



California ISO
Your Link to Power

**Final Proposal to Board of Governors for
Transitional Capacity Procurement Mechanism
Tariff Filing**

**Prepared by
Keith Johnson
Market & Product Development Group
California Independent System Operator
March 18, 2008**

Table of Contents

Section 1 Executive Summary	3
Section 2 Proposal	4
1. Background.....	4
2. Stakeholder Process	4
3. Board Approval, Filing and Effective Dates.....	4
4. Acronyms and Milestones	5
5. Proposed Changes to the RCST.....	5
5a. Capacity Price	6
5b. Daily Capacity Payment	8
5c. Minimum Term of a Significant Event	8
5d. Designation Process for a Significant Event.....	9
5e. Backstop for Local Resource Adequacy Deficiencies.....	12
5f. Allowing LSEs to Count TCEM Procurement in RA Showings	12
6. Designation of a Partial Unit	12
Attachment 1 List of Acronyms.....	14
Attachment 2 Key Milestones of Stakeholder Process	15
Attachment 3 Current RCST Tariff	16

Final Proposal to Board of Governors for Transitional Capacity Procurement Mechanism Tariff Filing

Section 1 Executive Summary

The purpose of this initiative is to develop and obtain Board of Governors and Federal Energy Regulatory Commission (“FERC”) approval for a tariff-based capacity procurement mechanism that would be in place starting June 1, 2008 and extend until implementation of the Market Redesign and Technology Update (“MRTU”) that will enable the California Independent System Operator (“CAISO”) to supplement or “backstop” Load Serving Entity (“LSE”)-based Resource Adequacy (“RA”) capacity procurement as needed for reliable grid operation. The CAISO’s goal is to file this new Transitional Capacity Procurement Mechanism (“TCPM”) with FERC on March 28, 2008 and to propose an effective date of June 1, 2008. The TCPM is meant to update the currently-effective Reliability Capacity Services Tariff (“RCST”) and to serve as a transition to the Interim Capacity Procurement Mechanism (“ICPM”) that is intended to become effective upon implementation of MRTU.

Given the time constraints facing the CAISO and the extremely short-term nature of the TCPM, the CAISO proposes generally to retain the RCST structure, but to make some modifications to the RCST to update the compensation paid to resources and facilitate the CAISO’s ability to designate resources to meet Reliability Criteria.¹ The CAISO believes that it makes sense to utilize the RCST design as the base for the TCPM and make modifications to it, reflecting some of the elements of the recently-filed ICPM and updating the compensation mechanisms, because stakeholders have invested substantial resources in developing the RCST (and the ICPM), FERC has previously found the RCST to be just and reasonable, and the CAISO has a limited amount of time to develop a proposal and file it in time for implementation on June 1, 2008. In addition, the CAISO business systems are already configured to support the RCST processes, thereby allowing for an effective implementation without potential delays associated with any new system requirements. This proposal modifies the current RCST in the following key areas:

- Modifies the current RCST capacity price from \$73/kW-year minus Peak Energy Rents (“PER”) to a value of \$86/kW-year minus PER.
- Increases the current daily Must Offer Obligation (“MOO”) capacity payment from a factor of 1/17 to a factor of 1/8.
- Changes the minimum term of a Significant Event designation from three months to one month.
- Changes the definition of a Significant Event to the definition in the ICPM, adds the ICPM “three-step” designation process, and adds the report in ICPM that is due 30 days after a Significant Event designation that explains whether that designation will be extended beyond the initial 30 days.
- Adds tariff language from the ICPM to address how CAISO would address a collective deficiency relative to the local RA requirement and the associated cost allocation.
- Adds tariff language from the ICPM tariff filing to address allowing LSEs to “count” certain TCPM procurement in RA showings.

¹ As part of Reliability Criteria, the CAISO must comply with applicable North American Electric Reliability Council/Western Electricity Coordinating Council (“NERC/WECC”) requirements, including Minimum Operating Reliability Criteria (“MORC”).

