

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

California Independent System Operator)
Corporation) Docket No. ER11-2256-000
_____)

OFFER OF SETTLEMENT

The California Independent System Operator Corporation (“CAISO”) submits this Offer of Settlement, including the Explanatory Statement in Attachment A and the Revised Tariff Provisions in Attachment B, in order to resolve all issues in this proceeding. Each party to this proceeding (“Party,” or collectively, “Parties”) has authorized the CAISO to state that such party either supports or does not oppose the Offer of Settlement.¹

1. DEFINITIONS

1.1 All defined terms in this Offer of Settlement have the meanings set forth in the CAISO’s open access transmission tariff (“CAISO Tariff”) as amended or supplemented from time to time, provided that such amendments or supplements of the defined terms shall not alter any rights or obligations set forth in the Offer of Settlement.

¹ The following parties have advised the CAISO that they either support or do not oppose this Offer of Settlement by the Alliance for Retail Energy Markets; California Department of Water Resources State Water Project; California Municipal Utilities Association; California Public Utilities Commission; Calpine Corporation; Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California; City of Santa Clara, California and the M-S-R Public Power Agency; Dynegy Morro Bay, LLC, Dynegy Moss Landing, LLC, and Dynegy Oakland, LLC; Electric Power Supply Association; GenOn Energy Management, LLC, GenOn Delta, LLC and GenOn West, LP; Golden State Water Company; Independent Energy Producers Association, J.P. Morgan Ventures Energy Corporation and BE CA LLC; Modesto Irrigation District; Northern California Power Agency; NRG Power Marketing LLC, Cabrillo Power I LLC, Cabrillo Power II LLC, El Segundo Power, LLC, Long Beach Generation LLC and NRG Solar Blythe LLC; Pacific Gas & Electric Company; Powerex Corporation; San Diego Gas & Electric Company; Southern California Edison Company; and Western Power Trading Forum.

2. RESOLUTION OF ALL ISSUES RAISED IN THIS PROCEEDING

2.1 All issues raised in this proceeding² will be fully resolved by the Commission's acceptance, without modification or suspension, of the proposed CAISO Tariff provisions that are included in Attachment B, Revised Tariff Provisions, to this Offer of Settlement. The Commission is requested to issue an order in this proceeding accepting the Offer of Settlement without modification or condition ("Settlement Order") and accepting the CAISO's commitment under this Offer of Settlement to submit a compliance filing that contains the Revised Tariff Provisions. The CAISO will submit a compliance filing to revise the CAISO Tariff to incorporate the Revised Tariff Provisions within fifteen (15) calendar days after the date on which the Commission issues its Settlement Order ("Settlement Order Date").

3. SUMMARY OF CHANGES BY TARIFF SECTION

3.1 Revised Tariff Section 43.1.1 provides that the CPM, as well as changes made to other Sections to implement the CPM, will expire at midnight on the last day of the forty-eighth month following its effective date. CPM designations in existence on that expiration date will continue in effect and remain subject to the CPM, including the provisions concerning compensation, cost allocation and Settlement, until such time as the CPM resources have been finally compensated for their services rendered under the CPM prior to the termination of the CPM, and the CAISO has finally allocated and recovered the costs associated with such CPM compensation.

3.2 Revised Tariff Section 43.2.5.2.1 allows the CAISO to issue an Exceptional Dispatch CPM for the greater of the resource's PMin or the quantity of

² *Cal. Indep. Sys. Operator Corp.*, 134 FERC ¶ 61,211 (2011) ("March 17 Order").

capacity needed from the resource to address the reliability issue as determined in an engineering assessment if available at the time of the designation. For designations made in the post-day ahead timeframe, between 6:00 p.m. on the day before the Trading Day and 6:00 a.m. on the Trading Day, the CAISO will make an initial determination of the quantity of Exceptional Dispatch CPM Capacity and will subsequently make a post-day ahead reliability assessment of the amount of capacity needed to address the reliability issue, as set forth in the Business Practice Manuals. If the post-day ahead reliability assessment shows that no additional Exceptional Dispatch CPM Capacity is needed from the resource to address the reliability issue, the resource will be compensated based on the initial quantity of capacity designated. If the post-day ahead reliability assessment shows that additional Exceptional Dispatch CPM Capacity is needed from the resource to address the reliability issue, the CAISO will designate the incremental quantity of capacity, will treat the initial and incremental quantities of the Exceptional Dispatch CPM Capacity as a single designation effective as of the date of the initial designation, and will compensate the resource based on the sum of the initial and incremental quantities of the Exceptional Dispatch CPM Capacity for the term of the designation. Any incremental Exceptional Dispatch CPM Capacity designated under this section will not result in a new 30-day term or 60-day term, as applicable.

