

# Memorandum

**To:** ISO Board of Governors  
**From:** Daune Kirrene, Sr. Contracts Negotiator  
Anjali Sheffrin, Director of Market and Product Development  
**Date:** July 1, 2008  
**Re:** *Decision on Policy to Implement Resource-Specific System Resources*

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*This memorandum requires Board action.*

## EXECUTIVE SUMMARY

The California ISO developed a new mechanism for resources to recover costs under MRTU, referred to as "bid cost recovery." Under this new mechanism, resources which identify a specific source of power can recover for three primary cost elements: start-up costs, minimum load costs, and energy bid costs. At this point, resources within the CAISO's balancing authority area are under standard agreements which will allow the CAISO to confirm the basis for compensating these resources for the three components of their bids. However, resources outside the CAISO's balancing authority area are not subject to these standard agreements, and the CAISO does not yet have a contractual mechanism to confirm that they are providing the response to CAISO dispatch instructions that qualifies them for bid cost recovery. This proposal would provide for that contractual mechanism in the form of a FERC-approved "pro forma" agreement to be used with all similarly-situated resources under MRTU and would provide for the requisite tariff changes as well.

## MOTION

*Moved, that the ISO Board of Governors approves the proposal to implement Bid Cost Recovery for Resource-Specific System Resources, as detailed in the memorandum dated July 1, 2008; and*

*Moved, that the ISO Board of Governors authorizes Management to make all of the necessary and appropriate filings with the Federal Energy Regulatory Commission to implement Bid Cost Recovery for Resource-Specific System Resources.*

## BACKGROUND

A resource-specific system resource, or "RSSR," is an import for which the resource owner identifies the specific resource that will provide the services it is bidding into the CAISO markets. During the development of the MRTU tariff, stakeholders requested the ability for RSSR owners to submit three-part bids that cover the associated costs with providing energy from these resources, namely start-up costs, minimum load costs, and energy. The term the CAISO

uses to refer to this three-part recovery is “bid cost recovery.” Resources that are within the CAISO’s balancing authority area will be eligible for bid cost recovery under the existing *pro forma* agreements they are party to, such as participating generator agreements, which require telemetry to permit the CAISO to confirm that a unit actually started in response to a dispatch instruction, for example.

The CAISO supports permitting resources that provide imports to be eligible to receive these same bid cost recovery payments, but needs a mechanism to enforce the requirements associated with eligibility for payment. This mechanism is the *pro forma* agreement for which Management is seeking Board approval, and three policy elements to be included in new tariff language. The three new policy elements are a requirement that RSSR owners 1) execute a Resource-Specific System Resource Agreement, 2) identify the resource and associated technical characteristics for each resource for which the RSSR owner is seeking bid cost recovery, and 3) provide the CAISO with telemetry data so that the CAISO can verify compliance.

In developing this proposal, Management considered whether additional MRTU tariff provisions could simply be drafted to make compliance with all of the CAISO’s requirements a prerequisite to eligibility for bid cost recovery. However, the CAISO would confront significant risks in relying solely on this approach without specific authority to seek remedies in the event the owner should fail to comply with the CAISO tariff requirements. A contract with the owner of an RSSR would provide the CAISO an explicit avenue for enforcement of applicable CAISO tariff requirements and remedies for non-compliance.

## **POSITIONS OF THE PARTIES**

Management solicited and received comments from stakeholders on the proposed new *pro forma* agreement and associated tariff language to implement bid cost recovery for RSSR resources. The summary of comments and the CAISO’s response is included as **Attachment A**. The CAISO has received no opposition to the proposed *pro forma* agreement and tariff language. Stakeholder comments fell into two categories: 1) support for the proposal and 2) comments to clarify the policy. Management appreciates the support of stakeholders to add these proposed provisions to the MRTU tariff. Where appropriate, Management made modifications to the proposed *pro forma* agreement and tariff language to address stakeholder comments. Pacific Gas and Electric Company (“PG&E”) has one outstanding comment regarding the applicability of uninstructed deviation penalties. Management agrees with PG&E that the scheduling coordinators for RSSRs should be held accountable for penalties incurred due to failure to honor bids submitted to the CAISO, and will address this issue in the process to develop and file tariff language addressing uninstructed deviation penalties.

## **MANAGEMENT RECOMMENDATION**

Management recommends that the Board authorize Management to make a filing to FERC to implement bid cost recovery for RSSRs.