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December 28, 2007

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

**Re: California Independent System Operator Corporation,
Docket Nos. ER06-615-____, ER02-1656-____, ER07-1257-____,
and EL08-20-____; Independent Energy Producers Association
v. California Independent System Operator Corporation,
Docket No. EL05-146-____ (Not Consolidated)
Compliance Filing**

Dear Secretary Bose:

The California Independent System Operator ("CAISO")¹ hereby submits an original and five copies of the instant filing in compliance with the Commission's "Order Instituting a Section 206 Investigation and Denying Motion for Reconsideration and Clarification," 121 FERC ¶ 61,281, issued in the captioned proceeding on December 20, 2007 ("December 20 Order"). Simultaneously herewith, the CAISO is also submitting a Motion for Expedited Reconsideration requesting that the Commission act expeditiously and clarify what criteria the CAISO should apply for purposes of making any System, Local, or Significant Event RCST designations in 2008.

¹ Capitalized terms not otherwise defined herein have the meanings set forth in the Master Definitions Supplement, Appendix A to the CAISO Tariff, and in the instant compliance filing.

I. Background

On August 26, 2005, the Independent Energy Producers Association ("IEP") filed a complaint in Docket No. EL05-146 to replace the existing must-offer obligation ("MOO") with a tariff-based procurement mechanism entitled the "Reliability Capacity Services Tariff," *i.e.*, the RCST. Following extensive settlement discussions, on March 31, 2006, IEP, the CAISO, the California Public Utilities Commission, Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company submitted an Offer of Settlement in order to resolve all issues in that proceeding. All provisions of the CAISO Tariff added by the RCST Settlement terminate on December 31, 2007.

In a June 2006 Order, the Commission found that "under the current market design, the must-offer obligation does not adequately compensate generators for the reliability services they provide."² It concluded that compensation under the must-offer obligation was not just and reasonable.³ Because it could not resolve all of the issues raised by the proposed RCST Settlement, the Commission directed a paper hearing.⁴

After a paper hearing, in an Order issued on February 13, 2007, the Commission approved the Settlement with minor modifications.⁵ On March 15, 2007, the CAISO submitted a compliance filing containing tariff provisions implementing the RCST Settlement. By its terms, the RCST expires on December 31, 2007.⁶ On June 11, 2007, the Commission issued an "Order on Rehearing and Compliance" in which it, *inter alia*, accepted the CAISO's March 1, 2007 compliance filing.

On October 12, 2007, IEP filed a Motion for Reconsideration or Clarification in which it asked the Commission to reconsider its September 25, 2007, Notice of Extension of Time granting the CAISO an extension of time, until January 18, 2008, to comply with a requirement in the Commission's June 25, 2007 Market Redesign and Technology Upgrade ("MRTU") Order that the CAISO work with stakeholders to explore potential opportunities for load serving entities

² *Indep. Energy Producers Assoc. v. Cal. Indep. Sys. Operator Corp.*, 116 FERC ¶ 61,069, at P 35 (2006).

³ *Id.* at P 38.

⁴ *Id.*

⁵ *Indep. Energy Producers Assoc. v. Cal. Indep. Sys. Operator Corp.*, 118 FERC ¶ 61,096 (2007) ("Settlement Order").

⁶ *Id.*

to cure a collective shortfall in local capacity area deficiencies. Instead, IEP requested that the Commission require the CAISO to file its Interim Capacity Procurement Mechanism ("ICPM"), which is intended to be effective on the effective date of MRTU implementation, to be effective January 1, 2008, *i.e.*, prior to implementation of MRTU. To the extent the Commission declined to reconsider its order granting the CAISO an extension, IEP asked the Commission to confirm that the RCST terminates on December 31, 2008, and that generators cannot be required to provide reliability backstop service pursuant to the MOO without just and reasonable and non-discriminatory compensation."

On October 29, 2007, the CAISO filed an Answer to IEP's motion. The CAISO objected to IEP's request to require the CAISO to file the ICPM with an effective date of January 1, 2008. The CAISO stated that, in the event the CAISO determines that MRTU will be delayed beyond March 31, 2008, the CAISO would notify the Commission of such decision by January 31, 2007, *i.e.*, following a CAISO Governing Board meeting which is scheduled for the end of January. The CAISO also stated that if it was necessary to delay MRTU implementation into late 2008, then it would be appropriate to commence a stakeholder process to consider development of a backstop capacity program/must-offer pricing scheme to be effective before the high-demand summer season. Specifically, the CAISO indicated that it would work with stakeholders to develop and file a proposal under Section 205 of the Federal Power Act in time to allow for such amendments to be effective by May 31, 2008. The CAISO suggested, however, that if the Commission believed that it was necessary to provide additional compensation to must-offer generators effective January 1, 2008, it should exercise its rights under Section 206 of the Federal Power Act and extend the daily must-offer capacity payment that is currently in effect until implementation of MRTU.

