White Paper:
Proposal for Tariff Filing for Interim Capacity Procurement Mechanism

California Independent System Operator
Market & Product Development Group
June 29, 2007
# Table of Contents

1. Executive Summary .................................................................................................................. 3  
2. The Issue ........................................................................................................................................ 3 
3. Stakeholder Process ...................................................................................................................... 4 
4. Origin of Current Backstop Authority .......................................................................................... 6 
5. Rationale for New Backstop Authority ......................................................................................... 6 
  5a) Current Market Design ............................................................................................................. 6 
  5b) MRTU Market Design ............................................................................................................... 6 
  5c) Reliability Concerns regarding Current RCST ......................................................................... 7 
  5d) Functions of New Backstop ....................................................................................................... 8 
7. Reliability Must-Run Agreements ............................................................................................... 9 
8. No FERC Daily MOO under MRTU ............................................................................................. 9 
9. CAISO Proposal .......................................................................................................................... 10 
  9a) Need for Backstop Mechanism ............................................................................................... 10 
  9b) Proposed Filing Date ............................................................................................................... 11 
  9c) Requested Effective Date .......................................................................................................... 12 
  9d) Extent of Changes to Current RCST .......................................................................................... 12 
  9e) No Daily FERC Must-Offer Obligation ................................................................................... 13 
  9f) Scope of Backstop Procurement ............................................................................................... 13 
  9g) Sunset Date ............................................................................................................................... 14 
  9h) Tariff Provisions until Long-Term Capacity Pricing Mechanism ................................................ 14 
  9i) Tariff Provisions after Long-Term Capacity Pricing Mechanism ................................................ 15 
  9j) Use of Backstop ........................................................................................................................ 15 
  9k) Process and Trigger for Backstop ............................................................................................. 16 
  9l) Definition of Significant Event ................................................................................................. 18 
  9m) Reporting of Backstop Procurement ...................................................................................... 20 
  9n) Committed Term of Payments ................................................................................................. 20 
  9o) Basis of Compensation ........................................................................................................... 22 
  9p) Formula for Escalating Target Annual Capacity Price ............................................................... 22 
  9q) Formula for Capacity Payment ................................................................................................ 24 
  9r) Formula for Monthly Capacity Charge ..................................................................................... 24 
  9s) Allocation of Costs .................................................................................................................... 25 
  9t) Selection among Multiple Resources ........................................................................................ 27 
  9u) Obligation of PGA Resources .................................................................................................. 28 
  9v) Allocation of RA Credit ........................................................................................................... 28 
10. Other Topics Raised by Stakeholders ......................................................................................... 29 
  Attachment 1  Key Milestones ....................................................................................................... 30 
  Attachment 2  List of Acronyms .................................................................................................... 31 
  Attachment 3  Comments on Reliability Must-Run Agreements ..................................................... 32 
  Attachment 4  Other Topics Raised by Stakeholders ....................................................................... 34
Proposal for Tariff Filing for Interim Capacity Procurement Mechanism

1. Executive Summary

At stakeholder meetings on May 18 and June 6, 2007, the California Independent System Operator ("CAISO") discussed issues associated with the development of a successor to the current Reliability Capacity Services Tariff ("RCST"), which expires on December 31, 2007. This white paper presents a replacement capacity backstop proposal for stakeholder consideration. The CAISO’s goal is to file a capacity backstop proposal with the Federal Energy Regulatory Commission ("FERC") on September 11, 2007. The CAISO would propose a mid-November 2007 effective date, so that the CAISO can procure backstop capacity, if needed, before the end of 2007 so that such resources would be available starting on January 1, 2008.

This proposal extends as many of the current RCST provisions as possible, while making some modifications and enhancements that are designed, inter alia, to make the mechanism compatible with the Market Redesign and Technology Upgrade ("MRTU") market design and Applicable Reliability Criteria. Some stakeholders have stated that a hard termination date may make it possible for them to agree on a successor to RCST. Under the CAISO's proposal, the tariff provisions would automatically sunset on December 31, 2012, or the effective date of a replacement capacity pricing mechanism.

Given that the tariff would apply for up to five years, the CAISO proposes to adjust the target annual capacity price annually. The price for 2008 would be the existing RCST capacity price adjusted for inflation, i.e., $74.83 kW-yr. The price would stair-step up over the next four years to a final price of $95.09/kW-yr. in 2012.

FERC has ordered that the current FERC daily must-offer obligation will expire at the start of MRTU. This proposal does not include a comparable provision.

The capacity backstop would be used by the CAISO under the following circumstances: (1) where a Load Serving Entity ("LSE") has not contracted for its full Resource Adequacy ("RA") requirement, (2) where additional local capacity is needed beyond the aggregate amount procured by compliant LSES due to the technical "effectiveness" of the procured generating units, and (3) where an unplanned event or events cause, or threaten to cause, a failure to meet Applicable Reliability Criteria. The proposal describes the processes and triggers that would apply for purposes of determining whether to procure resources under the backstop mechanism, and the reporting obligations.

The proposal continues the general approach reflected in the RCST with respect to the following: term of payments; formulas for the capacity payment and the monthly capacity charge; cost allocation; and how resources would be selected for procurement when there are multiple candidates.

2. The Issue

Apart from resources procured by the CAISO under its Reliability Must-Run ("RMR") authority, capacity is currently committed under the CAISO Tariff through the following mechanisms:
First, the CAISO may commit capacity procured under RA programs by LSEs.

Second, to meet reliability needs, the CAISO may (1) commit capacity on a daily basis pursuant to the Must-Offer Obligation ("MOO") and (2) designate capacity on a forward basis pursuant to the RCST, which was established as a result of FERC approval of an Offer of Settlement in Independent Energy Producers Association v California Independent System Operator Corporation, FERC Docket No. EL05-146 ["RCST Litigation"].

The RCST will expire on December 31, 2007. The CAISO desires to work with stakeholders to implement a replacement "interim capacity procurement" mechanism that would become effective in late 2007 so that, if necessary, the CAISO could procure backstop resources pursuant to such mechanism to provide reliability services beginning January 1, 2008.

3. Stakeholder Process

The CAISO intends to seek approval from the CAISO Board of Governors on September 6-7, 2007 to make a tariff filing to FERC, and, if such approval is granted, to make the filing on September 11, 2007.

In April 2007, the CAISO talked informally with a broad range of stakeholders to better understand issues from the stakeholder's perspective regarding development of a successor to the RCST. This feedback was incorporated into an issues paper that was developed in early May 2007.

The issues paper was posted on the CAISO web site for stakeholder review on May 9, 2007 at http://www.caiso.com/1bc5/1bc5db284cc80.html. The issues paper presented a general strategy for developing an interim capacity procurement mechanism, and described issues that had been identified by the CAISO and stakeholders that would need to be discussed prior to developing a proposal. The strategy proposed in the issues paper was to extend the current RCST structure, and discuss with stakeholders adaptations that are necessary to ensure compatibility with the MRTU market design and Applicable Reliability Criteria.

The first stakeholder meeting was held on May 18, 2007. The meeting was structured such that the CAISO explained the objectives of the tariff filing and the proposed strategy, and both the CAISO and stakeholders had time to present their perspectives on the topics that should be discussed and suggested approaches to address the topics. Seventy-five stakeholders participated in the first meeting. Meeting materials can be viewed at http://www.caiso.com/1bc5/1bc5db284cc80.html. The key topics discussed were:

- Type of product that would be procured (capacity only)
- Treatment of a resource once it was designated through the backstop mechanism;
- Circumstances in which the backstop mechanism would be used;
- Committed term of resources procured under the backstop mechanism;
- Conditions and process that would be used to procure backstop capacity;
- Interplay between resources procured under the backstop tariff rate mechanism and those procured under RMR Agreements.
- Compensation to be paid to resources procured under the backstop;
- Cost allocation for the various uses of backstop procurement;
- Local market power mitigation measures that are available in the market design; and
- Need for tariff language to “bridge” between the expiration of RCST and the start of MRTU.

At the May 18, 2007 meeting, the CAISO specifically requested that stakeholders provide written comments on the following topics:
- Definition of a “significant event” under the backstop, including examples;
- Pricing structure, including committed term, whether to include an escalation factor to adjust compensation over time, and how pricing could reflect including services such as black start, dual fuel capability and voltage support; and
- Desirability of a sunset date for tariff provisions, and what that date might be.

Formal written comments were received from 12 entities at the end of May 2007 and were posted to the CAISO web site at http://www.caiso.com/1bc5/1bc5db284cc80.html. The comments addressed many of the topics listed above that were discussed at the May 18, 2007 stakeholder meeting. There was a broad range of positions on the various topics, and, in many cases, the entities expressed divergent views.

A second stakeholder meeting was held on June 6, 2007. This meeting was moderated by the Market Surveillance Committee (“MSC”). The written comments that had been received from stakeholders at the end of May 2007 were compiled into briefing materials for the June 6, 2007 meeting and posted to the ISO web site at http://www.caiso.com/1be7/1be795a54b4c0.html. Fifty-two stakeholders participated in the June 6, 2007 meeting. The key topics discussed were:
- Merits of limiting the term of the backstop tariff provisions through a “sunset date;”
- Feasibility of expanding the scope of the backstop to include certain current RMR services;
- Treatment of various elements of the pricing structure; and
- Factors that might be included in the definition of a “significant event.”

The CAISO considered the stakeholder comments that were received informally during April, and at the stakeholder meetings on May 18 and June 6, as well as input from CAISO Grid Operations staff, in developing the proposal presented in this white paper. The CAISO believes that the proposal presented herein represents a balanced approach to implementing an interim capacity procurement mechanism that will act as a backstop for the CAISO to procure capacity resources necessary to reliably operate the grid.