3.3 Revised Tariff Section 43.2.5.2.2 requires that, for the Exceptional Dispatch of a partial resource adequacy (“RA”) resource, partial CPM unit, or market committed resource, the ISO designate as CPM Capacity the amount by which the quantity of capacity needed from the resource to address the reliability issue exceeds its RA or CPM obligation, or the sum of any self-schedule and any market-based

commitment or dispatch of the resource.

3.4 Revised Tariff Section 43.2.5.2.3 provides that, if a resource that is already subject to an Exceptional Dispatch CPM designation receives a subsequent Exceptional Dispatch that exceeds the sum of the resource's CPM Capacity and RA Capacity, the subsequent Exceptional Dispatch CPM Capacity will equal the difference between the quantity of capacity needed from the resource to address the reliability issue, as determined in an engineering assessment conducted as set forth in the Business Practice Manuals, and the sum of the resource's CPM Capacity and RA Capacity, but not to exceed the resource's Eligible Capacity. The increase will be effective for the remainder of the initial Exceptional Dispatch CPM Term and retroactively to the beginning of the initial Exceptional Dispatch CPM Term or the first day of the month in which the increase occurs, whichever is later. Any incremental Exceptional Dispatch issued within any Exceptional Dispatch CPM Term does not result in a new 30-day term or 60-day term, as applicable.

3.5 Revised Tariff Section 43.3.6 establishes the term of the Exceptional Dispatch CPM under the settlement. Under this provision, the CAISO will make an explicit determination for each initial Exceptional Dispatch CPM designation as to whether it was necessary to address an Exceptional Dispatch CPM System Reliability Need or an Exceptional Dispatch CPM Non-System Reliability Need. The designation for an Exceptional Dispatch CPM System Reliability Need will have an Exceptional Dispatch CPM Term of 30 days. If the CAISO determines that circumstances warrant extending the Exceptional Dispatch CPM beyond the initial 30-day period, the extension will be for an additional 30 days. The designation for an Exceptional Dispatch CPM

Non-System Reliability Need will have an Exceptional Dispatch CPM Term of 60 days. If the CAISO determines that circumstances warrant extending the Exceptional Dispatch CPM beyond the initial 60-day period, the extension will be for an additional 60 days.

3.6 Revised Tariff Section 43.6.1 requires the CAISO to issue a market notice for CPM designations and specifies the information that must be included in the market notice. For an Exceptional Dispatch CPM designation, the provision additionally requires that the market notice indicate whether the designation was made to address an Exceptional Dispatch CPM System Reliability Need or an Exceptional Dispatch CPM Non-System Reliability Need, specify the quantity of the Exceptional Dispatch CPM capacity that was procured and the Exceptional Dispatch CPM Term, and identify the engineering assessment the CAISO used to determine the quantity of capacity needed from the resource to address the reliability issue.

3.7 Revised Tariff Section 43.6.2 requires the CAISO to post a designation report for CPM designations and specifies the information that must be included in the report. For an Exceptional Dispatch CPM designation, the provision requires that the report include additional information about the CAISO's determination of the quantity and term of the designation, which supplements the information included in the market notice issued pursuant to Section 43.6.1.

3.8 Revised Tariff Section 43.7.1 establishes the CPM Capacity price under the settlement. The fixed CPM Capacity price of \$67.50/kW-year will become effective on the Settlement Order date and remain in effect for two years. On the second anniversary of the Settlement Order Date, the effective fixed CPM Capacity price will increase by five percent, to \$70.88/kW-year, which will remain in effect for two years,

until the fourth anniversary of the Settlement Order Date.

3.9 Revised Tariff Sections 43.7.1.1, 43.7.2, 43.7.2.1, 43.7.2.1.1, 43.7.2.2, and 43.7.2.3, and Appendix F, Schedule 6, contain conforming changes to account for the initial fixed CPM Capacity price in effect for two years and the increased CPM Capacity price in effect for the subsequent two years under the settlement.