In its December 20 Order, the Commission denied IEP's Motion for Reconsideration or Clarification, but initiated a Section 206 proceeding⁷ in Docket No. EL08-20-000 to investigate the justness and reasonableness of extending the RCST for a short period of time, until the earlier of the implementation of either MRTU or an alternative backstop capacity procurement mechanism. The Commission noted that, when the RCST expires on December 31, 2007, the MOO will continue until the implementation of MRTU. The Commission also noted that it had previously found the MOO to be unjust and unreasonable without appropriate compensation to generators for the capacity and reliability services they provide. The Commission stated that, having recently found that the RCST compensation mechanism to be just and reasonable through December 31, 2007, it found that parties have not provided

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16 U.S.C. § 824e.

sufficient reasons to justify a determination that this mechanism would become unjust and unreasonable on January 1, 2008. Accordingly, the Commission preliminarily concluded that the most efficient solution is simply to extend the RCST for a relatively brief period of time so that all generators are compensated for the reliability and capacity that they provide through compliance with the MOO.⁸ The Commission extended the termination date of the RCST until the earlier of implementation of MRTU or of an alternative backstop procurement mechanism.⁹ The Commission also acknowledged the CAISO's commitment to commence a new stakeholder process to modify MRTU in the event MRTU implementation is delayed.

II. CAISO Tariff Revisions

In Ordering Paragraph (B) of the December 20 Order, the Commission directed the CAISO to file, by December 28, 2007, revised tariff sheets amending the effective date of the RCST. In that regard, the following sections of the CAISO Tariff contain language adopted as part of the RCST Settlement that provide that such provisions (or designations made thereunder) expire at midnight on the earlier of December 31, 2007 or the date immediately before the MRTU goes into effect: Section 34.1.2.1.1; Section 40.14; Section 40.15; Section 43; and Section 43.4. The CAISO is revising each of these provisions to provide that such provisions (or designations thereunder) expire at midnight on the earlier of the day before the MRTU Tariff (which is a defined term in the CAISO's existing tariff) goes into effect or the day preceding the effective date of any Commission-approved successor backstop capacity procurement mechanism to the RCST). The CAISO is modifying Section 43.4 to eliminate the language which provides that Significant Event RCST designations could expire by December 31, 2007 (*i.e.*, before they are made). The CAISO is modifying the System RCST Designation provisions under Section 43.3 and 43.3.1 to provide that there may be designations in 2008. The CAISO also is modifying Section 43.3.2 (Monthly System Reliability Capacity Services Designations) to provide that the designation term may be "the period of time until a successor backstop procurement mechanism to the RCST becomes effective" if that period of time is less than one of the periods of time already specified in the section. This recognizes that the RCST will terminate on the earlier of MRTU implementation or the implementation of a successor capacity backstop procurement mechanism.

⁸ December 20 Order at P 34.

⁹ *Id.* at PP 34-35.

III. Motion for Expedited Clarification

The CAISO also believes it is necessary to seek clarification regarding a couple of issues that are not readily addressed by simply extending the effective date of the RCST as the Commission has directed the CAISO to do in the December 20 Order. As described in the accompanying Motion for Expedited Clarification, a number of provisions of the RCST are limited to 2006 and 2007, and are not applicable to 2008. The CAISO is seeking clarification regarding the adaptation of those provisions to the Commission-ordered extension.

IV. Materials Provided in the Instant Compliance Filing

In addition to this transmittal letter, the instant compliance filing includes Attachments A and B. Attachment A contains clean CAISO Tariff sheets reflecting the modifications to the CAISO Tariff described in Section II, above. Attachment B shows these modifications in red-line format. Please contact the undersigned with any questions.