This proposal will be discussed at a stakeholder meeting to be held on July 25, 2007. Stakeholders are invited to submit written comments to the CAISO prior to the July 25, 2007 meeting is they would like to do so. Early feedback will help the CAISO to better conduct the July 25, 2007 meeting. Written comments can be sent to cculemann@caiso.com.
Written stakeholder comments are due on August 2, 2007, and should be sent to cculemann@caiso.com. The written comments that are received will be posted to the CAISO web page at http://www.caiso.com/1bc5/1bc5db284cc80.html.

The key milestones for the stakeholder process, including development of the tariff language for the filing and implementation of the backstop mechanism, are provided in Attachment 1. Attachment 2 provides a list of acronyms used in this white paper.

4. Origin of Current Backstop Authority

On August 26, 2005, the Independent Energy Producers Association (“IEP”) initiated the RCST Litigation challenging the FERC imposed MOO as unjust and unreasonable and recommending that the MOO be replaced with a tariff-based procurement mechanism. On March 31, 2006, an Offer of Settlement was filed that proposed the institution of an RCST that included modifications to the existing MOO. Under the Offer of Settlement, as approved by FERC, the RCST provides the CAISO with a reliability backstop procurement mechanism to ensure the reliable operation of the ISO Controlled Grid and modifies the compensation generators receive for the needed capacity they provide. This Offer of Settlement will expire on December 31, 2007.

5. Rationale for New Backstop Authority

To reliably operate the system and serve Load, the CAISO must have sufficient capacity made available to it. The availability of capacity under the current market design differs from MRTU market design.

5a) Current Market Design

Under the current market design, LSEs contract with suppliers to meet the RA requirements that have been established by their Local Regulatory Authority (“LRA”). These RA resources then must be made available to the CAISO. The CAISO also has the ability to contract with resources, through RMR Agreements, that are needed to fulfill local needs. These RMR resources also must be made available to the CAISO. Finally, the CAISO has the ability through the FERC MOO, as augmented by RCST tariff provisions, to call upon resources that are needed for capacity to meet system and local needs, as well as needs that arise due to the occurrence of Significant Events, and to pay those resources a tariff-based rate for capacity. Put another way, under the current tariff, apart from its RMR authority, the CAISO can procure backstop capacity on a daily basis if LSEs, in aggregate, have not supplied sufficient resources to allow the CAISO to meet defined reliability needs on a local, zonal or system basis, or, on a more forward basis, if LSEs, in aggregate, have not met their system or local RA obligations or if a Significant Event occurs.

5b) MRTU Market Design

Under the MRTU market design, which will be in effect from early 2008 forward, RA and RMR resources still must be made available to the CAISO. The MRTU market design also includes a Residual Unit Commitment (“RUC”) process. RUC provides an incentive for non-RA resources to make their capacity available to the CAISO in the Day-Ahead Market in

---

1 Consistent with the previously established FERC MOO, RCST requires certain types of resources to make themselves available to the CAISO unless the resource is otherwise committed.
return for a market-based capacity payment if selected by the RUC application software. To participate in RUC, a resource would also be required to submit bids for Energy or Ancillary Services in the Integrated Forward Market (“IFM”). However, there is no obligation for a non-RA or a non-RMR resource to bid in the IFM or RUC and thereby make itself available to the CAISO.

Prior to the FERC approval of RCST, the Commission had ordered that the FERC MOO would expire at the start of MRTU. Therefore, the current market design feature that requires certain types of resources to make themselves available to the CAISO on a daily basis will not be present under MRTU.

5c) Reliability Concerns regarding Current RCST

The CAISO has identified a number of issues with the existing RCST mechanism that affect its ability to fully support the CAISO’s operational needs. These issues can generally be described as deficiencies in the reasons that would permit RCST designations and in the designation criteria. The CAISO believes these issues need to be addressed in the new backstop mechanism. While some stakeholders may feel it is preferable for the interim backstop procurement mechanism to have more definition than the existing RCST, the CAISO offers the following examples as reasons why flexibility is necessary to avoid the unintended consequences of an overly prescriptive approach.

Some deficiencies restricting designation include:

- The current RCST limits the CAISO’s ability to procure additional capacity if the CAISO is experiencing loads that are much higher than the official load forecast prepared by the California Energy Commission (“CEC”).
- There are certain types of demand response that count fully toward meeting a LSE’s RA obligation, but these resources cannot be called upon to perform by the CAISO until a staged emergency has been declared.
- There are a certain amount of firm energy contracts each year that qualify as RA resources and are allowed to fully count towards meeting a LSE’s RA obligation, but the contracts do not specify a physical source for the capacity. This aspect of the RA program creates a situation where the CAISO, in operating the grid, may not be able to establish a feasible dispatch because it does not know the source (i.e., there is not a specific unit that has an RA obligation to make itself available to the CAISO).

Some deficiencies restricting the designation quantity include:

- The current RCST provides that the CAISO can only procure “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." Because the CAISO can only designate whole units, this restriction can prevent the CAISO from procuring needed increments of capacity (e.g., even if the CAISO has determined that it needs 100 megawatts ("MW") from a 200 MW resource, it is restricted from procuring any additional capacity).
- The trigger for a Significant Event in 2007 is based on a material difference in CAISO Controlled Grid operations relative to what was assumed by the CPUC and LRAs in developing Local RA Requirements for 2007 that causes, or threatens to cause, a
failure to meet Applicable Reliability Criteria. The CAISO has needs for capacity that go beyond just local capacity.

For these reasons, the CAISO is looking for more flexibility in the new backstop mechanism than is currently provided in the RCST.

5d) Functions of New Backstop

There is a need for an interim capacity procurement mechanism for the year 2008 and beyond to cover the following situations:

- An LSE chooses to not contract for its full RA requirement, i.e., the LSE chooses not to make up an identified deficiency in an RA showing and is intentionally “short” in its RA showing, or otherwise violates a “counting rule” or “counting constraint” (like the Path 26 counting constraint) and therefore is short;
- The aggregate amount of resources that are contracted for in a local area by the applicable LSEs and included in their RA showings is in compliance with the aggregate MW amount of the RA requirement, but the CAISO still needs more capacity to comply with Applicable Reliability Criteria due to the “effectiveness factors” of the individual units that form the aggregate portfolio of the LSEs that submitted the complaint showings;
- A Significant Event occurs, or is expected to occur, that causes, or threatens to cause, a failure to meet Applicable Reliability Criteria, is expected by the CAISO to be enduring, and the CAISO determines that capacity should be procured through the backstop tariff to address the Significant Event.

The proposed interim capacity procurement mechanism is an appropriate tool to use for procuring backstop capacity because it can be used to procure capacity in lieu of using the RMR mechanism. Using the backstop tariff to procure capacity is preferred because backstop costs can be allocated just to those entities that have a deficiency or who are affected by the Significant Event which gives rise to the CAISO’s need to procure backstop capacity; whereas RMR costs are spread to all Load in the affected Participating Transmission Owner (“PTO”) service territory.

The new backstop mechanism needs to be in place during December 2007 so that the CAISO can utilize it for procuring needed “last resort” capacity for 2008 instead of relying on RMR. Backstop capacity needs for 2008 will be known in mid-November 2007 and any needed procurement should occur in 2007 so that resources procured under the backstop tariff can be lined up before the start of 2008 and be available to the CAISO commencing January 1, 2008 (if applicable).

\[2\] The CAISO also may need to procure backstop capacity in the circumstance where LSEs may be compliant with RA requirements, but insufficient capacity was procured in a specific load pocket. This issue can arise because an LRA may allow the aggregation of load pockets in a particular Transmission Access Charge (“TAC”) area for procurement compliance purposes. For example, the CPUC allows for the aggregation of load pockets in the Pacific Gas and Electric Company TAC area.

The CAISO proposes the following principles to guide the development of an interim capacity procurement mechanism:

- Continue with the current RCST structure and discuss appropriate enhancements necessary to ensure compatibility with the MRTU market design and Applicable Reliability Criteria.

- The scope of the interim capacity procurement mechanism would be as follows:
  - Effective from November 15, 2007 forward, with any resources procured under the backstop tariff for 2008 having an obligation to make themselves available to the CAISO starting January 1, 2008 onward (as applicable);
  - May be superseded, as necessary, by a market-based capacity pricing mechanism (and it may make sense to include a “sunset date” such that the backstop tariff is revisited or expires at a future date); and
  - Would be a pure capacity product.

7. Reliability Must-Run Agreements

The CAISO hopes to continue to eliminate RMR Agreements where possible and minimize future use of RMR Agreements. Procurement of reliability services such as black start, voltage support and dual fuel capability, which have historically been provided through RMR Agreements, would be accomplished in the near-term by means of RMR Agreements, and over the long-term, potentially through separate tariff-based reliability products, alternative bilateral contracts, or some other yet-to-be-developed mechanism, including, potentially, market procurement of certain services.

Some stakeholders have asked that the new backstop include all current RMR services such that there would be no RMR contracting after December 31, 2007. Further, some stakeholders have asked if, starting on January 1, 2008, services such as black start, dual fuel capability, and voltage support either can be procured through a market mechanism or the new backstop. The CAISO has considered this request and determined that, given the more limited scope of the instant initiative and the time constraints facing the CAISO as it seeks to implement MRTU on February 1, 2008, it will continue with the RMR contracting strategy discussed above, and will consider refinements to the procurement of RMR in the future, after MRTU has been implemented. Attachment 3 provides the comments submitted by stakeholders on this subject.

