered under a Nonmarket Transaction for the purposes of the RMR Contract. In the event that the RMR Contract Energy is not delivered for any hour, (i) if the RMR Contract Energy had been scheduled, the Applicable RMR Owner shall not be entitled to an Availability Payment under the RMR Contract and the Applicable RMR SC shall pay for the Imbalance Energy necessary to replace that RMR Energy, and (ii) if the RMR Contract Energy had not been scheduled, the Applicable RMR Owner shall not be entitled to an Availability Payment under the RMR Contract and, if the variable costs saved by the Owner's failure to deliver the RMR Contract Energy (which shall be equal to the Variable Cost Payment determined pursuant to Schedule C in the RMR Contract) are greater than the foregone Availability Payment under the RMR Contract, the Applicable RMR Owner shall pay the difference between the variable costs saved and the Availability Payment.

2.2.12.2.2.1 The Applicable UDC SC shall make all commercially reasonable efforts to match the RMR Contract Energy to Demand, including, but not limited to, changing the dispatch of resources the Applicable UDC SC can re-dispatch, to the extent commercially feasible, and selling the RMR Contract Energy. If the Applicable UDC SC, having made all such efforts, is unable to match all RMR Contract Energy with Demand, then the Applicable UDC SC may nonetheless submit a Balanced Schedule that includes all the RMR Contract Energy. If 1) the Applicable UDC SC makes all commercially reasonable efforts to match the RMR Contract Energy with Demand, and 2) notifies the ISO by the deadline for submitting Day-Ahead Initial Preferred Schedules to the ISO of each hour and the preliminary amount of RMR Contract Energy not matched with Demand, then the ISO shall (a) accept the Balanced Schedule as if the Demand portion of that Balanced Schedule represented an accurate forecast, and (b) waive any charge or penalty that may be associated with a deviation from a Balanced Schedule caused solely by the Applicable UDC SC accepting RMR Contract Energy.

Within 5 days of the end of each month, the Applicable UDC SC shall provide the ISO with the amount of RMR Contract Energy not matched with Demand in each hour of the Final Hour-Ahead Schedules for that month, and the ISO shall add that amount to the positive amount of any Tolerance Band and any other similar value used to determine or penalty, or exemption from penalty, associated with a difference between scheduled and metered resources or Demand. The Applicable UDC SC shall maintain records

of the commercially reasonable efforts it took to match the RMR Contract Energy with Demand, including 1) the terms under which Energy was offered but not sold, and 2) the estimated marginal cost in relevant hours, to the extent reasonably available, of those contract or physical resources from which scheduled Energy could have been decremented if the Applicable UDC SC were unconditionally obligated to re-dispatch such resources to match all RMR Contract Energy with Demand, provided that such cost information need not be maintained or supplied to the ISO if a) decrementing the resource would conflict with any applicable statutory, regulatory, environmental, contract or other legal obligation or constraint, or physical or operating limitation consistent with Prudent Utility Practice, and b) the Applicable UDC SC maintains records identifying such resources and conflicts. The Applicable UDC SC shall supply such information to the ISO upon request for any hour in which the Applicable UDC SC was required to accept RMR Contract Energy, was unable to match all of the RMR Contract Energy with Demand, and, but for the exemption in this Section 2.2.12.2.2.1, would be subject to penalty such as that under Section 11.2.4.1.2. If the Applicable UDC SC, acting in accordance with Section 11.4.2 and SABP 4.4, disputes a charge assessed by the ISO solely on account of the Applicable UDC SC accepting RMR Contract Energy that should not have been assessed in accordance with this Section 2.2.12.2.2.1, the ISO shall 1) waive such charge, provided that the Applicable UDC SC has demonstrated that it made all commercially reasonable efforts to match the RMR Contract Energy to Demand in accordance with this Section 2.2.12.2.2.1, and 2) incorporate the relevant data in the Applicable UDC SC's Final Settlement Statement. The Applicable UDC SC may obtain confidential treatment for such information it provides in accordance with this Section 2.2.12.2.2.1 that is clearly marked as "Confidential" consistent with the requirements of Section 20.3 of the ISO Tariff.