Respectfully submitted,



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Attachment A – Clean Sheets

Reliability Capacity Services Tariff Compliance Filing

Docket EL05-146-000

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Adders will stop accruing in any calendar month once the combined value for that month of Frequently Mitigated Adders, Must-Offer Capacity Payments and Minimum Load imbalance energy payments under Section 40.8.3 reaches the level of the Monthly RCST Charge (established in Schedule 6 of Appendix F) reduced by the PER (established in Schedule 6 of Appendix F) for that month multiplied by the megawatts of Eligible Capacity of that Generating Unit. This Section 34.1.2.1.1 shall expire at midnight on the earlier of the day before the MRTU Tariff goes into effect or the day preceding the effective date of any successor backstop capacity procurement mechanism to the RCST.

34.1.2.1.2 Allocation of Frequently Mitigated Adder Costs

Costs incurred under Section 34.1.2.1.1 will be allocated in accordance with Section 27.1.3.

34.1.2.2 Real-Time Energy Bid Partition.

The portion of the single Energy Bid that corresponds to the high end of the resource's operating range, shall be allocated to any awarded or self-provided Ancillary Services in the following order from higher to lower capacity: (a) Regulation Up; (b) Spinning Reserve; (c) Non-Spinning Reserve; and (d) Replacement Reserve. For resources providing Regulation Up, the upper regulating limit shall be used if it is lower than the highest operating limit. The remaining portion of the Energy Bid (i.e. that portion not associated with capacity committed to provide Ancillary Services) shall constitute a Bid to provide Supplemental Energy.

34.1.2.3 Creation of the Real-Time Merit Order Stack.

34.1.2.3.1 Sources of Imbalance Energy.

The following Energy Bids will be considered in the creation of the real-time merit order stack for Imbalance Energy:

- (a) Supplemental Energy Bids;
- (b) Ancillary Services Energy Bids (except for Regulation) submitted for specific Ancillary Services for those resources which have been selected in the ISO's Ancillary Services auction to supply such specific Ancillary Services; and
- (c) Ancillary Services Energy Bids (except for Regulation) submitted for specific Ancillary Services

constraints may be imposed beyond those explicitly stated in the plan.

40.14 Capacity Payments Under the FERC Must-Offer Obligation.

As set forth in this Section, Generating Units of FERC Must-Offer Generators that are eligible to recover Minimum Load Costs pursuant to Section 40.8 shall also be eligible to recover a Must-Offer Capacity Payment during Waiver Denial Periods, in addition to such Minimum Load Costs, provided the Generating Unit does not have an RMR contract, is not a Resource Adequacy Resource and is not designated as RCST. The Must-Offer Capacity Payment shall equal $1/17^{\text{th}}$ of the Monthly RCST Charge as specified in Schedule 6 of Appendix F per megawatt for each day of the Waiver Denial Period, adjusted pro rata for any hours of that day in which the Generating Unit was ineligible for the recovery of Minimum Load Costs. For any Trading Day of a calendar month, if the sum of (i) total Must-Offer Capacity Payments that a FERC Must-Offer Generator has received for a Generating Unit under this Section 43.14 during that month, (ii) the total Imbalance Energy payments received when that Generating Unit is running at minimum load, and (iii) the Frequently Mitigated Adder under Section 34.1.2.1.1 during the calendar month, exceeds the Qualifying Capacity times the maximum Monthly RCST Charge (established in Schedule 6 of Appendix F) reduced by the Monthly PER (established in Schedule 6 of Appendix F), the FERC Must-Offer Generator shall not be eligible to receive Must-Offer Capacity Payments or the Frequently Mitigated Adder under Section 34.1.2.1.1 for that Generating Unit for that Trading Day, nor for any other Trading Day in the remainder of the calendar month (but shall continue to recover Minimum Load Costs and imbalance Energy payments). This Section 40.14 shall expire at midnight on the earlier of the day before the MRTU Tariff goes into effect or the day preceding the effective date of any successor backstop capacity procurement mechanism to the RCST.

40.14.1 Allocation of Must-Offer Capacity Payments

The ISO shall determine whether the Must-Offer Capacity Payment costs for each FERC Must-Offer Generator Generating Unit operating during a waiver denial period are due to (1) local reliability requirements, (2) zonal requirements, or (3) Control Area-wide requirements. For each month, the ISO shall sum the Must-Offer Capacity Payments costs and shall allocate those costs as follows:

- (1) if the Generating Unit was operating to meet local reliability requirements, the Must-Offer Capacity Payment costs shall be considered incremental locational costs and shall be allocated in accordance with Section 40.8.6 (1).
- (2) if the Generating Unit was operating due to Zonal requirements, the Must-Offer Capacity Payment costs shall be allocated in accordance with Section 40.8.6 (2)
- (3) if the Generating Unit was operating to satisfy an ISO Control Area-wide need, the Must-Offer Capacity Payment costs shall be allocated in accordance with Section 40.8.6 (3).