Section 2 **Proposal**

1. Background

On August 26, 2005, the Independent Energy Producers Association (“IEP”) initiated litigation challenging the FERC imposed daily FERC MOO as unjust and unreasonable and recommended that the daily FERC MOO be replaced with a tariff-based capacity procurement mechanism. On March 31, 2006, an Offer of Settlement was filed that proposed the institution of a RCST that included modifications to the existing daily FERC MOO. As ultimately approved by FERC on February 13, 2007, the RCST provides the CAISO with a backstop procurement mechanism to ensure the reliable operation of the CAISO Controlled Grid and modified the compensation generators receive for the capacity they provide. The RCST allows the CAISO to procure capacity in advance of the compliance year to backstop RA procurement and during the compliance year to backstop for a “Significant Event.” The RCST was to expire on December 31, 2007; however, FERC has extended the RCST subject to the outcome of the proceeding in Docket No. EL08-20.

In anticipation of the expiration of the RCST, in April 2007 the CAISO initiated a stakeholder process to develop a successor to the RCST to become effective upon implementation of MRTU. That successor backstop mechanism is the ICPM that the CAISO filed with FERC on February 8, 2008.

In an order issued on December 20, 2007, FERC indicated its expectation that the CAISO would follow through with its commitment to work with stakeholders and modify the RCST if implementation of MRTU is delayed beyond summer 2008. Given that MRTU may not be implemented by June 1, 2008, the CAISO has initiated this stakeholder process to work with stakeholders to make modifications to the RCST that would go into effect on June 1, 2008 and extend until implementation of MRTU. The RCST was designed to work with the existing market design; therefore, it makes sense to modify the RCST as opposed to designing an entirely new backstop mechanism from scratch, especially given the timing constraints the CAISO is facing. In that regard, the CAISO developed a project schedule to present the TCPM proposal to its Board of Governors at the Board’s March 26-27, 2008 meeting and file the proposal by the end of March so that it can get a FERC order prior to June 1, 2008.

2. Stakeholder Process

An initial proposal was posted on February 13, 2008. A conference call was held on February 21, 2008 to discuss the initial proposal with stakeholders. Stakeholders were encouraged to provide written comments no later than February 28, 2008, and written comments were received from 10 entities. This revised proposal was posted on March 4, 2008. A conference call will be held on March 7, 2008 to discuss the revised proposal with stakeholders. All of the written comments that have been received, and the proposals and conference call materials, can be found at <http://www.aiso.com/1f65/1f65791614bd0.html>.

3. Board Approval, Filing and Effective Dates

On March 26-27, 2008, the CAISO intends to seek approval from the CAISO Board of Governors regarding the policy elements of the TCPM and to make a tariff filing reflecting

those elements of policy. If such approval is granted, the CAISO would develop the appropriate tariff provisions and make a tariff filing on March 28, 2008. The filing would request an effective date of June 1, 2008, with the tariff provisions expiring on the date of MRTU implementation.

4. Acronyms and Milestones

Attachment 1 provides a list of acronyms used in this proposal. Key milestones for this initiative are provided in Attachment 2.

5. Proposed Changes to the RCST

Attachment 3 provides the RCST tariff provisions that are currently in effect. These tariff provisions are the base from which this proposal is based. Tariff language that was filed in the December 28, 2007 RCST Compliance filing is still pending at FERC and is highlighted in gray shading.

The proposed policy changes to the base RCST tariff provisions are discussed in the sections below. Because of the need to expedite this initiative, the CAISO has identified six key areas for revision. It is critical to maintain a narrow scope in order to have an alternate backstop mechanism available by June 1, 2008. The CAISO will engage stakeholders in a discussion of the specific tariff language for the TCPM during March 2008 (see Attachment 2 for the key milestones in the TCPM tariff development process).

