

Memorandum

To: CAISO Board of Governors

From: Gary DeShazo, Director of Regional Transmission North
Laura Manz, Vice President of Market & Infrastructure Development

Date: August 29, 2008

Re: *Decision on conditional approval to extend existing RMR contracts for 2009*

This memorandum requires Board action.

This memorandum requests that the California Independent System Operator Corporation (CAISO) Board of Governors grant Management the authority to extend, through calendar year 2009, the existing reliability must-run (RMR) contracts listed in Attachment 1.

MANAGEMENT RECOMMENDATION

Motion

Moved, that the CAISO Board of Governors authorizes Management to extend the RMR contracts for any RMR Units in Attachment 1 consistent with the criteria described in the memorandum dated August 29, 2008.

DISCUSSION

Management will exercise this authority if the resources procured by the load serving entities (LSEs) as part of their resource adequacy showings are insufficient either to meet the local reliability criteria used in CAISO's 2009 Local Capacity Requirement Study or to provide other reliability services currently provided under the RMR contract. In addition, Management will exercise this authority if it finds that reliability services provided under the RMR contract may not be available without an RMR contract.

Management requests authority to extend only the existing RMR contracts listed in Attachment 1. This attachment includes 3927 MW of RMR-type contracts (594.5 MW of black start, 1,051 MW of dual fuel and 2,281.5 MW of full RMR contracts).

Under long-established provisions of the RMR contract, October 1 of each year is the deadline for CAISO to notify the owner of an RMR resource that 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:

- 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
- The unit is selected through a competitive process in which the unit owner participated.

Accordingly, CAISO must determine prior to October 1, 2008 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 CAISO's local reliability criteria and other reliability services available under RMR contracts.

In order to coordinate, and potentially reduce the number of CAISO RMR designations, the California Public Utilities Commission (CPUC) requires its jurisdictional LSEs to provide a "preliminary" resource adequacy showing to CAISO on September 19 that identifies the resources for which each LSE has entered into a resource adequacy contract for 2009.

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). CAISO also requires that all non-CPUC jurisdictional LSEs provide CAISO with a year-ahead showing in September. The process avoids unnecessary RMR designations by considering the 2009 resource adequacy procurement, especially for local capacity area resources, by LSEs.

If the LSE showings indicate that a current RMR unit has been procured under a resource adequacy contract for 2009, CAISO generally will not extend the RMR contract because the offer obligation to 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, Management may determine that it is necessary to obtain from the unit a reliability service, such as black start capability or dual fuel capability, 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, Management may determine that the resource adequacy 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, Management may determine that a contractual arrangement could jeopardize the availability of a given resource in the absence of an RMR contract.

Where an RMR contract augments a resource adequacy contract, 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.

Attachment 1: 2009 RMR Contract Status

<i>Owner</i>	<i>RMR Contract</i>	<i>Unit</i>	<i>MW¹</i>	<i>Status</i>
2009 RMR Units Extension Status <i>RMR Contracts extended are to be effective January 1, 2009 thru December 31, 2009, unless noted otherwise</i> <i>RMR Contracts released will terminate effective December 31, 2008</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 II LLC NRG	Cabrillo II	Kearny 2A CT	14	Unknown
		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 Potrero, LLC	Potrero	Potrero, Unit 3	206	Unknown
		Potrero, Unit 4	52	
		Potrero, Unit 5	52	
		Potrero, Unit 6	52	

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 II, and South Bay RMR Contracts.

Attachment 1: 2009 RMR Contract Status

<i>Owner</i>	<i>RMR Contract</i>	<i>Unit</i>	<i>MW²</i>	<i>Status</i>
2009 Black Start Units Extension Status³ <i>Black Start Contracts extended are to be effective January 1, 2009 thru December 31, 2009, unless noted otherwise</i> <i>Black Start Contracts released will terminate effective December 31, 2008</i>				
Pacific Gas and Electric Company	Humboldt Bay	Humboldt Bay, MEPP 2	15	Unknown
		Humboldt Bay, MEPP 3	15	
	Kings River WS	Kings River Watershed II Units	335.8	Unknown
	San Joaquin WS	San Joaquin Watershed Units	214.7	Unknown
Cabrillo Power I, LLC	Cabrillo I	Encina CT	14	Unknown
2009 Dual Fuel Agreement Unit Extension Status <i>Dual Fuel Contracts extended are to be effective January 1, 2009 thru December 31, 2009, unless noted otherwise</i> <i>Dual Fuel Contracts released will terminate effective December 31, 2008</i>				
Pacific Gas and Electric Company	Humboldt Bay	Humboldt Bay, Unit 1	52	Unknown
		Humboldt Bay, Unit 2	53	
Cabrillo Power I LLC	Cabrillo I	Encina Unit 1	106	Unknown
		Encina Unit 2	103	
		Encina Unit 3	109	
		Encina Unit 4	299	
		Encina Unit 5	329	

² 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 Black Start Contract and Cabrillo I Dual Fuel Contract.

³ Contracted Black Start and Dual Fuel capacities (MW) have contract specific names but are linked to the Masterfile Pmax value.