40.15 Must-Offer Reporting Requirements

Sections 40.15 through 40.15.4 shall expire at midnight on the earlier of the day before the MRTU Tariff goes into effect or the day preceding the effective date of any successor backstop capacity procurement mechanism to the RCST.

40.15.1 Must-Offer Waiver Denial Report

The ISO shall publish a Must-Offer Waiver Denial Report ("MOWD Report") on the ISO Website on a weekly basis and shall provide a market notice of its availability. The MOWD Report shall indicate the category of the must-offer waiver denial, *i.e.*, local, zonal or system, and the amount of megawatts involved in each category. On a daily basis, thirty (30) days after the Trade Day, the ISO will publish on OASIS the allocation of Un-Recovered Minimum Load Costs for RCST and Resource Adequacy Resources and Minimum Load Costs for FERC Must-Offer Generators.

40.15.2 Monthly Minimum Load Cost Report

On a monthly basis, thirty (30) days after the Trade Day, the ISO will publish on ISO Website, the monthly allocation of Un-Recovered Minimum Load Costs for RCST and Resource Adequacy Resources, Minimum Load Costs for FERC Must-Offer Generators.

40.15.3 Multiple Denial of FERC Must-Offer Waivers

If the ISO issues a denial of must-offer waivers to a FERC Must-Offer Generator on four separate days in any calendar year, the ISO shall evaluate whether a Significant Event has occurred that warrants designation of the FERC Must-Offer Generator to provide service under the RCST ("MOWD Evaluation").

Reserve in the hour, determined in accordance with Section 8.12.3A bears to the total deviation Replacement Reserve in that hour.

43 Reliability Capacity Services Tariff

This section 43 of the ISO Tariff shall be referred to as the Reliability Capacity Services Tariff ("RCST"). The RCST as well as changes made to other Sections to implement the Offer of Settlement filed on March 31, 2006 in Docket No. EL05-146 (changes to Sections 34.1.2.1.1; 34.1.2.1.2; 40.6A.6; 40.7.1; 40.7.6; 40.14; 40.14.1; 40.15; 40.15.1; 40.15.2; 40.15.3; 40.15.4; Appendix F Schedule 6; and Appendix P, Attachment A) shall expire at midnight on the earlier of the day before the MRTU Tariff goes into effect or the day preceding the effective date of any successor backstop capacity procurement mechanism to the RCST except that the provisions concerning compensation, cost allocation and settlement shall remain in effect until such time as RCST resources have been finally compensated for their services rendered under the RCST prior to the termination of the RCST, and the ISO has finally allocated and recovered the costs associated with such RCST compensation.

43.1 Designation

The ISO shall have the authority provided in this Section 43.1 to designate Eligible Capacity or System Resources to provide services under the RCST as set forth in this Section 43.

43.2 Local RCST Designations

The ISO may designate Eligible Capacity to provide services under the RCST to meet local reliability needs to the extent provided in this Section 43.2.

of Eligible Capacity to provide services under the RCST made pursuant to this section shall have a term that commences on January 1, 2007, and expires on the earlier of midnight, December 31, 2007, or midnight on the day preceding the implementation of the MRTU Tariff.

43.2.2 Selection of Eligible Capacity Designated for Local Reliability

The ISO will make designations of Eligible Capacity under Section 43.2 based on the lowest overall cost for each 2007 Local Reliability Area considering the following factors: the effectiveness of the Eligible Capacity, the quantity of Eligible Capacity of the resource relative to the remaining amount of capacity that is needed; and the Start-Up and Minimum Load Costs associated with the Eligible Capacity. The ISO shall have reasonable allowance to designate under the RCST an amount of Eligible Capacity from a Generating Unit that is slightly more or slightly less than a deficiency due to the quantity of Eligible Capacity from such Generating Unit that is available and suitable to meet the deficiency, consistent with the criteria in this section.

43.3 System RCST Designations

The ISO may designate Eligible Capacity for calendar years 2006, 2007 and 2008 to the extent provided in this Section 43.3.