Background

In its initial proposal,² the CAISO offered two options for TCPM pricing: a refreshing of the RCST price or adoption of the pricing scheme utilized in the ICPM proposal. The CAISO also invited stakeholders to suggest any alternatives on which some consensus might be reached. The only other significant change from the RCST or ICPM approaches that was suggested by any stakeholder was cost of new entry (“CONE”)-based pricing for all TCPM designations and Must-Offer Waiver Denials (“MOWDs”).

A number of stakeholders expressed preference for the ICPM pricing model. Under this approach, the CAISO would have established a TCPM capacity price of \$41/kW-year, as was included in the ICPM filing that was made on February 8, 2008.³ This price would be used instead of the \$73/kW-year Target Annual Capacity Price, minus a PER, that is in the RCST. In contrast, under an ICPM approach, the \$41/kw-year would be a flat payment. A significant difference from the ICPM pricing is that CAISO did not propose that under TCPM, suppliers would have the option to file at FERC for higher payments justified on the basis of recovery of components of annual fixed costs.

On further evaluation of the two pricing approaches, and despite the views of certain stakeholders, CAISO decided not pursue the ICPM-type pricing. The CAISO has instead elected to retain the existing RCST pricing scheme for the TCPM, but is modifying the Target Annual Capacity Price as indicated above. The CAISO is doing this for several reasons. First, RCST was designed and approved by FERC as a just and reasonable approach under a pre-MRTU market design that includes a daily MOO. On the other hand, ICPM was

² The initial proposal can be found at <http://www.caiso.com/1f6c/1f6cc3152be20.pdf>.

³ The February 8, 2009 ICPM filing can be found at <http://www.caiso.com/1f67/1f67d9d453990.pdf>.

designed to function under the MRTU market design and was intended as a voluntary service that a resource is not obligated to accept. Second, as recently as December 20, 2007, FERC found the RCST approach to be just and reasonable. On the other hand, FERC has not yet ruled on the ICPM proposal. Third, ICPM included the opportunity for a resource to make a cost justification filing at FERC if the resource's going forward costs exceed \$41/kW-year. However, unlike MRTU, a daily MOWD process exists today. Allowing a cost justification option is not administratively efficient under these circumstances. Allowing the option potentially could result in a "hollow promise" because it is uncertain whether generation owners would expend the time and resources to make cost justification filings at FERC for daily MOWDs (on the other hand, only longer-term designations are available under ICPM). Even assuming *arguendo* that these filings were to be made, it seems administratively burdensome for resources, interveners and FERC to be dealing with cost justification filings every time there is a daily MOWD. Fourth, FERC's December 20, 2007 order establishing the Section 206 proceeding appears to contemplate that the CAISO would modify the RCST (see Paragraph 38).

The CAISO recognizes that the TCPM is not a perfect proposal; however, the CAISO had an extremely limited amount of time to develop the proposal and evaluate options and the details of each and every element of the capacity backstop mechanism. Further, stakeholders were polarized on many of the key issues. That required the CAISO to "call the balls and strikes" and attempt to develop a proposal that was both reasonable and principled, yet balanced, all while facing significant time constraints. The CAISO believes that the TCPM, which will probably only be in effect for four to six months, is just and reasonable especially given these circumstances.

5a. Capacity Price

The CAISO proposal for the capacity price is described in this section: The CAISO believes that the proposal is a reasonable approach to provide an updated compensation scheme for MOO and TCPM capacity. As the proposal builds on the current RCST pricing method, it is presented here with minimal supporting detail (which can be found elsewhere).⁴

Proposal (these four elements come as a package)

- Escalate the current RCST Target Annual Capacity Price of \$73/kW-year (which was initially proposed in the RCST Offer of Settlement that was filed at FERC on March 31, 2006) for two years using the National Consumer Price Index ("CPI"), and then increase that value by applying a 10% adder which would result in an updated Target Capacity Price of \$86/kW-year.⁵
- Deduct PER from the capacity price to determine a net capacity price.
- Use the heat rate of 10,500 BTU/kWh that is in the current RCST for the hypothetical proxy unit for purposes of determining the PER.
- Use the seasonal shaping factors that are in the RCST as the shaping factors for the TCPM (see the RCST language in Appendix F, Schedule 6 of the currently effective tariff, in Attachment 3).