3.10 Revised Tariff Sections 30.5.2.7, 31.5.1.2, 43.2.5, 43.2.5.2.1, 43.2.5.2.2, 43.2.5.2.4, 43.4, 43.6.1, 43.6.2, 43.7, 43.7.1.1, 43.8, 43.8.4, and 43.8.6, as well as the Appendix A definitions of “Capacity Procurement Mechanism” and “Eligible Capacity” and Appendix F, Schedule 6, contain references to the predecessor ICPM mechanism that are corrected to refer to the current CPM mechanism. Revised Tariff Section 43.2.5.1 corrects minor typographical errors in the existing language.

3.11 CAISO Tariff, Appendix A, Master Definition Supplement, is revised to include the following definitions:

- **Exceptional Dispatch CPM Non-System Reliability Need**

The existence of a reliability issue where resolution depends on a resource in a specific geographic area within the CAISO Balancing Authority Area, which may include, but is not limited to, a local reliability area, zone, or region.

- **Exceptional Dispatch CPM System Reliability Need**

The existence of a reliability issue where resolution does not require a resource to be in a specific geographic area within the CAISO Balancing Authority Area, which may include, but is not limited to, a forced outage of a major transmission line or a forced outage at a large generating unit.

- **Exceptional Dispatch Term**

The term of each Exceptional Dispatch CPM designation, as determined pursuant to Section 43.3.6.

4. EFFECTIVE DATES AND EXPIRATION DATES

4.1 The Revised Tariff Provisions will be effective as of the Settlement Order Date and pursuant to Section 43.7.1 will expire as of the fourth anniversary of the Settlement Order Date ("Expiration Date"). The Revised Tariff Provisions relating to price, quantity, and term of a CPM designation for capacity procurement that is subject to Section 43 of the CAISO Tariff, as it exists as of the Settlement Order Date, will not be subject to change during the four-year term of this Offer of Settlement. However, nothing in this Offer of Settlement is intended to prejudice or limit the CAISO's authority to make a filing with the Commission pursuant to section 205 of the Federal Power Act ("FPA"), or other parties' exercise of their rights under FPA section 205 or 206, regarding any capacity procurement that is not subject to Section 43 of the CAISO Tariff, as it exists as of the Settlement Order Date, and to propose for such new CPM Capacity procurement any compensation or other provisions, which may be the same as or different from the Revised Tariff Provisions. Without limiting the scope of the previous sentence, nothing in this Offer of Settlement is intended to prejudice or limit any party's rights under FPA section 205 or 206 with respect to any FERC docket that might arise in connection with the CAISO's December 6, 2011, Report on Basis and Need for CPM Designation for Sutter Energy Center. Nothing in this Offer of Settlement is intended to prejudice or limit any party's position or rights under FPA section 205 or 206 with respect to whether the Revised Tariff Provisions should remain in effect, or be

modified or replaced, after the Expiration Date.

4.2 Prior to the Settlement Order Date, the tariff provisions suspended by the Commission's March 17 Order shall be in effect, as filed, and, upon issuance of the Settlement Order, shall not be subject to refund.

5. TREATMENT OF REHEARING REQUEST

5.1 As part of this Offer of Settlement, the Commission is asked to defer action on any pending request for rehearing of the March 17 Order in this proceeding ("Rehearing Request"). Upon the date the Settlement Order becomes a final, non-appealable order, any pending Rehearing Request will be withdrawn with prejudice. If the Settlement Order is modified by the Commission upon rehearing of such Order or upon a remand following judicial review of such Order, any Party that has a pending Rehearing Request may request that the Commission resume consideration of the deferred Rehearing Request.

6. MISCELLANEOUS

6.1 If the Commission, in approving this Offer of Settlement modifies the Offer of Settlement in a manner that materially changes the benefits and burdens negotiated herein, the Parties to this proceeding will meet and confer within 30 days as to whether all of them can support or not oppose a modified Offer of Settlement. If all of the Parties do not agree to support or not oppose a modified Offer of Settlement within sixty (60) days of a Commission order materially changing the Offer of Settlement, the Offer of Settlement will terminate.