43.3.1 Annual System Reliability Capacity Services Designations

No sooner than May 17, 2006, and following the ISO's review of the annual Resource Adequacy Plans submitted pursuant to Section 40.2.1 and, for 2007 and 2008, any designation of Eligible Capacity pursuant to Section 43.2.1, the ISO may designate Eligible Capacity or System Resources to provide services under the RCST under this Section 43.3 to the extent necessary to cover the aggregate Year-Ahead System Resource Deficiency consistent with the criteria set forth in Section 43.3.3.

A designation of Eligible Capacity or System Resources to provide services under the RCST made pursuant to this Section 43.3.1 shall be for a minimum term of three months, provided that, at the discretion of the ISO, the designation term during 2006 may be extended to a maximum of the four summer months of June through September and, for 2007, the designation term during 2007 may be extended up to a maximum term of the five summer months of May through September.

43.3.2 Monthly System Reliability Capacity Services Designations

Following its review of the monthly Resource Adequacy Plans submitted by Scheduling Coordinators pursuant to Section 40.2.2, the ISO may designate Eligible Capacity or System Resources to provide services under the RCST under this Section 43.3 to the extent necessary to cover the aggregate Month-Ahead System Resource Deficiency consistent with the criteria set forth in Section 43.3.3.

Designations of Eligible Capacity or System Resources to provide services under the RCST made pursuant to this Section 43.3.2 shall be for the lesser of three months, the remainder of the calendar year or the period of time until the MRTU Tariff becomes effective or the period of time until a successor backstop capacity procurement mechanism to the RCST becomes effective.

43.3.3 Selection of Eligible Capacity Designated for System Reliability

The ISO will make designations of Eligible Capacity or System Resources under this Section 43.3 based on the following factors: the effectiveness of the Eligible Capacity in addressing local and/or zonal constraints in addition to meeting system needs; the quantity of Eligible Capacity of the resource; the Start-Up and Minimum Load Costs associated with the Eligible Capacity; and the effectiveness of the Eligible Capacity at reducing the Minimum Load Costs that might otherwise be incurred as a result of must-offer waiver denials. System Resources shall be subject to the ISO's established import limits as specified in accordance with Section 40.5.2.2. The ISO shall have reasonable allowance to designate under the RCST an amount of Eligible Capacity from a Generating Unit or System Resource that is slightly more or slightly less than a deficiency due to the quantity of Eligible Capacity from such Generating Unit or System Resource that is available and suitable to meet the deficiency, consistent with the criteria in this section.

43.4 RCST Designations For Significant Events

The ISO may designate Eligible Capacity or System Resources to provide service under this Section 43.4 following a Significant Event, and taking into account the expected duration of the Significant Event, if such an RCST designation is necessary to remedy any resulting material difference in ISO Controlled Grid operations relative to the assumptions reflected in the LARN Report for 2006 or relative to the assumptions underlying the CPUC's and, if applicable, a Local Regulatory Authority's development of Local Resource Adequacy Requirements for 2007. An RCST designation due to a Significant Event shall have a minimum term of three months and a maximum term up to the period of time which the ISO determines the Significant Event will remain in effect, provided that in no event shall the term of such RCST designation extend beyond midnight on the earlier of the day before the MRTU Tariff goes into effect or the day preceding the effective date of any successor backstop capacity procurement mechanism to the RCST. Any RCST designations under this section shall be in accordance with the criteria set forth in Section 43.3.3.

Attachment B – Blacklines

Reliability Capacity Services Tariff Compliance Filing

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34.1.2.1.1 Frequently Mitigated Adders

Generating Units of Participating Generators for which the ISO denies a must-offer waiver request and for which only a portion of their capacity is Eligible Capacity, as well as self-scheduled Generating Units of Participating Generators that have Eligible Capacity, that submit Supplemental Energy bids that are mitigated under Section 3.2.2.2 of Appendix P five times in a single Trading Day, based on five-minute dispatch periods, shall receive a supplemental payment adder ("Frequently Mitigated Adder") for the Dispatched Energy that is mitigated for each mitigated interval in that Trading Day beginning with the 10-minute settlement interval of the fifth mitigation and continuing for each following 10-minute settlement interval through the remainder of the Trading Day, provided that the Frequently Mitigated Adder plus the Mitigated Price does not exceed the resources' original Supplemental Bid. The Frequently Mitigated Adder shall be \$40 per megawatt hour multiplied by the ratio of the Eligible Capacity (excluding any portion of minimum load capacity that is not also Resource Adequacy, RMR or designated under RCST) to the total Qualifying Capacity (excluding minimum load level) of the Generating Unit. Generating Units shall not receive Frequently Mitigated Adders in connection with decremental dispatches.