The Target Annual Capacity Price under RCST is \$73/kW-year. Given that the Target Annual Capacity Price that was agreed upon by the Settling Parties was implemented in

⁴ See Attachment 3 of this proposal for the currently effective RCST tariff language.

⁵ The actual CPI for 2006 is 2.5% and the actual CPI for 2007 is 4.1%. The \$86 number is a rounded value.

2006, the CAISO believes that it is reasonable to escalate the \$73/kW-year value to update it. The CAISO proposes to escalate the \$73/kW-year using an inflation adder based on the National Consumer Price Index ("CPI") to reflect inflation in 2006 and 2007. The actual CPI for 2006 is 2.5% and the actual CPI for 2007 is 4.1%. The RCST Settlement was concluded in 2006 and has remained a fixed price ever since. An adjustment for general price inflation is thus appropriate under these circumstances.

In addition, the CAISO proposes to increase the escalated Target Annual Capacity Price value by 10%. This further escalation in the target capacity price is supported for the following reasons, which the CAISO does not disaggregate:

- First, to account for inflation for 2008 and inflation for cost components not captured by the CPI. Although no stakeholder proposed an alternative inflation indicator, other indicators relevant to the industry and reviewed by CAISO are higher than CPI. Also, the CAISO does not have complete information regarding the annual fixed costs of existing resources, so another purpose of the additional 10% is to account for costs that the CAISO is unable to quantify with any degree of accuracy.
- Second, the adder recognizes that rate setting is not a perfect science and that there may be a number of just and reasonable prices within a zone of reasonableness. The proposed target capacity price also reflects an attempt to balance the disparate positions of the loads and the suppliers, while maintaining the CAISO's belief that cost of new entry ("CONE") is inappropriate for an interim capacity backstop mechanism.

Even applying the escalation factors proposed by the CAISO, the Target Annual Capacity Price remains within the range of the fixed costs of existing units and CONE. Thus, not only does the price reflect an attempt to fairly balance the interests of stakeholders, it also satisfies the just and reasonable standard under the Federal Power Act.

Some stakeholders proposed establishing a Target Annual Capacity Price set at recent estimates of CONE. However, consistent with CAISO's position and rationale in the recent RCST extension and ICPM filing, the CAISO believes that the TCPM backstop mechanism, which will only be in place for a matter of months, is not the appropriate mechanism to send new entry price signals to the market. Hence, the CAISO has not updated the Target Annual Capacity Price to reflect recent estimates of CONE, as reflected, e.g., in the CEC study.

The CAISO also asked stakeholders to evaluate other changes to the RCST target pricing elements. In the absence of sufficient stakeholder consensus on modifications, the CAISO proposes that:

- PER would be deducted from the capacity payment as is currently done under the RCST (see section 40.14 and Appendix F, Schedule 6). The CAISO is not proposing to change how the PER and the capacity payment currently interact in the RCST.
- The hypothetical proxy unit that is used to determine the PER in the current RCST has a heat rate of 10,500 BTU/kWh. The CAISO proposes to continue to use this heat rate.

The RCST language in Appendix F, Schedule 6 of the currently effective tariff, in Attachment 3 would need to be revised to implement any proposed change.

5b. Daily Capacity Payment

The MOO daily capacity payment is currently 1/17 of the monthly target capacity price. This payment level was agreed to in the context of the RCST Settlement. As with the level of the target capacity price, in the time-frame available, the CAISO cannot analytically evaluate what the "right" level of the daily payment should be. A number of factors would have to be considered to make this determination, including evaluation of generator revenues from CAISO and bilateral markets. Similarly, the CAISO acknowledges that this proposed change in the daily capacity payment is not intended to reflect a general principle of capacity pricing. The CAISO has attempted to balance the positions of the parties and ensure that generators are appropriately compensated for the reliability services they provide when denied a Must Offer Waiver Request. The CAISO proposes, for this temporary program, to increase the daily capacity payment to 1/8 of the monthly target capacity price. This change in the daily capacity payment is justified for the following reasons.