8. No FERC Daily MOO under MRTU

As discussed above, FERC has ruled that a daily MOO will no longer exist under MRTU and, accordingly, this feature is not proposed to be part of the interim capacity procurement mechanism under MRTU. The CAISO has sought input into the desirability of maintaining such a short-term offer obligation, and no stakeholder has voiced a strong desire for retention of such a feature.

Given the termination of the FERC daily MOO, the CAISO needs some other type of backstop mechanism that would enable it to procure capacity when necessary to maintain
reliable grid operations. In that regard, the CAISO must comply with applicable North American Electric Reliability Council/Western Electricity Coordinating Council ("NERC/WECC") requirements, including Minimum Operating Reliability Criteria ("MORC"). Thus, without a daily MOO-type mechanism or other flexible means to procure capacity to address unforeseen or changed circumstances or inherent inefficiencies or deficiencies in RA programs, the CAISO could be placed in the position in the Day-Ahead timeframe of planning for the interruption of firm load or calling an emergency to obtain access to non-RA Participating Generator Agreement ("PGA") resources, even when idle non-RA capacity exists on the grid. This requires that the CAISO have a mechanism available to it to procure backstop capacity when necessary to maintain reliable operations. One potential means to ensure the ability to satisfy reliability requirements is to adopt a sufficiently flexible definition of "Significant Event" or a similar concept to address contingencies and unexpected system conditions.

9. CAISO Proposal

The CAISO proposes to retain the basic structure of the RCST mechanism, but has made certain modifications to the existing mechanism. The CAISO also recognizes that stakeholders have divergent views on many of the elements of the current RCST. The CAISO believes that the proposal presented herein represents a balanced approach to implementing an interim capacity procurement mechanism that will act as a backstop that will allow the CAISO to procure the resources necessary to reliably operate the grid.

The CAISO will attempt to facilitate discussion among stakeholders, including discussion at the July 25, 2007 stakeholder meeting, in an attempt to build consensus on a comprehensive proposal. The CAISO urges stakeholders to work together to that end.

This section provides a discussion of each of the key elements of the CAISO proposal. It includes a description of the element, stakeholder written comments submitted at the end of May 2007 that relate to that element, and the CAISO proposal.

9a) Need for Backstop Mechanism

A threshold question is whether a backstop mechanism is needed under MRTU. In earlier sections of this proposal, the CAISO described why such a mechanism is needed, such as when: (1) LSEs have not meet their RA obligations and the ISO needs to procure on their behalf, (2) LSEs procure the total MW amount in the aggregate of their RA obligation, but that portfolio of resources is not adequate in a local area due to “effectiveness factors” associated with the resources that were procured and the CAISO has to procure some addition MW of capacity in select areas, or (3) a single substantial event, or a combination of smaller events, occurs that either (a) violate an assumption in the RA program that was used to determine the RA capacity obligation, or (b) produce a material change in system conditions or in ISO-Controlled Grid Operations, and require the CAISO to procure additional capacity to continue to reliably operate the grid. As discussed further below, the CAISO believes that there is a need for the CAISO to have such a mechanism to reliability operate the grid under the circumstances described in this proposal.
Written Stakeholder Comments

SCE: Support development of new backstop mechanism that can be in effect before the end of 2007; cannot rely on RMR contract for backstop as its cost allocation is inconsistent with current RA structure.

PG&E: Important and worthwhile investment for stakeholders to address how the CAISO will commit backstop capacity after expiration of existing RCST. Effort will help ensure that CAISO, market participants, and energy consumers receive maximum benefit from the interim backstop mechanism.

Reliant: Would like to see existing RCST replaced with one that fixes identified deficiencies.

IEP: The cornerstone of RA is that load is responsible for securing sufficient generation to meet reliability needs. CAISO’s role strictly is one of providing a reliability backstop as necessary.

CDWR: Because of lack of documented evidence supporting that measures to procure additional capacity are required, and distinct lack of cost-benefit analysis in determining the realistic need for a perpetuated RCST process, coupled with the brief evaluation period, and limited ability to hold an adequate, comprehensive stakeholder process, recommend that proposal be delayed in favor of focusing upon the programs already in place and mechanisms already designed and approved under MRTU.

CAISO Proposal

A backstop mechanism, as described in this CAISO proposal, is an appropriate mechanism to complement the MRTU market design. A capacity backstop mechanism is necessary “as a last resort” to enable the CAISO to maintain reliable grid operations in the event LSEs do not meet RA requirements, RA resources do not meet specific reliability needs, or system conditions change and create a need for the ISO to procure backstop capacity in order to maintain reliable operations.

9b) Proposed Filing Date

The current RCST expires on December 31, 2007. The new backstop mechanism needs to be in place even before that date, during November 2007, so that, if needed, the CAISO can procure backstop capacity in December 2007 prior to January 1, 2008 for the 2008 calendar year. In fact, the CAISO should have the new backstop tariff in place in mid-November 2007 because LSEs will be notified on November 9, 2007 of any deficiencies in their RA showings for 2008, and having the CAISO backstop authority in effect around that time, would allow the CAISO to procure any deficiency, if needed, in December 2007, after the LSEs final opportunity for a RA showing on December 3, 2007. Absent such backstop tariff authority, if there were a RA showing deficiency, the CAISO would only have its current RMR contracting authority to make up the deficiency. The CAISO prefers to use the backstop tariff authority to procure any needed “last resort” capacity for 2008 rather than rely on RMR due to the superior cost allocation of the backstop (as discussed above under the RMR section of the proposal).

Written Stakeholder Comments

No specific written comments were received on this element.

CAISO Proposal

If the CAISO Board of Governors approves making a filing at its September 6-7, 2007 Board meeting, a tariff filing would be made on September 11, 2007. Because FERC will likely require 60 days to review the filing before issuing its decision, a filing on September 11, 2007
will hopefully yield a FERC Order in mid-November 2007, which would be ideal given the procurement timeline described above for the 2008 compliance year (January through December 2008).

9c) Requested Effective Date

As discussed above, backstop capacity needs for 2008 will be known in mid-November 2007 and any needed procurement to cure a deficiency should be done under the interim capacity procurement mechanism tariff authority, as opposed to the RMR contracting authority, in December 2007 so that the resources procured under the new backstop mechanism would be prepared to offer their capacity to the CAISO starting on January 1, 2008.

Written Stakeholder Comments

SCE: Supports an effective date before the end of 2007.
PG&E: Backstop should be effective on December 31, 2007.
CPUC: CAISO should not be precluded from performing appropriate backstop of a local RA deficiency in fall 2007.
IEP: CAISO should procure necessary capacity, if any, by designating such capacity in advance of January 1, 2008. Suggest that procurement take place on November 1, 2007, or after LSEs submit their annual RA plans.

CAISO Proposal

The filing that is scheduled to be made on September 11, 2007 would request an effective date of no later than November 15, 2007. Time is of the essence for the filing date and the effective date, for the reasons described in the section above.

9d) Extent of Changes to Current RCST

As described above, the CAISO proposes to continue the general RCST structure with some modifications to ensure compatibility with the MRTU market design and Applicable Reliability Criteria, as well as some other enhancements. Because stakeholders have invested substantial resources in developing the current RCST, FERC has found the current RCST to be just and reasonable, and many stakeholders have expressed a desire to use the current RCST as a framework for developing the successor backstop mechanism, the CAISO believes that it makes sense to explore extending and making appropriate modifications to the existing RCST mechanism and adapting it to function effectively under MRTU.

Written Stakeholder Comments

SCE: Should utilize as much of the current RCST structure as possible, revising it as necessary to be consistent with MRTU.
PG&E: Should build upon existing RCST framework to maximum extent possible, with minimal changes needed to reflect MRTU.
CPUC: From December 31, 2007 until the start of MRTU support implementation of a product that is as close to the current RCST as possible; upon startup of MRTU the absence of the FERC MOO will call for alterations of current RCST.
Williams: Current RCST settlement provisions should not be extended beyond 2007 without significant reforms.
Dynegy: Oppose extending RCST as it was a negotiated settlement with provisions that were objectionable to several participants; extending tariff would disregard the spirit of the settlement agreement.
NRG: Support backstop proposal submitted by IEP.
Constellation: RCST provides right framework for new backstop.
AReM: Willing to consider using the current RCST as a framework for a successor under MRTU, with specific changes.

**CAISO Proposal**
This proposal uses the RCST framework and extends many of the provisions of the current RCST. Some changes are proposed, as described below. This proposal, when viewed as a package, attempts to strike an appropriate balance among the divergent opinions of stakeholders on many issues.

Unless specifically noted in this proposal, provisions in the current RCST tariff would be extended and remain in effect under the new backstop mechanism.

**9e) No Daily FERC Must-Offer Obligation**

As discussed above, prior to the FERC approval of RCST, the Commission had ordered that the FERC daily MOO would expire at the start of MRTU. Therefore, the current market feature that requires certain types of resources to make themselves available to the CAISO on a daily basis will not be present under MRTU.

**Written Stakeholder Comments**
IEP: New backstop ultimately should replace the current MOO mechanism.

**CAISO Proposal**
This proposal does not include a provision akin to the existing FERC daily MOO; therefore, references to items in the current RCST tariff on this subject will not be included or relevant in the new backstop mechanism (this includes the FERC Must-Offer Obligation Process in Section 40.7, Capacity Payments under the FERC Must-Offer Obligation under Section 40.14, and Must-Offer Reporting Requirements in Section 40.15).