The total amount of Frequently Mitigated Adders that any Generating Unit can receive in a Trading Day shall not exceed the Must-Offer Capacity Payment that the Generating Unit would have received pursuant to Section 40.14 if the ISO had denied a must-offer waiver denial request. Further, Frequently Mitigated Adders will stop accruing in any calendar month once the combined value for that month of Frequently Mitigated Adders, Must-Offer Capacity Payments and Minimum Load imbalance energy payments under Section 40.8.3 reaches the level of the Monthly RCST Charge (established in Schedule 6 of Appendix F) reduced by the PER (established in Schedule 6 of Appendix F) for that month multiplied by the megawatts of Eligible Capacity of that Generating Unit. This Section 34.1.2.1.1 shall expire at midnight on the earlier of ~~December 31, 2007~~ or the day before the MRTU Tariff goes into effect or the day preceding the effective date of any successor backstop capacity procurement mechanism to the RCST ~~date immediately before the MRTU goes into effect.~~

* * *

As set forth in this Section, Generating Units of FERC Must-Offer Generators that are eligible to recover Minimum Load Costs pursuant to Section 40.8 shall also be eligible to recover a Must-Offer Capacity Payment during Waiver Denial Periods, in addition to such Minimum Load Costs, provided the Generating Unit does not have an RMR contract, is not a Resource Adequacy Resource and is not designated as RCST. The Must-Offer Capacity Payment shall equal 1/17th of the Monthly RCST Charge as specified in Schedule 6 of Appendix F per megawatt for each day of the Waiver Denial Period, adjusted pro rata for any hours of that day in which the Generating Unit was ineligible for the recovery of Minimum Load Costs. For any Trading Day of a calendar month, if the sum of (i) total Must-Offer Capacity Payments that a FERC Must-Offer Generator has received for a Generating Unit under this Section 43.14 during that month, (ii) the total Imbalance Energy payments received when that Generating Unit is running at minimum load, and (iii) the Frequently Mitigated Adder under Section 34.1.2.1.1 during the calendar month, exceeds the Qualifying Capacity times the maximum Monthly RCST Charge (established in Schedule 6 of Appendix F) reduced by the Monthly PER (established in Schedule 6 of Appendix F), the FERC Must-Offer Generator shall not be eligible to receive Must-Offer Capacity Payments or the Frequently Mitigated Adder under Section 34.1.2.1.1 for that Generating Unit for that Trading Day, nor for any other Trading Day in the remainder of the calendar month (but shall continue to recover Minimum Load Costs and imbalance Energy payments). This Section 40.14 shall expire at midnight on the earlier of ~~December 31, 2007 or the day before the MRTU Tariff goes into effect or the day preceding the effective date of any successor backstop capacity procurement mechanism to the RCST~~ date immediately before the MRTU goes into effect.

* * *

40.15 Must-Offer Reporting Requirements

Sections 40.15 through 40.15.4 shall expire at midnight on the earlier of ~~December 31, 2007 or the day before the MRTU Tariff goes into effect or the day preceding the effective date of any successor backstop capacity procurement mechanism to the RCST~~ date immediately before the MRTU goes into effect.

* * *

This section 43 of the ISO Tariff shall be referred to as the Reliability Capacity Services Tariff ("RCST"). The RCST as well as changes made to other Sections to implement the Offer of Settlement filed on March 31, 2006 in Docket No. EL05-146 (changes to Sections 34.1.2.1.1; 34.1.2.1.2; 40.6A.6; 40.7.1; 40.7.6; 40.14; 40.14.1; 40.15; 40.15.1; 40.15.2; 40.15.3; 40.15.4; Appendix F Schedule 6; and Appendix P, Attachment A) shall expire at midnight on the earlier of ~~December 31, 2007~~ or the day before the MRTU Tariff goes into effect or the day preceding the effective date of any successor backstop capacity procurement mechanism to the RCST ~~date immediately before the ISO's MRTU Tariff goes into effect,~~ except that the provisions concerning compensation, cost allocation and settlement shall remain in effect until such time as RCST resources have been finally compensated for their services rendered under the RCST prior to the termination of the RCST, and the ISO has finally allocated and recovered the costs associated with such RCST compensation.