- First, as with the increase in the Target Annual Capacity Price, it increases compensation to resources providing reliability benefits pursuant to a mandatory MOO.
- Second, the payment recognizes that this is essentially a daily designation of capacity as opposed to a monthly designation or longer.

As with the current RCST, the total monthly revenues that a generator can earn will remain capped at the monthly capacity payment.

Changes to Real-Time Commitment Application

The CAISO is currently investigating the feasibility of implementing potential changes to its RTC application that would reduce the number of commitments of non-RA and non-RMR resources. Specifically, the CAISO is exploring whether it might be able to incorporate into the RTC optimization proxy values to represent the additional costs paid to the non-RA, non-RMR units. The specific cost components under consideration are described below.

- Adding in the unit's first bid price segment to the min load cost. This bid price would be a proxy for the Market Clearing Price and would represent the "double payment" of min load cost and energy that is paid to non-RA resources under RCST.
- Adding in a value representing an estimate of the daily capacity payment to the startup cost.

Adding these two cost components into the RTC optimization could result in a significant reduction in MOO commitments in RTC. Note that the proxy values are approximate and not exact values. The CAISO is still in the process of exploring the feasibility of these changes and is interested in discussing with stakeholders the approximate values to use in the optimization, especially the daily capacity payment, which can vary with the PER.

The RCST language in Section 40.14 of the currently effective tariff in Attachment 3 would need to be revised to implement this proposed change.

5c. Minimum Term of a Significant Event

The minimum term for a Significant Event designation is currently three months in the RCST. The CAISO proposes to change the minimum term from three months to one month consistent with that proposed under the ICPM. Based on operating experience under the RCST, the CAISO realizes that it is more appropriate to move to one month as this better

aligns with operating needs. As discussed below, the CAISO is also proposing to adopt the designation process for Significant Events, including the opportunity for market participants to propose alternatives for longer-term Significant Events

The RCST language in Section 43.4 of the currently effective tariff in Attachment 3 would need to be revised to implement this proposed change.

5d. Designation Process for a Significant Event

The RCST provides, under section 40.15.3, that if the CAISO issues a denial of a must-offer waiver request to a FERC Must-Offer Generator on four separate days in any calendar year, the CAISO is required to evaluate whether a Significant Event has occurred that warrants designation of the FERC Must-Offer Generator to provide service under the RCST ("MOWD Evaluation"). The CAISO is required to conduct a MOWD Evaluation after every four separate days on which the CAISO denies a must-offer waiver request for such a FERC Must-Offer Generator.

The RCST further provides under section 40.15.4 that the CAISO shall publish the results of its assessment of the MOWD Evaluation ("Significant Event / Repeat MOWD Report"), including an explanation of its decision whether to designate FERC Must-Offer Generator capacity as RCST, on the CAISO Website on a weekly basis unless no Significant Events or MOWD Evaluations occurred during the week. The Significant Event / Repeat MOWD Report shall explain why the CAISO denied the must-offer waiver request that triggered the assessment of whether a Significant Event occurred, and whether any RA Resources, Reliability Must-Run Agreement ("RMR") units, or resources designated to provide service under the RCST were available and called on by the CAISO prior to its denial of the FERC Must-Offer Generator's must-offer waiver request. The CAISO shall also explain why Non-Generation Solutions were insufficient to prevent the use of denials of must-offer waivers for local reasons. In the event that the ISO denies a must-offer waiver request for local or system reasons that do not constitute a Significant Event or is not due to a RA Resource non-performance, the report shall include an explanation for such issuance and shall be signed by the CAISO's Vice President of Operations.

