

Memorandum

To: ISO Board of Governors
From: Gary DeShazo, Director of Regional Transmission North
Armando Perez, Vice President of Planning & Infrastructure Development
Date: August 29, 2007
Re: *Decision on conditional Approval to Extend Existing RMR Contracts for 2008*

This Memorandum requires Board action.

Introduction

This memorandum requests that the Board of Governors grant CAISO Management the authority to extend through calendar year 2008 all the existing Reliability Must-Run (RMR) Contracts should the units be needed to satisfy the local reliability criteria. This reason for a request for conditional approval is the CAISO does not know at this point which of these units will be secured as resources to provide capacity to the Load Serving Entities and part of their Resource Adequacy requirements. Until the CAISO can evaluate the RA units in light of the capacity needs demonstrated in the CAISO's 2008 Local Capacity Requirement Study or other reliability services currently provided under the RMR Contract, the CAISO cannot make the determination whether it will need to extend the RMR Contracts. The decision must be made by October 1, given the terms of these contracts, and therefore Management seeks approval to renew those contracts that are found to be needed for reliability once further information is available in September.

Management recommends that the Board adopt the following motion:

Moved,

That the ISO Board of Governors authorize Management to extend the Reliability Must Run Contracts for any RMR Unit listed in Attachment 1 for any reason described in the memorandum dated August 29, 2007; and

That the ISO Board of Governors authorize Management to terminate the RMR Contracts of those units determined by Management to be no longer necessary as result of the Preliminary Local Resource Adequacy procurement decisions, effective January 1, 2008.

Discussion

Under long-established provisions of the RMR Contract, October 1 of each year is the deadline for the CAISO to notify the owner of an RMR resource that the CAISO wishes to extend the existing RMR Contract for an additional year – from January 1 through December 31 of the following year. If the RMR Contract is not extended by this

date, the RMR unit may not be designated again for one full year unless (i) CAISO demonstrates the need for the unit is caused by an extended outage of another unit or transmission element not known at the time of the RMR Contract expiration or (ii) the unit is selected through a competitive process in which the unit owner participated. Accordingly, to avoid the administrative efforts and uncertain costs associated with potentially negotiating new RMR Contracts, the CAISO must determine prior to October 1, 2007 whether to extend each of the RMR Contracts for the resources listed in Attachment 1. That determination will be dictated by assessing the ability of the aggregate portfolio of resources procured by LSEs pursuant to resource adequacy requirements to meet the CAISO's local reliability criteria and other reliability services available under RMR Contracts.

In order to coordinate, and potentially diminish, CAISO RMR designations, the California Public Utilities Commission (CPUC) requires its jurisdictional LSEs to provide a "preliminary" resource adequacy showing to the CAISO on September 19th that identifies the resources for which each LSE has entered into a resource adequacy contract for 2008. This showing is to include any Generating Unit listed in Attachment 1, all Local Capacity Area Resources, and any other Resource Adequacy Resource procured at that time. This showing is "preliminary" because CPUC jurisdictional LSEs have until October 31 to submit their final year-ahead resource adequacy showings that must demonstrate compliance with all CPUC imposed year-ahead procurement targets (100% Local Capacity Area Resources and 90% of the LSE's Demand Forecast and Reserve Margin for the months May through September). The CAISO also requires that all non-CPUC jurisdictional LSEs provide the CAISO with a year-ahead showing in September. The result is a process that avoids unnecessary RMR designations by considering the 2008 resource adequacy procurement, especially for Local Capacity Area Resources, by LSEs.