**9f) Scope of Backstop Procurement**

This section addresses the scope of the backstop mechanism and how a resource, once procured under the backstop mechanism, would be treated. As noted above, some stakeholders have requested that the new backstop include both capacity services and certain services that are currently provided through RMR Agreements.

**Written Stakeholder Comments**
AReM: Price paid to designated resource should be for pure capacity.
SCE: Agree that once a resource is actually procured under the backstop it would be treated like an RA resource (and as described in the issues paper).

**CAISO Proposal**
The interim capacity procurement mechanism would be a tariff-based product, with filed terms and conditions. The service to be procured by the CAISO under the backstop
mechanism would be pure capacity. Any unit designated to provide backstop service would be paid a tariff rate as specified in the CAISO tariff. One procured by the CAISO a backstop capacity resource would be treated like an RA resource (would have a daily offer obligation, must bid a $0 availability bid in RUC, and would no longer be eligible for Frequently Mitigated Bid Adders).

9g) Sunset Date

Some stakeholders have suggested that a sunset date may be a way to address the current need for an immediate replacement for the RCST, yet still provide an opportunity to revisit the topic at a later date. It is felt that this may be a good approach as more information will be known in coming months and years, such as: (1) how MRTU is working, (2) progress made by the CPUC in exploring a future capacity pricing mechanism, and (3) after experience with how the new backstop mechanism is working.

Written Stakeholder Comments
ARem: Supports concept to limit the term of successor arrangement to 3 -4 years.
CPUC: Backstop should be subject to periodic review, although an automatic sunset may be administratively burdensome.

CAISO Proposal
The backstop tariff provisions would automatically sunset on the earlier of midnight on December 31, 2012, or the effective date of a replacement capacity pricing mechanism that eliminates such backstop. No party waives their Section 205/206 rights to propose modifications to or elimination of the backstop mechanism.

9h) Tariff Provisions until Long-Term Capacity Pricing Mechanism

One of the topics raised in the issues paper was whether there needs to be interim capacity procurement mechanism(s) that would be in effect (1) either starting in late 2007 or on January 1, 2008, and continuing up to the start of MRTU, and (2) another, slightly different, “MRTU-ized” interim capacity procurement mechanism that would be in effect under MRTU. In essence, the question revolved around, “Can one mechanism be made to work starting around January 1, 2008 and going forward, or are two mechanisms needed?”

Written Stakeholder Comments
PG&E: Backstop should address three periods: the first period would commence upon expiration of the existing RCST on December 31, 2007 and remain in place until MRTU start-up, the second period would commence at MRTU start-up and continue through the later of the MRTU testing period or the full implementation of any major revisions of RA program, and the third period would support any new RA structure that may be adopted.
IEP: New backstop should be in place long enough to encompass the following events: post-Offer of Settlement December 31, 2007 through MRTU implementation; and RA requirements integration into MRTU prior to a capacity market.
ARem: Extend the RCST settlement until MRTU is implemented and begin the successor arrangement concurrently with MRTU.
**CAISO Proposal**
The September 11, 2007 backstop filing would request that the current RCST provisions related to the FERC daily MOO and Frequently Mitigated Bid Adder be retained until the start of MRTU, at which point they would sunset automatically. The other tariff provisions proposed by the CAISO would apply to any RCST designations to be effective January 1, 2008 and beyond and would remain in effect until the sunset date provisions discussed above are triggered. It is the CAISO’s intent that this mechanism be in place as a bridging tool until such time as an “end state” resource adequacy procurement and capacity pricing mechanism can be identified and implemented. The existing methodology for calculating Peak Energy Rents would have to change effective upon implementation of MRTU, as discussed below.

### 9i) Tariff Provisions after Long-Term Capacity Pricing Mechanism

Another topic raised in the issues paper was whether the proposal for the new backstop mechanism should address the time period during MRTU following implementation of a long-term capacity pricing mechanism.

**Written Stakeholder Comments**

**CPUC**: After publication of CPUC Decision in RA Track 2, resulting market structure may replace some or all of the CAISO’s backstop activities.

**IEP**: Backstop should be in place long enough to also encompass post-capacity market implementation.

**CAISO Proposal**
The September 2007 filing would not address this time period. It is premature to address this time period now in this filing as the future “end state” cannot be predicted at this time.

### 9j) Use of Backstop

This section builds on the discussion presented in Section 5c of this proposal regarding the circumstances under which the backstop is proposed to be used.

**Written Stakeholder Comments**

**PG&E**: Need for backstop would continue to be limited. Generally supports the use of the backstop as presented by the CAISO in the issues paper.

**CPUC**: Generally supports the use of the backstop as presented by the CAISO in the issues paper, and does not believe that the CAISO should procure to meet individual LSE deficiencies where other LSEs’ procurement fulfills the deficiency.

**Reliant**: Should be rarely used, and should support and not interfere with forward RA contracting.

**Williams**: CAISO should itself procure needed capacity only as a last resort, and avoid mechanisms that may discourage entities from securing adequate contracts themselves to meet their capacity obligations.

**Dynegy**: Backstop will only be required in rare instances where LSEs have failed to meet their obligations or that CAISO local and or system needs exceed the amount procured by the LSEs.

**Constellation**: In nearly all cases, backstop should occur only once per year, immediately after LSEs have made their final annual showings. Additional backstop throughout the year
should not be necessary, as planning reserve margin is intended to provide the resource availability “cushion.”

CDWR: Takes exception to CAISO’s desire to move forward with proposals that require even higher capacity requirements, both prior to and MRTU implementation.

**CAISO Proposal**
The backstop mechanism would be used to:
(1) Ensure that LSEs procure all of the capacity required to meet the applicable local and system RA capacity requirements (for example, the CAISO would make sure that the procured RA resources meet the 115 percent CPUC requirement and the LRAs’ requirements, which would include: (a) the ISO procuring capacity through the backstop mechanism in instances where an LSE did not cure a known deficiency in its RA showing, whether annual local, annual system, or monthly system, or (b) the CAISO procuring additional capacity due to the “effectiveness factors” of the RA resources acquired by LSEs in their compliant RA showings), and
(2) Procure any additional capacity that is needed by the CAISO to reliably operate the grid.

**9k) Process and Trigger for Backstop**
As discussed in the issues paper, it is important that the process used to procure and report backstop capacity be transparent. The timing of events and the timeliness of reporting actions taken by the CAISO is important to stakeholders.

**Written Stakeholder Comments**
SCE: If a significant and enduring event occurred, CAISO would be permitted (not automatic) to backstop to meet Local RA criteria. Market participants should be notified of the CAISO’s intent to backstop and CAISO should also obtain CAISO Board approval before entering into a backstop commitment. There needs to be a forward looking trigger based upon LSE RA compliance filings and technical analysis of a “significant” and “enduring event.”

PG&E: Should use RUC for very short-term needs and award RCST solely on a forward basis, with only exception being for ongoing needs that spring from Significant Events, as currently defined.
IEP: Should the CAISO procure additional capacity during calendar year 2008, the criteria by which the CAISO undertakes such procurement should be specified. If CAISO identifies a forward need for additional resources to meet forecasted reliability requirements, then regardless of whether the ISO issues dispatch notices to such resources, it should procure necessary resources to meet that reliability need. If CAISO issues a dispatch notice to a generating unit that has neither been forward procured through RA or by the backstop, the issuance of such dispatch notice should constitute procurement of that generating unit as a backstop resource for the full capacity of the unit and for the full calendar year.
Reliant: Backstop should be procured on a forward basis with forward term payments; designation procedures should be unambiguous.
Dynegy: CAISO requirement for these backstop services should be based on its local/system/zonal operating criteria and its load forecast.
CMUA: Load-based measures should be included in the CAISO’s consideration of its backstop procurement role.
CDWR: CAISO should formally recognize what methodologies and mechanisms will be used to establish an absolutely transparent process for CAISO demonstrating that its determinations have been objectively and accurately derived on factual data; process must
include providing actual data, calculations, and assumptions applied in reaching its conclusions and making its determinations.

**CAISO Proposal**
The triggers for the proposed process are summarized in the table below. The proposed process is described in detail below.

<table>
<thead>
<tr>
<th>Backstop is to cover Situations Where:</th>
<th>Trigger is:</th>
</tr>
</thead>
<tbody>
<tr>
<td>LSE has not contracted for its full RA requirement</td>
<td>Known deficiency in showing and it is not cured by an LSE</td>
</tr>
<tr>
<td>Additional local capacity is needed beyond the aggregate acquired by compliant LSEs</td>
<td>Engineering analysis notes a potential deficiency</td>
</tr>
<tr>
<td>A Significant Event has occurred</td>
<td>Awareness of an event that may be significant and enduring that should be analyzed</td>
</tr>
</tbody>
</table>

The ISO would follow the process described below for each situation.

1. To ensure that LSEs procure all of the capacity required by their LRA:
   a) The CAISO would analyze the showings submitted by LSEs to determine if there is a deficiency
   b) If there is no deficiency, the CAISO would take no action
   c) If there is a deficiency, the CAISO would (1) notify the SC for the LSE and the LRA of the deficiency and provide an opportunity for the LSE to cure the deficiency, (2) if the LSE does not cure the deficiency, and no other LSEs have cured the deficiency through over-procurement, the CAISO would need to procure resources to meet the deficiency. The procurement could be for only a portion of the available capacity of a resource, (3) the CAISO would charge the LSE that had the deficiency. [Note: The CAISO proposes to revise the provisions of the current RCST in Sections 43.2.2 and 43.3.3 wherein the CAISO can only procure “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” to permit the CAISO to designate the partial capacity of a resource under RCST. The CAISO believes that this change is appropriate to provide for reliable operation of the grid.]