The CAISO proposes the following changes to the RCST tariff language to create the designation process for a Significant Event under the TCPM:

- Change the definition of Significant Event in the current RCST to the definition of Significant Event that was proposed in the ICPM;
- Add the tariff language from the ICPM tariff filing for the "three-step" designation process for Significant Events; and
- Add the tariff language from the ICPM tariff filing for the report that is due 30 days after designation of a resource under a Significant Event that explains whether that designation will be extended beyond the initial 30-day procurement under the three-step process.

The RCST provides the following definition of a Significant Event: *"For 2006, a "Significant Event" is an event that results in a material difference in ISO Controlled Grid operations relative to what was assumed in developing the LARN Report for 2006 that causes, or threatens to cause, a failure to meet Applicable Reliability Criteria. For 2007, a "Significant Event" is an event that results in a material difference in ISO Controlled Grid operations relative to what was assumed by the CPUC and Local Regulatory Authorities in developing*

Local Resource Adequacy Requirements for 2007 that causes, or threatens to cause, a failure to meet Applicable Reliability Criteria.”

While some stakeholders may feel it is preferable for the TCPM to be more prescriptive and/or have more specificity than the RCST with regard to Significant Event designations, the CAISO believes that adequate flexibility is necessary to avoid the unintended consequences of an overly prescriptive approach for Significant Event designations, particularly given that TCPM will be a useful reliability tool for the 2008 peak season. A flexible means is needed to address unforeseen or changed circumstances or inherent inefficiencies or deficiencies in RA programs where lack of action by the CAISO to address a known problem could place the CAISO in the position, in the Day-Ahead timeframe, of planning for the interruption of firm load or failing to meet Reliability Criteria. The CAISO proposes that a sufficiently flexible definition of Significant Event be used, which would allow the CAISO to address contingencies and unexpected system conditions and ensure its ability to satisfy reliability requirements. The CAISO proposes that the TCPM tariff language would include the following definition of Significant Event: *“A Significant Event is a substantial event, or a combination of events, that is determined by the CAISO to either result in a material difference from what was assumed in the RA program for purposes of determining the RA capacity requirements, or produce a material change in system conditions or in CAISO-Controlled Grid Operations, that causes, or threatens to cause, a failure to meet Reliability Criteria absent the recurring use of a non-RA resource(s) on a prospective basis.”*

The CAISO proposes to follow the designation process described below for Significant Events under the TCPM, rather than the process described in the current RCST. This process is equivalent to the process filed at FERC on February 8, 2008 for the ICPM. Adoption of the approach described below for the TCPM is a reasonable transition to the ICPM process.

Procurement to Backstop for a Significant Event

The need for procuring capacity under the TCPM arises because the CAISO has experienced a set of operating conditions that cannot be met within its obligations to meet Reliability Criteria. The CAISO would perform an assessment of whether an event or events have occurred that would constitute a Significant Event. The CAISO proposes to utilize a three-step designation process to initiate backstop procurement under a Significant Event.

Step One:

- I. The CAISO would identify an event or events that may violate an assumption in the RA program or result in a material change in system conditions or in CAISO-Controlled Grid Operations. The event or events can include events that triggered a Repeat MOWD Evaluation.
- II. The CAISO would evaluate if that event or events cause, or threatens to cause, a failure to meet Reliability Criteria.
- III. Based on i and ii, the CAISO would determine if the event constitutes a Significant Event.
- 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 on a forward basis.
- 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 for a period of 30 days, and (2) post an explanation of the Significant

Event and inform the market participants of the need to procure the backstop capacity as well as the expected duration of the Significant Event.

Step Two:

- I. If the CAISO determined in completing its explanation of the Significant Event that the event has an expected duration greater than 30 days, then it would extend that designation for another 60 days (for a total of 90 days from beginning of Significant Event).
- II. During this extended time, market participants would have the opportunity to review the CAISO explanation for the Significant Event and engage in a dialog with the CAISO to understand the basis for that designation.
- III. Market participants would be encouraged to provide solutions that meet the CAISO operational needs. These would include options such as; procurement of capacity by LSEs, operational fixes by Participating Transmission Owners (“PTOs”), additional Demand Response (“DR”), etc.