In general, if the LSE showings indicate that a current RMR unit has been procured under a Resource Adequacy contract for 2008, the CAISO will not extend the RMR Contract because the offer obligation to the CAISO for that unit's capacity has been secured by the LSE under resource adequacy contract. However, there are exceptions where it still might be necessary to designate units under resource adequacy contracts as RMR. These exceptions can arise in three circumstances. First, CAISO Management may determine that it is necessary to obtain a reliability service, such as Black Start capability or dual fuel capability, from the unit, which is available under an RMR Contract, but generally not covered by the resource adequacy contract's focus on obtaining a commitment of the unit's capacity. Second, CAISO Management may determine that the RA Resource may exercise market power for energy and mitigate this circumstance by overlaying an RMR Contract. This situation will occur where the unit has been historically dispatched for energy for a substantial number of hours during the year to address a local reliability concern and the LSE has not elected to enter into a fixed-price contract for the energy from that unit. Third, if there is any reason, including contractual arrangements, that could reduce or otherwise jeopardizes the availability of a given resource in the absence of an RMR Contract. Where an RMR Contract augments a resource adequacy contract, the CAISO staff works with all involved stakeholders to establish rates under the applicable RMR Contract such that there will be no double payment for services provided.

Conclusion

CAISO Management requests this conditional approval to renew those RMR contracts that are determined necessary for reliability once the Resource Adequacy Resources contract decision

Attachment 1: 2008 RMR Contract Status

Owner	RMR Contract	Unit	MW ¹	Status
2008 RMR Units Extension Status				
<i>RMR Contracts extended are to be effective January 1, 2008 thru December 31, 2008, unless noted otherwise</i>				
<i>RMR Contracts released will terminate effective December 31, 2007</i>				
CalPeak Power – Border, LLC	Border	Border Unit	43.8	Unknown
CalPeak Power – El Cajon, LLC	El Cajon	El Cajon Unit	42.2	Unknown
CalPeak Power – Enterprise, LLC	Enterprise	Escondido Unit	45.5	Unknown
Geysers Power Company, LLC (Calpine)	Geysers Main	Geysers Main, Units 6	40	Unknown
Gilroy Energy Center, LLC (Calpine)	Gilroy EC	Feather River EC Unit	45	Unknown
		Gilroy EC, Unit 1	45	
		Gilroy EC, Unit 2	45	
		Yuba City EC Unit	45	Unknown
Los Medanos Energy Center, LLC (Calpine)	LMEC	Los Medanos Energy Center	556	Unknown
Dynergy Oakland, LLC	Oakland	Oakland, Unit 1	55	Unknown
		Oakland, Unit 2	55	
		Oakland, Unit 3	55	
Dynergy South Bay, LLC	South Bay	South Bay, Unit 1	145	Unknown
		South Bay, Unit 2	149	
		South Bay, Unit 3	174	
		South Bay, Unit 4	221	
		South Bay, CT	13	
Cabrillo Power I LLC NRG	Cabrillo I	Encina Unit 1	106	Unknown
		Encina Unit 2	103	
		Encina Unit 3	109	
		Encina Unit 4	299	
		Encina Unit 5	329	
		Encina CT	14	
Cabrillo Power II LLC NRG	Cabrillo II	El Cajon CT	13	Unknown
		Kearny 1 CT	15	
		Kearny 2A CT	14	
		Kearny 2B CT	14	
		Kearny 2C CT	14	
		Kearny 2D CT	13	
		Kearny 3A CT	15	
		Kearny 3B CT	14	
		Kearny 3C CT	14	
		Kearny 3D CT	14	
		Miramar 1A CT	17	
		Miramar 1B CT	16	
		Mirant Delta, LLC	Contra Costa	
Contra Costa, Unit 5	0 ²			
Mirant Potrero, LLC	Potrero	Potrero, Unit 3	206	Unknown
		Potrero, Unit 4	52	
		Potrero, Unit 5	52	
		Potrero, Unit 6	52	
Northern California Power Agency	NCPA CTs	Alameda, Unit 1	22.5	Unknown
		Alameda, Unit 2	22.5	

¹ Capacity values shown indicate the summer Maximum Net Dependable Capacity (MNDC) values for the CTs with both summer and winter MNDC values specified in the Cabrillo I, Cabrillo II, and South Bay RMR Contracts.

² Unit is a synchronous condenser.