2. To procure additional capacity beyond the RA requirements when such capacity is needed to reliably operate the system.
   a) Assessment of whether additional local capacity is needed beyond the aggregate amount procured by compliant LSEs:
      I. The CAISO would load the resources procured by LSEs and included in their annual local showings into its grid model and analyze the portfolio of resources against the same study assumptions used to establish the local capacity requirement to see if sufficient capacity has been procured in the local area to meet the local capacity requirement
      II. If there is no deficiency, the CAISO would take no action
      III. If there is a deficiency, the CAISO would (1) procure the deficit, (2) charge the LSEs in the TAC area(s) their share of the cost
   b) Assessment of whether an event or events have occurred (1) that violate, are inconsistent with, or reflect a material change from an assumption in the RA program or (2) that otherwise
threaten reliable grid operations. The event should be enduring for the CAISO to procure capacity pursuant to the backstop mechanism:

I. The CAISO would identify an event or events that may be enduring and violate an assumption in the RA program

II. The CAISO would evaluate if that event or events cause, or threatens to cause, a failure to meet Applicable Reliability Criteria

III. Based on i or ii, the CAISO would determine if the event constitutes a “Significant Event” (see the definition below of Significant Event for more details)

IV. If the answer is “no,” the CAISO would take no further action

V. If the answer is “yes,” the CAISO would determine if the Significant Event is of an enduring nature that indicates the need for procuring backstop capacity

VI. If the answer is “no” the CAISO would take no further action

VII. If the answer is “yes” the CAISO would (1) procure needed backstop resources on a forward basis, and (2) post an explanation of the Significant Event and inform the market participants of the need to procure the backstop capacity

VIII. The CAISO would charge the applicable LSEs in the applicable TAC area(s) affected by the Significant Event their share of the cost

Note: The CAISO proposes to report instances where it has procured capacity under the new backstop mechanism. See section 9m below on reporting for a description of the reporting obligations.

9l) Definition of Significant Event

Significant Event is an element that was discussed at length at the May 18, 2007 and June 6, 2007 stakeholder meetings. Parties agreed that it is important that this concept be well defined, and a detailed listing be provided, if possible, of examples of items that could trigger procurement for a Significant Event.

Written Stakeholder Comments

CPUC: Recommends that examples of what is and is not included in the definition of “significant events” should be identified within tariff. Just because a contingency occurs, it should not automatically be assumed to be a Significant Event.

Dynegy: Under RA and Locational Capacity Requirement (“LCR”) procurement by an LSE for any reason (including erroneous load forecast, over-reliance on renewable resource capacity, or over-estimation of demand side efforts) should not be considered as the basis for CAISO to procure daily capacity.

Constellation: Circumstances under which purchases will be made must be fully transparent to market participants so that transactions to meet RA requirements contain appropriate provisions with respect to CAISO backstop procurement that may occur.

ARcM: Should be clearly and precisely defined. Would like CAISO to attempt to define the possible universe of events that might qualify as “significant.” Should be identifiable occurrence that requires immediate action. Must make designation within 30 days of the event’s first occurrence. Should be prohibited from going back months after-the-fact, and Designating and procuring retroactively.

CMUA: Requests confirmation of its understanding of definitions of Applicable Reliability Criteria and Local Reliability Criteria; also requests information on where it may find and examine the Local Reliability Criteria so that it may better understand what forms the basis for the CAISO’s proposed backstop procurement. There is the potential for RUC and
backstop procurement to overlap; relationship between these two mechanisms requires further exploration.

CDWR: Indeterminate events, and the proposed expedited deadlines to develop related tariff language to mitigate inadequately explained consequences, may significantly interfere with CDWR’s annual planning process as well as its current effort to prepare adequately for MRTU implementation.

**CAISO Proposal**

A "Significant Event" is a single substantial event, or a combination of smaller events, that is determined by the CAISO to either:

- violate an assumption in the RA program that was used to determine the RA capacity requirement, or
- produce a material change in system conditions or in ISO-Controlled Grid Operations,

that cause, or threatens to cause, a failure to meet Applicable Reliability Criteria absent the consistent use of non-RA resources.

The events that the CAISO might evaluate to determine whether a Significant Event has occurred include the following events and any similar types of events:

1. Loss of a facility, for any cause, that affects its capability, including but not limited to:
   - Loss of a local RA resource after annual LSE RA showing
   - Loss of RA resources in excess of 8 percent (accumulated total, including ongoing scheduled and forced outages) of CAISO load forecast after monthly LSE RA showing
   - Loss of a facility, CAISO Controlled or not, that affects the deliverability of RA, RMR or other resource available to the CAISO, or affects the operation of the grid
2. Demonstrated delivery of an RA resource below the value counted in the RA program (intermittent resource, hydro-based resource, Qualifying Facility)
3. Grid study error, forecast changes, incorrect assumptions, bad data, or modeling inaccuracies, including, but not limited to:
   - An official change in the adopted Load forecast by the CEC after it has been used in RA showings by LSEs
   - Error in load distribution factors affecting local RA
   - Voltage or reactive resource modeling errors or resource changes
   - Errors relative to deliverability of RA resources to load
   - Changes in non-CAISO Controlled Grid affecting previous assumptions
4. Changes in applicable NERC or WECC reliability criteria or operating policies affecting the CAISO
5. Insufficiency of RA units in RUC resulting in consistent use of non-RA units [Note: The use of non-RA units as described above would be a trigger for the CAISO to then assess if a Significant Event has occurred. Having to use non-RA resources in RUC may mean that there are not enough RA resources and the CAISO has to call on non-RA resources in RUC or that there are sufficient RA resources but the economic optimization used in RUC selects a non-RA resource.]
6. RUC and any subsequent HASP or real time run of the SCUC cannot converge by themselves with only RA units and requires manual addition
by the ISO of non-RA units [Note: Same clarifying comment applies as at the end of #5 above.]

7. Change in federal or state law or regulation; court action; or imposition of environmental restrictions that affect the operation of resources

9m) Reporting of Backstop Procurement

The current RCST requires regular reporting of designations under the RCST. Stakeholders have stated in stakeholder meetings that they would like to continue to see regular reports by the CAISO, including reports of CAISO procurement under the new backstop mechanism and how well RA resources are performing towards providing the capacity needed to reliably operate the grid.

Written Stakeholder Comments
No specific written comments were received on this element.

CAISO Proposal
The CAISO proposes to use the reporting provisions that are in the RCST for the new backstop. Where the CAISO has procured backstop resources, the CAISO would continue to post a report containing the information as described in RCST Section 43.6: “The IS0 shall publish a monthly report on the IS0 Website which shall show the resources designated under RCST, the megawatts of each RCST capacity designation, the duration of RCST designations, the reason for the RCST designation, and all payments, excluding costs covered in the Minimum Load Cost Report described in Section 43.1 1.2 herein, in dollars, itemized for system purposes as well as for each Local Reliability Area or 2007 Local Reliability Area, whichever is applicable. The IS0 will provide a market notice of the availability of this report.”

9n) Committed Term of Payments

The committed term of payments is addressed in the RCST. The circumstances under which capacity would be procured under the new backstop mechanism are similar in most cases to the circumstances addressed in the RCST. The one difference is that this proposal has two new situations that could arise under Significant Event that were not present in the RCST (RUC/HASP/SCUC, and changes in federal or state law).

Written Stakeholder Comments
SCE: SCE generally supports the duration of the backstop term as described by the CAISO in its issues paper.
CPUC: Local RA deficiencies should be procured for whole year, monthly system deficiencies for relevant compliance month, and year-ahead system deficiencies procured up to 90 percent of the RA requirement, but only for the deficient summer months. For Significant Events, designations should be narrowly tailored in duration to meet the identified deficiencies.
IEP: Term of any procurement must be for the full calendar year; if a generating unit is designated mid-year, it should be paid for the entire annual term.
Reliant: Designations should be for one year.
Williams: Should forward designate capacity service for a year’s term, including providing designation for next 12 months.
Dynegy: Capacity should be stated as an annual quantity and any backstop should be procured on an annual basis. Deviation from the 12 month capacity rule should occur only under extremely rare occasions (for example, unforeseeable multiple transmission or generation outage conditions), where CAISO should be able to acquire capacity service on a short term basis.

AReM: Payments must align with RA compliance. Disagrees with IEP’s position that designated resources are entitled to receive 12 months of compensation once designated, whenever that might occur.

**CAISO Proposal**
The duration over which the payment would be paid would vary based on the situation associated with the procurement. The committed terms of payment proposed herein are similar to those in the RCST.

The minimum committed term of payment would be three months. The committed payment term can extend beyond three months depending on the situation. The table below describes the terms applicable for specific applications of the backstop mechanism.