2.2.12.2.3 RMR Market Option – This Section 2.2.12.2.3 provides how an Applicable RMR Owner electing the RMR Market Option shall satisfy its obligation to deliver RMR Energy.

2.2.12.2.3.1 For each hour for which an Applicable RMR Owner has selected the Market Option, (~~"Market Hour"~~), the Applicable RMR Owner (i) may bid into a power exchange market ~~the PX Day-Ahead Market~~ any amount of the RMR Market Energy and (ii) may schedule as a bilateral Day-Ahead transaction any amount of RMR Market Energy.

The Preferred Day-Ahead Schedule of the Applicable RMR SC shall include as RMR Market Energy for each Market Hhour the sum of the amount awarded to the Applicable RMR Owner in any power exchange market ~~the PX Day-Ahead Market~~ for that Market Hhour and the amount scheduled as a bilateral Day-Ahead transaction for that Market Hhour. If the Preferred Day-Ahead Schedule of the Applicable RMR SC for any Market Hhour includes Adjustment Bids for the RMR Unit, the Adjustment Bid shall specify the RMR Market Energy as the minimum MW output to which the Applicable RMR SC will allow the RMR Unit to be redispatched for that Market Hhour.

Notwithstanding anything to the contrary in the RMR Contract, neither the Applicable RMR Owner nor the Applicable RMR SC shall be entitled to any payment from any source for RMR Market Energy that is not bid ~~and~~ scheduled as required by this Section 2.2.12.2.32. In the event that the RMR Market Energy is not delivered for any hour, (i) if the RMR Market Energy had been scheduled, the Applicable RMR Owner shall not be entitled to an Availability Payment under the RMR Contract and the Applicable RMR SC shall pay for the Imbalance Energy necessary to replace that RMR Market Energy; ~~and~~ (ii) if the RMR Market Energy had not been scheduled, the Applicable RMR Owner shall not be entitled to an Availability Payment under the RMR Contract and, if the variable costs saved by the Owner's failure to deliver the RMR Market Energy (which shall be equal to the Variable Cost Payment determined pursuant to Schedule C in the RMR Contract) are greater than the foregone Availability Payment under the RMR Contract, the Applicable RMR Owner shall pay the difference between the variable costs saved and the Availability Payment.

2.2.12.2.3.2 If the Applicable RMR SC's Preferred Day-Ahead Schedule does not include the entire amount of RMR Market Energy for any Market Hhour, the Applicable RMR Owner must schedule any remaining RMR Market Energy for that hour as a ~~shall bid all remaining RMR Energy for that Market Hour, net of any RMR Energy the Applicable RMR Owner elects to provide through an Hour Ahead bilateral transaction for that Market H hour in the RMR SC's Preferred Hour-Ahead Schedule, into the next available PX Market for such hour at zero dollars per MWh.~~

2.2.12.2.3.2.1 The Applicable RMR SC's Preferred Hour-Ahead Schedule for each Market Hhour shall include all RMR Market Energy specified in the RMR Dispatch Notice for that Market Hhour, ~~except for~~

~~the amount of RMR Energy that the Applicable RMR Owner was required to bid into the PX Markets under Section 2.2.12.2.3.2 but was not awarded in such PX Markets for such hour. If the Preferred Hour-Ahead Schedule of the Applicable RMR SC for any Market H hour includes Adjustment Bids for the RMR Unit, the Adjustment Bid shall specify the RMR Market Energy as the minimum MW output to which the Applicable RMR SC will allow the RMR Unit to be redispatched for that Market H hour.~~

2.2.12.2.3.3 Whether or not the RMR Energy is in a Final Schedule, the Applicable RMR Owner must deliver the RMR Energy pursuant to the RMR Dispatch Notice. ~~If the RMR Owner has bid and scheduled the RMR Energy as required by this Section 2.2.12.2.3, any RMR Energy provided but not included in the Final Schedule will be paid as Uninstructed Imbalance Energy.~~ Notwithstanding anything to the contrary in the RMR Contract, neither the Applicable RMR Owner nor the Applicable RMR SC shall be entitled to any payment from any source for RMR Market Energy that is not bid and scheduled as required by this Section 2.2.12.2.3.

