California Independent
System Operator Corporation

Decision on MRTU Resource Adequacy Import Capacity Tariff Filing

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Board Decision Required

- Consider for approval Management's revised methodology under MRTU to account for import capacity for RA planning and reporting purposes
- File revised Tariff provisions with FERC as soon as possible following the March 7 Board meeting
  - Necessary to permit implementation of revised methodology during 2007 for application in 2008
  - Timing of filing consistent with stakeholder and FERC comments at Feb 1, 2007 FERC Technical Conference

"MRTU" is Market Redesign and Technology Upgrade
"RA" is resource adequacy
"FERC" is Federal Energy Regulatory Commission

Need for Methodology

- Existing state RA programs intended to ensure that sufficient resources are available to ISO to reliably operate system
- ISO conducts annual engineering studies to ensure deliverability of resources to serve Load
- LSEs report on an annual and monthly basis the resources acquired to meet their RA obligations (generally peak Load, plus a reserve margin)
- LSEs are allowed to rely on imports to satisfy RA obligations (California is a net importer)
- To prevent over-reliance on imports and ensure reliable operation of system, the maximum allowable import capacity must be accounted for and not exceeded in LSE RA showings
- ✔ A methodology to account for this capacity is currently in place, but needs to be updated for use during MRTU (Tariff will specify accounting process – it does not allocate physical transmission capacity or rights)

"LSE" is Load Serving Entity

Rationale for this Proposal

- Can be implemented prior to MRTU start-up without affecting current approved budget or timetable
- Can be filed at FERC on expedited schedule so Tariff provisions can be in place for 2008 RA procurement cycle (summer/fall 2007)
- Complies with FERC's prior approval of policy to first honor, to the extent possible, resource commitments and then account for remaining import capacity in uniform manner
- Leverages systems and processes already in place and/or planned, with minimal additions, and avoids adding complex new rules and procedures
- Balances different market segments desire for procurement flexibility with objective to encourage long-term resource investments

Recent Revisions to Address Stakeholder Concerns

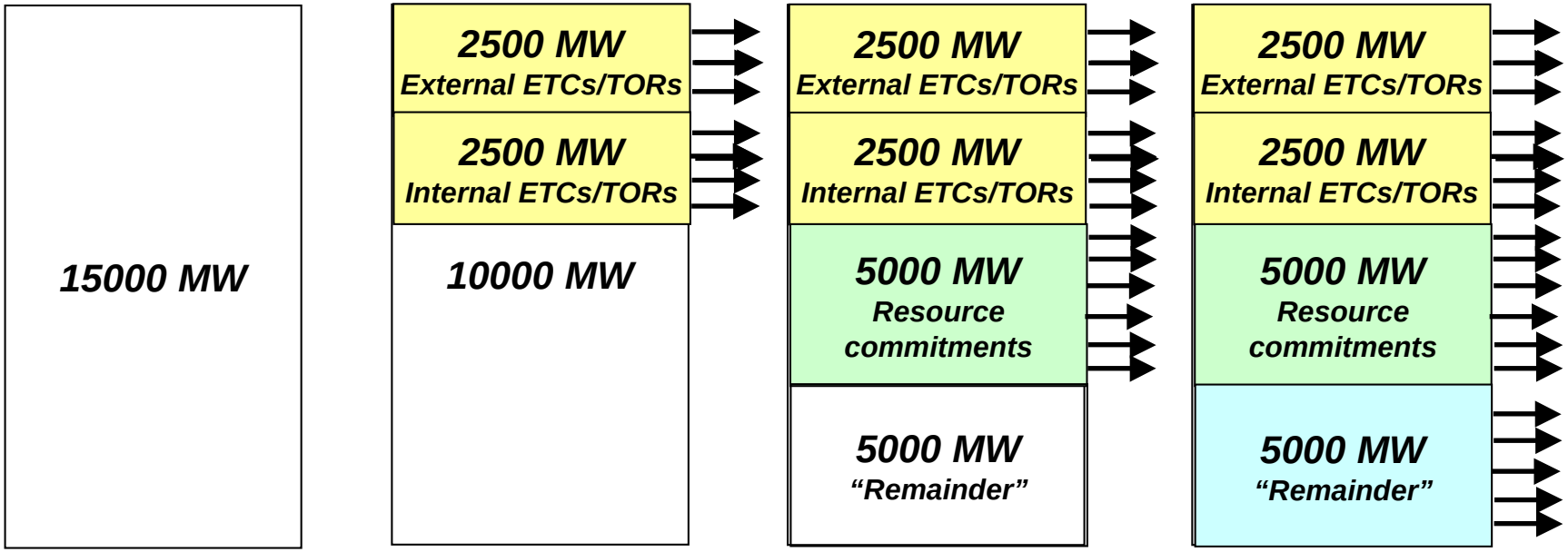
- Will use IRRP Tariff process (stakeholders agree that IRRP provides a superior framework)
- Accommodates "grandfathered" (executed prior to March 10, 2006) resource commitments that deliver in the future
- Amount capped: at greater of: (1) load ratio share, or (2) Existing Contracts and grandfathered resource commitments
- Added process to account for un-requested, residual space on transmission lines, on "first come, first served" basis
- Will consider moving beyond a one-year term after MRTU market and its products are fully implemented

"IRRP" is Interim Reliability Requirements Program

Key Elements of Proposal

- LSEs receive amounts capped at greater of their (1) load ratio share, or (2) Existing Contracts and resource commitments amount as of March 10, 2006 (only initial term of these resource commitments is allowed to count)
- Existing Contracts and grandfathered resource commitments receive priority in determining space on individual transmission lines ("branch groups"); this capacity is assigned to branch groups first
- After contracts and commitments, to extent capacity remains available on particular branch groups, that capacity is aggregated and divided among all LSEs based on respective load ratio shares. After receiving their load ratio share of the total available space on all branch groups, LSEs can request space on individual branch groups
- Where a branch group is over-requested, available space would be provided based on the LSE's respective load ratio share

Illustrative Example



First:
Determine maximum import capacity on all transmission lines (i.e., branch groups)

Then:
Reserve space on branch groups for Existing Transmission Contracts and Transmission Ownership Rights ("ETC/TORs")

Next:
Reserve space on branch groups for grandfathered resource commitments.
If branch group is over-requested, resolve by load ratio share.
"Remainder" is capacity available after this step.

Next:
Remainder divided among LSEs with amounts below load ratio share. LSEs may trade amounts and must report trades to ISO.
LSEs may request space on branch groups.
If branch group is over-requested, resolve by load ratio share.

Key
→ **Means placed on branch group**