<table>
<thead>
<tr>
<th>Situation:</th>
<th>Committed Term:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Deficiency in:</strong></td>
<td></td>
</tr>
<tr>
<td>a) Year-Ahead System showing (including violation of Path 26 counting constraint)</td>
<td>a) Minimum of 5 months (May-Sept)</td>
</tr>
<tr>
<td>b) Year-Ahead Local showing (short in showing, or effectiveness)</td>
<td>b) Calendar year for either situation</td>
</tr>
<tr>
<td>c) Month-Ahead System showing (including violation of Path 26 counting constraint)</td>
<td>c) Lesser of 3 months or balance of calendar year</td>
</tr>
<tr>
<td><strong>A Significant Event</strong> has occurred:</td>
<td></td>
</tr>
<tr>
<td>a) If for loss of facility, or change in approved CEC forecast</td>
<td>a) Minimum of 3 months, and maximum of up to time CAISO determines that event will remain in effect</td>
</tr>
<tr>
<td>b) Insufficiency of RA units in RUC resulting in consistent use of non-RA units, or RUC and any subsequent HASP or real time run of the SCUC cannot converge by themselves with only RA units and require manual addition of non-RA units</td>
<td>b) 3 month designation commencing with the date of designation</td>
</tr>
<tr>
<td>c) Change in federal or state law or regulation; court action; or imposition of environmental restrictions</td>
<td>c) 3-month designation. ISO to re-assess to see if additional 3-month term is necessary before going to a second 3-month designation.</td>
</tr>
</tbody>
</table>

Note that there would not be a daily payment option under the new backstop mechanism.
Note also that there would be no hard trigger associated with identifying that certain non-RA resources are being called frequently in RUC. The non-RA unit calls in RUC would trigger a review by the CAISO and an analysis of the causes of such calls to determine if backstop procurement by the CAISO is necessary. Also, any procurement would be done only on a forward basis, with a term of three months.

9o) Basis of Compensation

The RCST provides for a target annual capacity price. This price is adjusted by monthly shaping factor and availability performance factors.

Written Stakeholder Comments

AREM: Expects the backstop to be market-based pricing; questions whether it is appropriate to pay suppliers a market-based price when market power is or may be exercised. If it is not, CAISO must propose a remedy for such situations.

CAISO Proposal

CAISO proposes to continue the general approach reflected in the RCST Settlement. Compensation would be based on a target annual capacity price that is adjusted by a monthly shaping factor, with the compensation further adjusted by an availability performance factor and consideration of Peak Energy Rents. Note that the Peak Energy Rent calculation under MRTU would change to reflect “Gen Hubs” versus the zonal prices in the current RCST language.

9p) Formula for Escalating Target Annual Capacity Price

Because the interim capacity procurement mechanism is likely to be in place for a number of years, a methodology may be needed to adjust the base price (the target annual capacity price) over time. This topic was discussed with stakeholders at the May 18, 2007 and June 6, 2007 stakeholder meetings. One concept that was discussed was an escalation formula such as an inflation adder.

Written Stakeholder Comments

SCE: Supports the compensation that was approved by FERC for RCST, and suggestions that the payment should be based upon the cost of emergency peaker resources are completely unacceptable.

PG&E: Generally advocates continued application of pricing provisions of RCST; there appears to be little basis for revisiting this price which resulted from settlement discussions.

CPUC: Oppose linking price to cost of new peaking units, at least for period prior to MRTU startup because of concern that opening issues of 2008 compensation could delay adoption of backstop for 2008. For period after MRTU startup, fundamentally oppose any compensation rate that may incent generators to refrain from RA contracting, but otherwise open to reasonable options.

IEP: Generating units that the CAISO procures under the backstop should be compensated based upon a real proxy unit; proxy unit should be the last incremental MW of capacity added to the system.

Reliant: Price should be based on real proxy generating unit (current utility-built peaking units now under construction could serve as basis for real proxy unit), at price based on annual levelized cost per MW of last generating unit of capacity added to relevant region.
Williams: Cost of new entry with an ex ante peak energy rent reduction is a reasonable platform on which to build an interim mechanism, however, there are several provisions of RCST that Williams opposes continuing in new backstop their present form. Cost should reflect the cost of new capacity construction of a real unit in California.

Dynegy: Price of backstop in a local area should be based on the rational cost of new capacity in California that is capable of providing capacity and non-spin; today the cost of new construction in California (especially in load pockets) is well in excess of the $73/kW-year RCST compromise.

Constellation: Generally concur that the issues raised by IEP regarding specific modifications will improve RCST as a backstop, including review and reform of the compensation.

AReM: Does not agree that the RCST should be sending a price signal based on the cost of new capacity. Price should be reasonable estimate of actual price paid for this service in the market. Price could be for CAISO grid, or could set two prices: a System and Local capacity price. Price should be calculated based on the capacity that can qualify for designation.

**CAISO Proposal**

CAISO proposes to continue the general approach reflected in the RCST Settlement with the modifications described below. The CAISO does not believe it is appropriate to use the cost of new entry in the applicable local area for purposes of determining the proxy unit price under a transitional mechanism such as this backstop proposal.

The target annual capacity price for 2008 would be calculated as follows:

\[(2007 \text{ RCST rate of } \$73.00/\text{kW-year}) \times (\text{CPI for CY 2206})\]

For example, the result would be $74.83/kW-year for 2008 assuming a CPI factor of 2.5%.

For illustrative purposes, listed below are hypothetical prices for five years:

<table>
<thead>
<tr>
<th>Year</th>
<th>$/kW-year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>74.83</td>
</tr>
<tr>
<td>2009</td>
<td>79.90</td>
</tr>
<tr>
<td>2010</td>
<td>84.96</td>
</tr>
<tr>
<td>2011</td>
<td>90.03</td>
</tr>
<tr>
<td>2012</td>
<td>95.09</td>
</tr>
</tbody>
</table>

This is a proposed compromise approach for calculating the target capacity price for years 2009 through 2012 that represents a transitional, phase-in toward the cost of new entry. Support for the RCST Settlement’s reference resource target capacity price included five studies estimating the cost of new entry for a frame-type combustion turbine which was the assumed reference resource. The cost of new entry proxy prices reflected in these studies were then adjusted for inflation. The average price of the five studies was in the $82/kW-year range in 2006 dollars. A compromise approach would be to set the target price for 2012 by adjusting the 2006 $82.00/kW-year price from a 2006 to a 2012 level. Using a CPI escalation factor of 2.5% results in a 2012 target price of approximately $95.09/kW-year. In other words, in year five of the new backstop mechanism, the target annual capacity price would be an inflation-adjusted cost of new entry price (based on the cost studies submitted in the RCST proceeding). The prices in years two through four would be derived in a straight line at the appropriate points between the $74.83 price for 2008 and the 2012 price of $95.09.
9q) Formula for Capacity Payment

The RCST provides a formula for the capacity payment, which considers Net Qualifying Capacity, an Availability Factor, and Peak Energy Rents.

Written Stakeholder Comments
IEP: Cost calculations should be based on expected net energy rents, eliminating the need for any further adjustments for ex post peak energy rents. Performance/availability metric should be consistent with the CPUC’s December 31, 2005 guidance memorandum regarding LSE RA requirements. Generating units should not be penalized twice for unforced outages, e.g., during the performance year through a payment reduction and in the following year as an adjustment to EFORD/UCAP.
Repliant: Performance/availability criteria should be consistent with CPUC’s December 31, 2005 guidance memo, and units should not be penalized twice for unforced outages.
Williams: Peak energy/ancillary services reduction must be based on actual operating characteristics of a real unit chosen to benchmark the price.
Dynegy: Performance requirement under backstop must be balanced and not be unreasonably onerous. Recommend that CAISO review the existing RMR availability and non-availability penalty sections as a starting point to address both performance requirements and non-performance penalties.
Constellation: Retention of appropriate performance metrics for capacity resources must be addressed.

CAISO Proposal
The CAISO proposes to continue the general approach reflected in the RCST Settlement. The formula would be:

\[(\text{Net Qualifying Capacity}) \times (\text{Availability Factor}) \times (\text{difference between Monthly RCST Charge and 95\% of Peak Energy Rent})\]

Note that the Peak Energy Rent calculation under MRTU would change to reflect “Gen Hubs” versus the zonal prices in the current RCST language.

9r) Formula for Monthly Capacity Charge

The RCST provides a formula for the monthly capacity charge, which considers a monthly shaping factor and a target annual capacity price.

Written Stakeholder Comments
IEP: Payments should be shaped in a manner similar to that in RCST.

CAISO Proposal
The CAISO proposes to continue the general approach reflected in the RCST Settlement. The formula would be:

\[(\text{Monthly shaping factor}) \times (\text{target annual capacity price of } \$73.00/\text{kW-year})\]
9s) Allocation of Costs

The RCST provides for an allocation of costs for system, local and Significant Event procurements. This proposal provides for similar procurement categories, so a framework for cost allocation is already available for the new backstop mechanism.

Written Stakeholder Comments
SCE: In general, backstop costs should be allocated to the entity that was deficient in meeting its System RA or Local RA obligation. May be some cases where CAISO has to procure due to “effectiveness factors,” and significant and enduring events; costs should be allocated as they are under RCST.
PG&E: Backstop costs for LSEs that fail to make adequate RA showings should not be socialized, and should be assessed directly to such LSEs.
IEP: Recommends no changes to existing RCST cost allocations contained in the Tariff.
Constellation: Parties must have clear understanding of just what circumstances are that will cause the Significant Event and how those costs are going to be allocated so parties can determine which party will bear those risks and costs.
AREM: CAISO must ensure that it does not procure any zonal capacity under its backstop that is attributable to CPUC-jurisdictional LSEs or allocate them any zonal costs.
CMUA: CMUA will be examining closely what assurances they will have that if they self-provide they will minimize or eliminate any exposure to uplift costs.
CDWR: Additional proposed capacity requirements on such short notice poses additional fiscal and oversight responsibilities whose magnitude simply cannot be determined effectively within a reasonable time frame to avoid seriously compromising the State Water Project’s annual planning processes.

CAISO Proposal

The CAISO proposes to continue the general approach reflected in the RCST Settlement. Cost would be allocated as described in the table below. Note that the table includes the specific language from the current RCST.