6.2 This Offer of Settlement will have no precedential value, shall not be cited as precedent, and shall not be deemed to bind any Party (except as expressly provided

herein) in any future proceeding, including any future FERC proceeding, except to enforce this Offer of Settlement. Further, this Offer of Settlement will not be deemed to be a “settled practice” as that term was interpreted and applied in *Public Service Commission of the State of New York v. FERC*, 642 F.2d 1335 (D.C. Cir. 1980).

6.3 This Offer of Settlement is made upon the express understanding that it constitutes a negotiated settlement and, except as otherwise expressly provided herein, no Party shall be deemed to have approved, accepted, agreed to, or consented to any principle or policy relating to the rates, charges, classifications, terms, conditions, principles, issues or tariff sheets associated with this Offer of Settlement.

6.4 The Attachments to this Offer of Settlement are hereby integrated into, and will constitute part of, this Offer of Settlement.

6.5 This Offer of Settlement will be subject to the just and reasonable standard of review.

6.6 All discussions among the Parties relating to this Offer of Settlement have been conducted on the explicit understanding that they were undertaken subject to Rule 602(e) of the Commission’s Rules of Practice and Procedure, 18 C.F.R. § 385.602(e). All offers of settlement, and any comments on such offers, and any discussions among the Parties with respect to this Offer of Settlement are privileged, are not admissible as evidence, and are not subject to discovery.

6.7 The Parties will support this Offer of Settlement and will cooperate in securing Commission acceptance and implementation of this Offer of Settlement and the ISO compliance filing to be submitted pursuant to Section 2.1 of this Offer of Settlement. The Parties hereby waive any and all rights to seek rehearing or judicial

review of the Settlement Order or the compliance filing without modification or condition; provided, however, that if the Commission approves the Offer of Settlement or the compliance filing with modifications or conditions, any Party may seek rehearing or judicial review of such Commission order(s) approving the Offer of Settlement or the compliance filing solely to challenge the Commission's imposition of such modifications or conditions in order to preserve the terms and conditions of the Offer of Settlement or the compliance filing as filed.

7. CONCLUSION

The Offer of Settlement would fully resolve all of the issues raised in Docket No. ER11-2256. Commission approval of the Offer of Settlement will save the Parties and the Commission the expense and risks associated with continued litigation.

For all of these reasons, the CAISO, on behalf of the Parties, respectfully requests that the Commission approve the Offer of Settlement without modification.

Respectfully submitted,

By: /s/ Beth Ann Burns

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California Independent System Operator
Corporation, on behalf of
the Parties in Docket No. ER11-2256

Dated: December 23, 2011

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all of the parties listed on the official service list for the above-referenced proceeding, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, CA. this 23rd day of December, 2011.

/s/ Charity N. Wilson

Charity N. Wilson

**OFFER OF SETTLEMENT
ATTACHMENT A**

EXPLANATORY STATEMENT

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

California Independent System Operator)
Corporation) Docket No. ER11-2256-000
_____)

EXPLANATORY STATEMENT

Pursuant to 18 C.F.R. § 385.602(c)(1)(ii), the California Independent System Operator Corporation (“CAISO”) provides this Explanatory Statement in support of the Offer of Settlement submitted herewith.³

3. BACKGROUND

On December 1, 2010, the CAISO submitted tariff provisions to the Commission to implement the Capacity Procurement Mechanism (“CPM”) and to retain market mitigation measures applicable to certain Exceptional Dispatches. The CPM replaced the expiring Interim Capacity Procurement Mechanism as a backstop mechanism by which the CAISO may procure capacity to address deficiencies in or to supplement resource adequacy (“RA”) procurement by Load Serving Entities (“LSEs”) or as needed to comply with applicable reliability criteria. The proposed Exceptional Dispatch provisions continued otherwise expiring mitigation measures addressing reliability requirements related to non-competitive transmission constraints and unit-specific environmental constraints not incorporated into the CAISO’s full network model affecting the dispatch of

³ This Explanatory Statement is not intended to alter any of the terms of the Offer of Settlement. In the event of any conflict between this Explanatory Statement and the terms of the Offer of Settlement, the Offer of Settlement will govern. Unless otherwise stated, capitalized terms will have the meanings provided, or incorporated by reference, in the Offer of Settlement.

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generating units in the Sacramento Delta (commonly referred to as “delta dispatch”).