Step Three:

- I. Before the end of the 90-day period, the CAISO would conduct an assessment of proposed solutions to determine whether they sufficiently mitigate the ongoing need for the designated capacity.
- II. If the answer is “yes”, and a specific solution is undertaken, the CAISO would not extend the designation of capacity procured for the Significant Event.
- III. If the answer is “no” in total or partially, the CAISO would extend the necessary capacity for the remaining expected duration of the Significant Event.

The CAISO proposes to add to the RCST tariff language in Attachment 3 the tariff language from the ICPM tariff filing for the report that is due 30 days after designation of a resource under a Significant Event that explains whether that designation will be extended beyond the initial 30-day procurement under the three-step process. The Significant Event designation report would be posted to the CAISO web site within 30 days of when the CAISO has procured a resource through the TCPM tariff authority as a Significant Event, i.e., after the MOWD Evaluation the CAISO has determined that a Significant Event has occurred and a resource has been procured for an initial 30-day period. The CAISO would provide a market notice of the availability of this report. The report⁶ would include the items listed below.

1. Description of the reason for the designation, and why it was necessary to procure under the TCPM authority)
2. The description would include a discussion of the:
 - a. Event or events that have occurred (what happened, what is going on, what criteria was violated, why the CAISO has procured backstop capacity, and how much has been procured)
 - b. Initial assessment of the expected duration of the Significant Event
 - c. Duration of the initial designation (30 days)
 - d. Whether the initial designation has been extended (such that the backstop procurement is now for more than 30 days), and, if it has been extended, the length of the extension (days)
3. The following information would be reported:
 - a. Resource name

⁶ The CAISO does not expect that it will need to designate a resource for more than one instance during the calendar year. If this were to be necessary, the CAISO proposes to fully describe why the additional designation is required.

- b. Amount of capacity procured (MW)
- c. Date capacity was procured (month/day/year)
- d. Duration of the designation (days)
- e. Price

The RCST tariff language in Sections 40.15.3, 40.15.4, and 43.4 of the currently effective tariff in Attachment 3 would need to be revised to implement this proposed change.

5e. Backstop for Local Resource Adequacy Deficiencies

The FERC has already recognized that the CAISO needs the authority to engage in backstop procurement to maintain reliable system operations, “even though LSEs have adequately met their immediate local capacity obligation.”⁷ The ICPM addressed the issue of a potential “collective shortfall” situation where the portfolio of resources procured by all Scheduling Coordinators for LSEs in a local area, although consistent with each LSE’s individual obligation, is not sufficient to fully meet the Reliability Criteria for the local area.

The CAISO proposes to supplement the current RCST by adopting the ICPM proposal, including cost allocation, with respect to designations to address collective shortfalls. It should be noted that by incorporating the ICPM proposal, LSEs will have an opportunity to cure the collective shortfall prior to any CAISO backstop procurement.

The RCST language, Sections 43.2 and 43.8 in the CAISO’s currently effective tariff (see Attachment 3) would need to be revised to implement this proposed change.

5f. Allowing LSEs to Count TCPM Procurement in RA Showings

The RCST is silent on the topic of allowing LSEs to “count” RCST procurement in RA showings when the CAISO procures under the RCST (i.e., there is no language on this subject in the RCST). This concept was not included in the RCST when it was created in 2006. This topic was brought up and addressed in the ICPM stakeholder process. The ICPM tariff includes language that addresses this matter. The CAISO proposes to supplement the current RCST by adding the tariff language from the ICPM tariff filing to address allowing LSEs to “count” certain TCPM procurement in RA showings.⁸

A new section would be added in the TCPM tariff to implement this proposed change.