<table>
<thead>
<tr>
<th>Situation:</th>
<th>How Allocated:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deficiency in:</td>
<td>Pro rata to each SC-RA Entity based on its:</td>
</tr>
<tr>
<td>a) Year-ahead System showing</td>
<td>a) Portion of aggregate year-ahead System deficiency or Except where and to the extent that such costs are recovered from Scheduling Coordinators pursuant to Section 8, all costs incurred by the CAISO pursuant to any contract entered into pursuant to Section 42.1 for Resource Adequacy Capacity, other than Local Capacity Area Resources, shall be charged on a pro rata basis to each Scheduling Coordinator based on each Scheduling Coordinator’s relative amount of deficiency to satisfy the Scheduling Coordinator’s applicable Demand Forecast and Reserve Margin pursuant to Section 40 up to the quantity of the Scheduling Coordinator’s deficiency as determined as the difference between the Scheduling Coordinator’s applicable Demand Forecast and Reserve Margin and Resource Adequacy Resources included in the annual or monthly Resource Adequacy Plan.</td>
</tr>
<tr>
<td>b) Year-ahead Local</td>
<td>b)</td>
</tr>
</tbody>
</table>
1. Except where and to the extent that such costs are recovered from Scheduling Coordinators pursuant to Section 8, all costs incurred by the CAISO pursuant to any contract entered into pursuant to Section 42.1 for Local Capacity Area Resources pursuant to Section 40.3.4(i) shall be charged first on a pro rata basis to each Scheduling Coordinator that failed to procure sufficient Local Capacity Area Resources to satisfy its obligation, as determined pursuant to Section 40.3.2, based on each Scheduling Coordinator’s relative amount of Local Capacity Area Resource deficiency up to the quantity of the Scheduling Coordinator’s Local Capacity Area Resource deficiency. A Scheduling Coordinator’s deficiency pursuant to this Section 42.1.8(a) shall be determined as the difference between the Scheduling Coordinator’s obligation pursuant to Section 40.3.2 and the quantity of Local Capacity Area Resources included in the annual or monthly Resource Adequacy Plan.

2. To the extent the capacity of Local Capacity Area Resources procured by the CAISO pursuant to Section 40.3.4(i) exceeds the total quantity of Resource Adequacy Capacity by which all Scheduling Coordinators are deficient in the Local Capacity Area, the costs of such Local Capacity Area Resources will be allocated in accordance with Section 42.1.8(c).

3. Except where and to the extent that such costs are recovered from Scheduling Coordinators pursuant to Section 8, all costs incurred by the CAISO pursuant to any contract entered into pursuant to Section 42.1 for Local Capacity Area Resources pursuant to Section 40.3.4(ii) or as set forth in Section 42.1.8(b) shall be charged on a pro rata basis to each Scheduling Coordinator that serves Load in the TAC Area in accordance with the Load Serving Entity’s proportionate coincident load share in the TAC area, on a gross Load basis, of the CEC annual peak Demand forecast at the time of the CAISO peak.

c) Month-ahead System deficiency or Except where and to the extent that such costs are recovered from Scheduling Coordinators pursuant to Section 8, all costs incurred by the CAISO pursuant to any contract entered into pursuant to Section 42.1 for Resource Adequacy Capacity, other than Local Capacity Area Resources, shall be charged on a pro rata basis to each Scheduling Coordinator based on each Scheduling Coordinator’s relative amount of deficiency to satisfy the Scheduling Coordinator’s applicable Demand Forecast and Reserve Margin pursuant to Section 40 up to the quantity of the Scheduling Coordinator’s deficiency as determined as the difference between the Scheduling Coordinator’s applicable Demand Forecast and Reserve Margin and Resource Adequacy Resources included in the annual or monthly Resource Adequacy Plan.
Significant Event has occurred

Allocated to all SC-RA Entities in the TAC Area(s) in which the Significant Event caused or threatened to cause a failure to meet Applicable Reliability Criteria based on SCs RA Entity Load Share Percentage(s) in such TAC Area(s)

For the Year-Ahead Local showing, costs would be allocated as described below.

1) If the LSEs are short by less or equal with the total LSE Local RA requirement Deficiency, then split the cost to the deficient LSEs based on the Ratio of its Local RA Requirement Deficiency to the aggregate Local RA Requirement Deficiency in Local Reliability Area. Example: LSE 1 is deficient by 50 MW, LSE 2 is deficient by 100 MW, and the CAISO can solve all the deficiency by securing a 100 MW unit. The costs would be split 33.33% to LSE 1 and 66.67% to LSE 2.

2) If the LSEs are short by more than the total LSE Local RA requirement Deficiency, and additional local capacity needs to be procured by the CAISO due to “effectiveness factors” reasons, then split the cost to the deficient LSEs based on their deficiency first and split the rest to all LSEs in the TAC area. Example: LSE 1 is deficient by 50 MW, LSE 2 is deficient by 100 MW, and the CAISO can solve all the deficiency, and the effectiveness factors considerations, by buying a 200 MW unit. The costs would be split 50 MW to LSE 1, 100 MW to LSE 2, and 50 MW to all LSEs in the TAC area.

3) If all LSEs are compliant and there still is a deficiency (it could happen due to effectiveness factors), split the cost to all LSEs in the TAC area. Example: All LSEs are compliant, but the CAISO needs to solve the effectiveness deficiency by securing a 100 MW unit. The costs would be split to all LSEs in the TAC area.

For Significant Events, note that the CAISO could procure capacity to address operating situations that may be of a system, or local nature, or for the geographic area north of Path 26 or south of Path 26. The cost allocation discussed above would allocate costs to entities in one TAC area if only one TAC Area were affected, or to entities in more than one TAC area if more than one TAC Area were affected.

9t) Selection among Multiple Resources

The CAISO will need to select one or more resources to resolve a deficiency or address effectiveness factors or Significant Events. How the CAISO would select among multiple resources if all are not required to resolve the problem is a topic that has already been addressed in the current RCST.

Written Stakeholder Comments
No specific written comments were received on this element.

CAISO Proposal
The CAISO proposes to continue the general approach reflected in the RCST Settlement. The criteria for selection of backstop resources is currently provided in the RCST language in
Section 43.2.2, Selection of Eligible Capacity Designated for Local Reliability, and Section 43.3.3, Selection of Eligible Capacity Designated for System Reliability.

The CAISO proposes a change to the existing RCST program to allow the CAISO to designate a partial unit to provide service under the capacity backstop mechanism. Specifically, the CAISO proposes to revise the provisions of Sections 43.2.2 and 43.3.3 wherein the CAISO can only procure “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” to where the CAISO can procure partial capacity of a resource to meet the RA requirements. The CAISO believes that this change is appropriate to provide for reliable operation of the grid.

9u) Obligation of PGA Resources

Some stakeholders have asked the CAISO to clarify the obligations of Generating Units that have a contractual relationship with the CAISO and their obligations under the CAISO Tariff to stand ready to assist the CAISO in instances where the CAISO may need assistance.

Written Stakeholder Comments

SCE: Requests ISO clarify its understanding of the obligation of non-RA/non-RMR generators under a PGA to be ready to perform under MRTU.

CAISO Proposal

A PGA resource would be obligated to enter into a backstop arrangement if requested by ISO. A PGA resource must respond to a CAISO Dispatch instruction unless it is incapable of doing so.

9v) Allocation of RA Credit

LSEs that procure resources to fulfill their RA obligations are entitled to include those resources in their RA showings. This section addresses the circumstances where an LSE would be able to report backstop procurement in its RA showing.

Written Stakeholder Comments

AReM: RA credits from backstop could only be used by LSEs in their monthly System RAR filings. If CAISO procures above and beyond for reasons other than deficiency by an LSE and the credit is allocated, it is unclear as to who exactly has the ability to use the RA credit in a compliance demonstration.

CAISO Proposal

If the CAISO procures backstop capacity for an LSE because the LSE is short in meeting RA requirements as shown by its RA showing, the procured backstop resources would be “credited” to the deficient LSE (the LSE could include the resource in its RA showing). If the CAISO procures for other reasons (“effectiveness factors” or Significant Event), the procured backstop resources would not be credited to the deficient LSE.
10. Other Topics Raised by Stakeholders

Some stakeholders raised other topics that are beyond the scope of the instant CAISO initiative. These topics are presented in Attachment 4.
Attachment 1

Key Milestones

Apr 23, 2007  Issue market notice announcing initiative and date of first meeting
May 9        Post issues paper
May 18       Hold stakeholder meeting at CAISO (10:00 a.m. - 3:00 p.m.)
May 25       Stakeholder written comments on issues paper due
May 29       Post stakeholder written comments submitted on issues paper
Jun 6        MSC meeting
Jun 29       Post proposal
Jul 25       Hold stakeholder meeting at CAISO (10:00 a.m. – 4:00 p.m.)
Aug 2        Stakeholder written comments on proposal due
Aug 3        Post stakeholder written comments submitted on proposal
Aug 13       Post draft tariff language for review (start of 2-week comment period)
Aug 14       Issue notice on posting of draft tariff text, for review of lang. not policy
TBD         Post draft MSC Opinion
TBD         Hold MSC conference call on draft MSC Opinion
Aug 24      Finalize Board meeting documents, including MSC Opinion
Aug 27      SH written comments on draft tariff lang. due (end of 2-week comment period)
Aug 30      Conf. call with SHs to review draft tariff language, not policy (date TBD)
Sep 6-7     Request Board approval to make filing
Sep 11      CAISO makes tariff filing
Sep 12      Start of FERC 60-day review period
Oct 31      LSEs file 2008 Final Local RA and Year-Ahead System RA showings
Nov 9       CAISO analyzes showings for residual needs and reports back to LSEs
Nov 13      FERC issues order on Sep 11 filing; establishing an effective date
Dec 3       Last day for LSE to file amended showing to reduce CAISO backstop procure.
Dec 4, 2007 If necessary, CAISO designates backstop resources needed for reliability
### Attachment 2