On March 17, 2011, the Commission issued an order that found that the CAISO had not justified certain elements of the CPM compensation methodology nor the continuation of Exceptional Dispatch mitigation.⁴ Accordingly, the Commission accepted and suspended certain of the CAISO’s proposed tariff provisions relating to CPM compensation and Exceptional Dispatch mitigation, and to facilitate resolution of those issues, the Commission directed its staff to convene a technical conference, which was conducted on April 28, 2011. The Commission conditionally accepted the remainder of the proposed CPM, subject to modification in a compliance filing.

After the technical conference, the Commission established a procedural schedule for parties to file post-technical conference comments and reply comments. On May 20, 2011, the CAISO filed a motion requesting a 30-day extension of the due dates for post-technical conference comments and reply comments, to give the parties an opportunity to have settlement discussions. On May 23, 2011, the Commission granted the requested extension of the procedural schedule. Subsequently, the CAISO facilitated settlement discussions at a series of face-to-face meetings and teleconferences among all the parties. During the course of these settlement discussions, the CAISO filed several requests for further extensions of the procedural schedule, which the Commission granted. Under the most recent extension, post-technical conference comments are due December 30,

⁴ *Cal. Indep. Sys. Operator Corp.*, 134 FERC ¶ 61,211 (2011) (“March 17 Order”).

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2011 and reply comments are due January 15, 2011. Settlement discussions have been successful, resulting in the Offer of Settlement submitted with this Explanatory Statement.⁵

4. OVERVIEW OF OFFER OF SETTLEMENT AND OF REVISED TARIFF PROVISIONS

Pursuant to section 2.1 of the Offer of Settlement, all issues in this proceeding will be fully resolved by the Commission's issuance of an order that accepts, without modification or condition, the Revised Tariff Provisions that are in Attachment B to the Offer of Settlement ("Settlement Order"). Within 15 calendar days after the date on which the Commission issues the Settlement Order ("Settlement Order Date"), the CAISO will make a compliance filing to incorporate the Revised Tariff Provisions in its Tariff, effective upon the Settlement Order Date. When the Settlement Order becomes final and non-appealable, the Independent Power Producers Association will withdraw with prejudice its pending rehearing request of the March 17 Order.

The Revised Tariff Provisions will be effective as of the Settlement Order Date and will expire on the fourth anniversary of the Settlement Order Date (the "Expiration Date"). Prior to the Settlement Order Date, the tariff provisions suspended by the Commission's March 17 Order would be in effect, as filed, and will not be subject to refund.

The Revised Tariff Provisions relating to price, quantity, and term of a CPM designation for capacity procurement that is subject to Section 43 of the CAISO

⁵ Each party to this proceeding has authorized the CAISO to state that such party either supports or does not oppose the Offer of Settlement.

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Tariff, as it exists as of the Settlement Order Date, will not be subject to change during the four-year term of this Offer of Settlement. However, nothing in this Offer of Settlement is intended to prejudge or limit any of the following: 1) the CAISO's authority to make a filing with the Commission pursuant to section 205 of the Federal Power Act ("FPA"), or other parties' exercise of their rights under FPA section 205 or 206, regarding any capacity procurement that is not subject to Section 43 of the CAISO Tariff, as it exists as of the Settlement Order Date; (2) the CAISO's authority to propose for such new CPM Capacity procurement any compensation or other provisions, which may be the same as or different from the Revised Tariff Provisions; (3) any party's rights under FPA section 205 or 206 with respect to any FERC docket that might arise in connection with the CAISO's December 6, 2011, Report on Basis and Need for CPM Designation for Sutter Energy Center; and (4) the CAISO's or any party's position or rights under FPA section 205 or 206 with respect to whether the Revised Tariff Provisions should remain in effect, or be modified or replaced, after the Expiration Date.

The Revised Tariff Provisions were negotiated by the Parties as a package and are submitted with the Offer of Settlement as a "black-box" settlement. The Commission is asked to accept the Revised Tariff Provisions as a package and a "black-box" settlement resolving all CPM compensation issues that have been raised in this proceeding.