2.2.12.2.4 If, at any time after 5:00 a.m. on the day before~~two hours before the close of the PX Day-Ahead Market~~ for the Trading Day, the ISO determines that it requires additional Energy from specific Reliability Must-Run Units during the Trading Day, the ISO will notify Scheduling Coordinators for such Reliability Must-Run Units of the amount and time of the additional Energy requirements from such Reliability Must-Run Units (the "Supplemental RMR Dispatch Notice"). If the owner of the RMR Unit or the Applicable RMR SC for the RMR Unit specified in the Supplemental RMR Dispatch Notice has not already notified the ISO of a payment option for any hour of the Trading Day included in the Supplemental Dispatch Notice at the time the Supplemental Dispatch Notice is issued, the RMR Owner shall do so no later than three hours before the hour specified in the Supplemental RMR Dispatch Notice for each such hour that is at least four hours after the issuance of the Supplemental Dispatch Notice.

~~The Energy specified in the Supplemental Dispatch Notice shall be subject to the same bidding, scheduling, and delivery requirements and pricing provisions specified in this Section 2.2.12.2 as is RMR Energy not included in the Day-Ahead Schedule. If the ISO issues the Supplemental RMR Dispatch Notice less than two hours before the close of the last PX Market for any particular hour of the Trading Day, the Energy specified in the Supplemental Dispatch Notice for such particular hour shall be exempt~~

~~from the bidding and scheduling requirements and the pricing provisions of this Section 2.2.12.2, except that, if the owner of the RMR Unit has already selected a payment option for any hour, the RMR Owner will be paid for that RMR Energy in that particular hour according to that payment option. If the owner of the RMR Unit specified in the Supplemental RMR Dispatch Notice has not already notified the ISO of a payment option for any hour of the Trading Day included in the Supplemental Dispatch Notice at the time the Supplemental Dispatch Notice is issued, the RMR Owner shall do so no later than one hour before the close of the next PX Market for the RMR Energy specified in the Supplemental RMR Dispatch Notice and the elected payment option for such hour shall apply to RMR Energy bid into that and subsequent PX Markets for such hour during the Trading Day.~~

2.12.2.5 On a monthly basis, the ISO shall provide the UDC affiliated with the Responsible Utility for RMR Units with a non-binding forecast of its hourly aggregate RMR Energy from those RMR Units for the next twelve months.

ATTACHMENT C

**NOTICE SUITABLE FOR PUBLICATION IN THE
FEDERAL REGISTER**

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

**California Independent System Operator) Docket No. ER03-____ -000
Corporation**

Notice of Filing

[_____]

Take notice that the California Independent System Operator Corporation ("ISO"), on August 18, 2003, tendered for filing a revision to the ISO Tariff, Amendment No. 56 for acceptance by the Commission. The ISO states that the purpose of the amendment is to modify Tariff provisions regarding Dispatching and Scheduling Reliability Must-Run ("RMR") Energy to reflect the demise of the California Power Exchange.

The ISO states that this filing has been served on the Public Utilities Commission of California, the California Energy Commission, the California Electricity Oversight Board, the Participating TOs, Trans-Elect, and all parties with effective Scheduling Coordinator Agreements under the ISO Tariff.

The ISO is requesting the amendment to be made effective in sixty (60) days, *i.e.*, October 17, 2003.

Any person desiring to be heard or to protest the filing should file a motion to intervene or protest with the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426, in accordance with Rules 211 and 214 of the Commission's Rules of Practice and Procedure (18 C.F.R. §§ 385.211 and 385.214). All such motions or protests must be filed in accordance with § 35.9 of the Commission's regulations. Protests will be considered by the Commission in determining the appropriate action to be taken, but will not serve to make protestants parties to the proceeding. Any person wishing to become a party must file a motion to intervene. Copies of this filing are on file with the Commission and are available for public inspection in the Public Reference Room. This filing may also be viewed on the Internet at <http://www.ferc.fed.us/online/rims.htm> (call 202-208-2222 for assistance).

Comment Date: _____