#### List of Acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>AReM</td>
<td>Alliance for Retail Energy Markets</td>
</tr>
<tr>
<td>CAISO</td>
<td>California Independent System Operator</td>
</tr>
<tr>
<td>CDWR</td>
<td>California Department of Water Resources</td>
</tr>
<tr>
<td>CEC</td>
<td>California Energy Commission</td>
</tr>
<tr>
<td>CMUA</td>
<td>California Municipal Utilities Association</td>
</tr>
<tr>
<td>Constellation</td>
<td>Constellation NewEnergy, Inc.</td>
</tr>
<tr>
<td>CPUC</td>
<td>California Public Utilities Commission</td>
</tr>
<tr>
<td>Dynegy</td>
<td>Dynegy Power Marketing, Inc.</td>
</tr>
<tr>
<td>FERC</td>
<td>Federal Energy Regulatory Commission</td>
</tr>
<tr>
<td>IEP</td>
<td>Independent Energy Producers Association</td>
</tr>
<tr>
<td>IFM</td>
<td>Integrated Forward Market</td>
</tr>
<tr>
<td>LCR</td>
<td>Locational Capacity Requirement</td>
</tr>
<tr>
<td>LRA</td>
<td>Local Regulatory Authority</td>
</tr>
<tr>
<td>LSE</td>
<td>Load Serving Entity</td>
</tr>
<tr>
<td>MOO</td>
<td>Must-Offer Obligation</td>
</tr>
<tr>
<td>MORC</td>
<td>Minimum Operating Reliability Criteria</td>
</tr>
<tr>
<td>MRTU</td>
<td>Market Redesign and Technology Upgrade</td>
</tr>
<tr>
<td>MSC</td>
<td>Market Surveillance Committee</td>
</tr>
<tr>
<td>MW</td>
<td>Megawatt</td>
</tr>
<tr>
<td>NERC</td>
<td>North American Electric Reliability Council</td>
</tr>
<tr>
<td>NRG</td>
<td>NRG Energy</td>
</tr>
<tr>
<td>PGA</td>
<td>Participating Generator Agreement</td>
</tr>
<tr>
<td>PG&amp;E</td>
<td>Pacific Gas and Electric Company</td>
</tr>
<tr>
<td>PTO</td>
<td>Participating Transmission Owner</td>
</tr>
<tr>
<td>RA</td>
<td>Resource Adequacy</td>
</tr>
<tr>
<td>RCST</td>
<td>Reliability Capacity Services Tariff</td>
</tr>
<tr>
<td>RCST Litigation</td>
<td>IEP v CAISO, FERC Docket No. EL05-146</td>
</tr>
<tr>
<td>Reliant</td>
<td>Reliant Energy, Inc.</td>
</tr>
<tr>
<td>RMR</td>
<td>Reliability Must-Run</td>
</tr>
<tr>
<td>RUC</td>
<td>Residual Unit Commitment</td>
</tr>
<tr>
<td>SCE</td>
<td>Southern California Edison Company</td>
</tr>
<tr>
<td>SH</td>
<td>Stakeholders</td>
</tr>
<tr>
<td>TAC</td>
<td>Transmission Access Charge</td>
</tr>
<tr>
<td>WECC</td>
<td>Western Electricity Coordinating Council</td>
</tr>
<tr>
<td>Williams</td>
<td>Williams Power Company, Inc.</td>
</tr>
</tbody>
</table>
Attachment 3

Comments on Reliability Must-Run Agreements

Transition Away from RMR Commitments

SCE: CAISO cannot rely on the current RMR contract for backstop procurement because the cost allocation is inconsistent with today’s RA structure. RMR costs are allocated to the PTOs in whose service area the generator is located and this is fundamentally inconsistent with LSE-based RA requirements.

PG&E: The interim capacity procurement mechanism should not, by design, replace RMR generation.

CPUC: It is critical that the CAISO provide enough definition of reliability needs so that LSEs can procure to meet system and local RA requirements. The CPUC urges the CAISO to define black start, duel fuel and additional voltage services now so that LSEs can procure to meet these needs. Also, RMR use should be limited. The costs of reliability services should be allocated on a cost causation basis and no LSE or LRA should be able to shift costs to other entities.

IEP: The new backstop procurement mechanism ultimately should replace the current RMR mechanism.

Reliant: Overhaul of the existing RMR processes should occur on a separate and parallel path with development of new backstop.

Williams: Sees no reason why the CAISO intends to retain RMR contracts for 2008. CAISO should seek to only retain on capacity procurement mechanism. Having two capacity backstop mechanisms, RMR and new backstop, is unnecessary. Continuation of RMR contracting is unacceptable. There is no need to retain RMR contracts merely to procure certain ancillary services such as voltage support, dual fuel and black start service. Ancillary services such as these should be included in the new backstop.

Dynegy: Does not support the CAISO’s proposal to retain the RMR contract to procure voltage support and black start. FERC has instructed the CAISO to develop a market for services such as black start and voltage support instead of using RMR contracts to secure these services. CAISO should not use the backstop to secure these services; however, Dynegy understands that it will take CAISO some time to develop and implement tariff and compensation provisions for these services and Dynegy is open to a short transition period for CAISO to use the backstop to secure these services. Also, as most local and system capacity is required to be procured under the CPUC’s RA mechanism, the CAISO should only require one “safety net” mechanism to procure capacity to maintain reliability. The proposed backstop mechanism eliminates the existing RMR agreement.

Constellation: CAISO backstop procurement should replace RMR Agreements.

AREM: Has long urged the CAISO to get on with the business of establishing markets to procure specific products, such as black start and voltage support. However, AREM believes
that RMR contracts may continue to be needed in the event that market power is being exercised by a particular supplier. AReM does not agree with IEP and other suppliers that the successor to RCST must replace RMR as a fundamental principle.

NRG: Questions the intent of the CAISO to retain certain units on RMR when there are sufficient mechanisms in the marketplace to assure procurement of adequate capacity without resorting to RMR. Allowing CAISO to retain RMR as an option distorts the marketplace for RA capacity. NRG recommends that CAISO publish an inventory of the existing RMR resources to show how much (in MW) of each reliability service is being procured in each Responsible Utility service territory. Even to the extent that a unit is retained as RMR to secure other reliability services, the affected RMR owners should be given the option of providing those services as part of the new backstop capacity procurement mechanism, at least on a transitional basis. Since the capacity mechanism developed in this proceeding will address market power concerns, the notion that RMR is needed to protect against market power is unsupported.

Designations from providing Reliability Services from Un-contracted Units in 2006

Williams: CAISO must provide information to market participants on its determination of whether un-contracted units called in 2006 for reliability services will be designated as units that will be paid under the “Significant Event” provisions of the RCST.
Attachment 4

Other Topics Raised by Stakeholders

CMUA: Some process should be instituted by the CAISO to subject the LCR Study to scrutiny within the schedule outlined, prior to using the study to form the basis for backstop procurement by the CAISO. This process must include an effective Alternative Dispute Resolution process to resolve disputes in the timeframe contemplated by the study process so as to avoid potential refund issues. Also, CMUA urges the CAISO to facilitate a robust discussion of the annual LCR requirement, and the merits of a seasonal LCR requirement. The LCR has cost implications for non-CPUC jurisdictional entities under the 2008 CAISO tariff, and must be considered as part of this process for 2008 procurement, and the required Tariff filing. Finally, CMUA members have observed shifting local reliability areas. The upshot of this is that, even if CMUA members invest in local generation to meet local capacity requirements that investment might not count toward local capacity requirements over the long term or medium term. This must be fixed if there is to be a durable solution that minimizes or eliminates CAISO backstop procurement. There is no time like the present; it should be fixed within this context of this effort rather than put off to another proceeding.

AReM: The CAISO tariff includes minimum standards for LSEs, but only if the LRAs have not adopted their own. The CAISO’s tariff should establish minimum reliability standards that all LSEs must meet or exceed. Then, the potential for subsidies is eliminated. AReM requests that the CAISO provide information about the standards met by LSEs under each jurisdiction and how the LCRs are assigned to each jurisdiction.

CDWR recommends that CAISO formally recognize the following additional topics for consideration, should CAISO proceed with its current backstop proposal:

1. Whether allocation of all capacity costs should be time-sensitive, based on a load’s contribution to system or local area peaks
2. Whether pump storage generators will be forced to pay capacity costs of other generators when pumping takes place in off-peak periods
3. What transparency and the timeframe under which the CAISO will provide market participants with specific reasons for and costs of backstop capacity purchases, in addition to RUC, RA and all the other MRTU provisions for increased reliability.
4. Whether (and if so, how) the CAISO will consider demand-based resources in selecting backstop capacity purchases, and the procedure, if any, for including demand-based resources in providing peak supplies along with generation capacity.
5. How backstop cost recovery allocations will explicitly reflect principles of cost causation to ensure that capacity costs are based solely on coincident peak load, assigned exclusively to the LSE(s) causing the need for backstop procurement, and apportioned according to costs arising from loads in the actual load pockets that have given rise to the deficiency.