4.1 CPM Price

Tariff Section 43.7.1, as filed, prescribes a fixed CPM Capacity price of \$55/kW-year. This price was based on the CAISO's analysis of the going forward

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costs of a proxy unit, plus a 10% adder. As part of the black-box settlement, Revised Tariff Section 43.7.1 increases this fixed CPM Capacity price to \$67.50/kW-year. Effective on the second anniversary of the Settlement Order Date, the fixed CPM Capacity price will be increased by 5% to \$70.88/kW-year.⁶

4.2 CPM Quantity

Under existing Tariff Section 43.2.5.2, if an eligible resource receives an Exceptional Dispatch, the CAISO designates the quantity of CPM Capacity based on the greater of the resource's minimum normal capability ("PMin") or the amount of energy specified in the Exceptional Dispatch instruction. The Offer of Settlement modifies Tariff Sections 43.2.5.2.1 and 43.2.5.2.2 to require that the CAISO designate the quantity of CPM Capacity based on the greater of the resource's PMin or the amount of capacity needed from the resource to address the reliability issue as determined by the CAISO in an engineering assessment conducted as set forth in the Business Practice Manuals.

The Business Practice Manuals will set forth transparent engineering assessment methodologies and processes that the CAISO will apply to each type of Exceptional Dispatch CPM designation, in order to determine the amount of capacity needed to meet the reliability need giving rise to the Exceptional Dispatch, including for balancing load and supply and for reactive power support. It is intended that the CAISO will include in its Business Practice Manual a description of the engineering assessment methodologies and processes the CAISO will apply in

⁶ Conforming changes are made in Revised Tariff Sections 43.7.1.1, 43.7.2, 43.7.2.1, 43.7.2.1.1, 43.7.2.2, and 43.7.2.3, and Appendix F, Schedule 6, to reflect that the fixed CPM Capacity price will change during the term of the settlement, from \$55/kW-year to \$67.50/kW-year and then to \$70.88/kW-year.

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determining the quantity of capacity needed to meet energy related reliability needs and that these Business Practice Manual provisions will be published prior to the Settlement Order Date and will be applied to each Exceptional Dispatch CPM designation that is made after the Settlement Order Date. It is also intended that the CAISO's determination of the amount of capacity will be made, as specified in the Business Practice Manuals, either at the time of the Exceptional Dispatch instruction or within 24 hours of the instruction. Information explaining the CAISO's application of the engineering assessment to determine the amount of capacity and the type of reliability need giving rise to the Exceptional Dispatch will be included in the two-day notice and 30-day report prescribed under Tariff Section 43.6.

Once the CAISO has made its determination of the quantity of capacity needed to meet the specific reliability requirement giving rise to an Exceptional Dispatch instruction, the quantity of CPM Capacity will be determined as follows. Under Revised Tariff Section 43.2.5.2.1, the CAISO shall designate as the quantity of CPM Capacity the greater of the resource's PMin or the quantity of capacity needed from the resource to address the reliability issue. Under Revised Tariff Section 43.2.5.2.2, the CAISO shall designate as the quantity of CPM Capacity for a partial RA resource, partial CPM Unit, or market-committed resource the amount by which the quantity of capacity needed from the resource to address the reliability issue exceeds the greater of (i) capacity made available under a prior RA or CPM obligation, and (ii) the sum of any Self-Schedule and market-based commitment or dispatch of the resource. Under Revised Tariff Section 43.2.5.2.3, if during the term of an Exceptional Dispatch CPM designation, a resource receives a subsequent

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Exceptional Dispatch CPM designation that exceeds the sum of the resource's CPM Capacity and RA Capacity, the subsequent Exception Dispatch CPM Capacity will be equal to the difference between the CAISO-determined quantity of Capacity needed from the resource to address the reliability issue giving rise to the subsequent Exceptional Dispatch instruction and the sum of the resource's CPM Capacity and RA Capacity, but not to exceed the resource's Eligible Capacity. The existing Tariff provisions in Section 43.2.5.2.4 that take into account changes in a resource's RA, reliability must-run, or CPM Capacity obligation will remain in effect. Accordingly, existing limitations that preclude duplicative designation of Exceptional Dispatch CPM Capacity apply to the extent of the amount of capacity that must be available to the CAISO as a result of a prior or subsequent RA or non-Exceptional Dispatch CPM Capacity obligation and for the period of hours that such capacity must be so available as a result of a prior or subsequent RA or non-Exceptional Dispatch CPM designation.