6. Designation of a Partial Unit

The CAISO initially proposed filing for the authority to procure a portion of a resource under the TCPM, i.e., the ability to procure a “partial unit.” During the TCPM February 21, 2008 stakeholder conference call, one of the stakeholders noted the potential difficulty in implementing a partial unit designation when the current MOO process uses the full capacity of each resource. Since the February 21, 2008 call, the CAISO has considered this comment and further reviewed this element of the TCPM proposal in more detail internally. Based on a more detailed review of this topic, the CAISO has now concluded that a “partial unit” designation does not work under the current market design with a FERC MOO and has decided to remove this element from the proposal. The CAISO now proposes to use the

⁷ *California Indep. Sys. Operator Corp., et. al.*, 122 FERC ¶ 61,017 (2008) at P 63-64.

⁸ The February 8, 2008 ICPM filing can be found at <http://www.caiso.com/1f67/1f67d9d453990.pdf>.

RCST language, wherein the CAISO must be able to find a whole unit that is available to remedy the deficiency or reliability problem, and which is either “slightly more or slightly less” than the amount of additional capacity needed by the CAISO. The reason for this change is discussed in more detail below.

Unlike the MRTU design where RA (i.e., future must offer) capacity can be designated for portions of a unit, the pre-MRTU system has a MOO requirement that applies to the entire capacity of a resource. This presents conflicts between the MOO proxy bid process, which ensures that a resource has bids between its Pmin and Pmax, and a partial designation. If a resource is partially designated under TCPM and it is dispatched through proxy bids to a level above its designation, it may be eligible for additional compensation, which could be proposed as a partial daily payment for the capacity not covered by the TCPM designation. As a result of this, significant changes would have to be made to CAISO market and settlement systems to be able to calculate and pay resources that are due both a TCPM payment and a partial daily payment, including identifying these situations after the fact and calculating a pro-rata amount for the daily payment. In any event, such changes to CAISO systems are not justifiable given the transitional, extremely short-term nature of the TCPM and the CAISO’s need to focus its resources on MRTU implementation. The CAISO appreciates the input of stakeholders in helping to come up with viable solutions.

Attachment 1

List of Acronyms

CAISO	California Independent System Operator
CEC	California Energy Commission
CPI	Consumer Price Index
CPUC	California Public Utilities Commission
DR	Demand Response
FERC	Federal Energy Regulatory Commission
FMU	Frequently Mitigated Unit
ICPM	Interim Capacity Procurement Mechanism
IEP	Independent Energy Producers Association
LCR	Locational Capacity Requirement
LRA	Local Regulatory Authority
LSE	Load Serving Entity
MOO	Must-Offer Obligation
MORC	Minimum Operating Reliability Criteria
MOWD	Must-Offer Waiver Denial
MRTU	Market Redesign and Technology Upgrade
MSC	Market Surveillance Committee
MW	Megawatt
NERC	North American Electric Reliability Council
NQC	Net Qualifying Capacity
NRG	NRG Energy
PER	Peak Energy Rents
PGA	Participating Generator Agreement
PTO	Participating Transmission Owner
RA	Resource Adequacy
RCST	Reliability Capacity Services Tariff
RMR	Reliability Must-Run Agreement
RUC	Residual Unit Commitment
SCUC	Security Constrained Unit Commitment
TAC	Transmission Access Charge
TCPM	Transitional Capacity Procurement Mechanism
WECC	Western Electricity Coordinating Council

Attachment 2

Key Milestones of Stakeholder Process

February 13	Post draft proposal
February 21	Stakeholder conference call on draft proposal
February 28	Stakeholder written comments due on draft proposal
March 4	Post revised proposal
March 7	Stakeholder conference call on revised proposal
March 10	Post draft tariff language
March 18	Stakeholder written comments due on draft tariff language
March 20	Stakeholder conference call on draft tariff language
March 26-27	Request Board of Governors approval of proposal
March 28	File TCPM tariff with FERC

Attachment 3
Current RCST Tariff

[See separate file for contents of Attachment 3]