* * *

43.2.1.3 2007 Local RCST Designations for Deficiencies

Following the ISO's identification of any Local Resource Adequacy Requirement Deficiency, and after the time for any consultation with the ISO and the CPUC-established or Local Regulatory Authority-established opportunity to make up such deficiency, the ISO may designate Eligible Capacity to provide services under the RCST consistent with the criteria set forth in Section 43.2.2. The ISO may designate Eligible Capacity to provide service under this Section 43.2.1 to the extent necessary to satisfy any remaining Local Resource Adequacy Deficiency only after: (i) RMR Units have been designated in the local area reliability study process for 2007, and (ii) the ISO has completed its evaluation of all Resource Adequacy Plans for 2007 and taken into account the effect of the resources identified in such plans (whether or not any of those resources are located in a 2007 Local Reliability Area). Designations of Eligible Capacity to provide services under the RCST made pursuant to this section shall have a term that commences on January 1, 2007, and expires on the earlier of midnight, December 31, 2007, or midnight on the day preceding the implementation of the ~~Market Redesign & Technology Upgrade~~ MRTU Tariff.

* * *

43.3 System RCST Designations

The ISO may designate Eligible Capacity for calendar years 2006, ~~and 2007~~ and 2008 to the extent provided in this Section 43.3.

43.3.1 Annual System Reliability Capacity Services Designations

No sooner than May 17, 2006, and following the ISO's review of the annual Resource Adequacy Plans submitted pursuant to Section 40.2.1 and, for 2007 and 2008, any designation of Eligible Capacity pursuant to Section 43.2.1, the ISO may designate Eligible Capacity or System Resources to provide services under the RCST under this Section 43.3 to the extent necessary to cover the aggregate Year-Ahead System Resource Deficiency consistent with the criteria set forth in Section 43.3.3.

A designation of Eligible Capacity or System Resources to provide services under the RCST made pursuant to this Section 43.3.1 shall be for a minimum term of three months, provided that, at the discretion of the ISO, the designation term during 2006 may be extended to a maximum of the four summer months of June through September and, for 2007, the designation term during 2007 may be extended up to a maximum term of the five summer months of May through September.

43.3.2 Monthly System Reliability Capacity Services Designations

Following its review of the monthly Resource Adequacy Plans submitted by Scheduling Coordinators pursuant to Section 40.2.2, the ISO may designate Eligible Capacity or System Resources to provide services under the RCST under this Section 43.3 to the extent necessary to cover the aggregate Month-Ahead System Resource Deficiency consistent with the criteria set forth in Section 43.3.3.

Designations of Eligible Capacity or System Resources to provide services under the RCST made pursuant to this Section 43.3.2 shall be for the lesser of three months, the remainder of the calendar year or the period of time until the MRTU Tariff becomes effective or the period of time until a successor backstop capacity procurement mechanism to the RCST becomes effective.

* * *

43.4 RCST Designations For Significant Events

The ISO may designate Eligible Capacity or System Resources to provide service under this Section 43.4 following a Significant Event, and taking into account the expected duration of the Significant Event, if

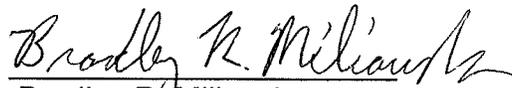
such an RCST designation is necessary to remedy any resulting material difference in ISO Controlled Grid operations relative to the assumptions reflected in the LARN Report for 2006 or relative to the assumptions underlying the CPUC's and, if applicable, a Local Regulatory Authority's development of Local Resource Adequacy Requirements for 2007. An RCST designation due to a Significant Event shall have a minimum term of three months and a maximum term up to the period of time which the ISO determines the Significant Event will remain in effect, provided that in no event shall the term of such RCST designation extend beyond ~~the earlier of midnight on December 31, 2007 or midnight the~~ earlier of the day before the MRTU Tariff goes into effect or the day preceding the effective date of any successor backstop capacity procurement mechanism to the RCSTMRTU implementation. Any RCST designations under this section shall be in accordance with the criteria set forth in Section 43.3.3.

* * *

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all of the parties listed on the service lists for the above-referenced proceedings, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Washington, D.C. this 28th day of December, 2007.


Bradley R. Miliauskas