4.3 CPM Term

Under existing Tariff Section 43.3.6, the term of an Exceptional Dispatch CPM designation is 30 days, and if the circumstances that led to the Exceptional Dispatch are likely to extend beyond the initial 30-day term, the CAISO shall issue another Exceptional Dispatch CPM designation for an additional 30-day term. Revised Tariff Section 43.3.6 establishes an initial 60-day term for designations for an Exceptional Dispatch CPM Non-System Reliability Need and an initial 30-day term for designations for an Exceptional Dispatch CPM System Reliability Need. Under Revised Tariff Section 43.3.6, the CAISO shall make an explicit

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determination for each initial Exceptional Dispatch CPM designation as to whether it is required to meet an Exceptional Dispatch CPM System Reliability Need or an Exceptional Dispatch CPM Non-System Reliability Need for purposes of this provision. Consistent with existing Tariff Section 43.3.6, if the circumstances that led to the Exceptional Dispatch are likely to extend beyond the initial 30-day term of an Exceptional Dispatch CPM System Reliability Need, or beyond the initial 60-day term of an Exceptional Dispatch CPM Non-System Reliability Need, the CAISO shall issue another Exceptional Dispatch for the same respective length of term as the original Exceptional Dispatch CPM designation.

The Offer of Settlement does not change the Tariff provisions prescribing the terms of non-Exceptional Dispatch CPM designations.

4.4 Market Notice

Under existing Tariff Section 43.6.1, the CAISO issues a Market Notice within two business days of a CPM designation. Under existing Tariff Section 43.6.2, the CAISO posts a CPM designation report on its website within the earlier of 30 days after procurement or ten days after the end of the month. Under the Offer of Settlement, the Market Notice will include an explanation of the determination of the quantity of Exceptional Dispatch CPM Capacity and the methodology which the CAISO applied to determine the quantity of capacity needed from the resource to address the reliability issue. The Market Notice will also include a designation of whether an Exceptional Dispatch CPM designation is for an Exceptional Dispatch CPM System Reliability Need or an Exceptional Dispatch Non-System Reliability Need. Also under the Offer of Settlement, the 30-day report posted on the CAISO

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website will provide additional information in support of the CAISO's determination of the quantity and term of an Exceptional Dispatch CPM designation.

4.5 Exceptional Dispatch Mitigation

The Offer of Settlement continues Exceptional Dispatch mitigation provisions, as currently in effect.

5. ADDITIONAL INFORMATION

3.1 What are the issues underlying the settlement and what are the major implications?

The factual and procedural background of this proceeding, the issues underlying this proceeding, and the major implications of this proceeding have been summarized in Sections 1 and 2 above. The Offer of Settlement states that it is a negotiated settlement, that its terms have no precedential value, and that it sets no precedent regarding future rates. The Offer of Settlement resolves all issues in Docket No. ER11-2256.

3.2 Do any of the issues raise policy implications?

The Offer of Settlement furthers the broad public interest favoring settlements.⁷ Beyond that, the Offer of Settlement does not raise policy implications.

3.3 Will other pending cases be affected?

No.

3.4 Does the settlement involve issues of first impression, or are there any previous reversals on the issues involved?

⁷ See *Southern Union Gas Co. v. FERC*, 840 F.2d 964, 971 (D.C. Cir. 1988).

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The Offer of Settlement involves no issues of first impression, and there are no previous reversals on the issues involved in this proceeding.

3.5 What is the standard of review of modifications to the Offer of Settlement?

The Offer of Settlement and modifications thereto are subject to the just and reasonable standard of review and not to the *Mobile Sierra* public interest standard.

6. DUE DATE FOR COMMENTS

In accordance with Rule 602, 18 C.F.R. § 385.602(c)(1)(ii), initial comments on the Offer of Settlement are due 20 days after filing, and reply comments are due 10 days thereafter.

**OFFER OF SETTLEMENT
ATTACHMENT B**

REVISED TARIFF PROVISIONS

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ATTACHMENT B - REVISED TARIFF PROVISIONS

* * *

30.5.2.7 RUC Availability Bids

Scheduling Coordinators may submit RUC Availability Bids for specific Generating Units capacity that is not Resource Adequacy Capacity or CPM Capacity of in the DAM. Scheduling Coordinators for Resource Adequacy Capacity or CPM Capacity must participate in RUC to the extent that such capacity is not reflected in an IFM Schedule but need not submit RUC Availability Bids, Resource Adequacy Capacity participating in RUC will be optimized using a zero dollar (\$0/MW-hour) RUC Availability Bid. For Multi-Stage Generating Resources, the RUC Availability Bids shall be submitted at the MSG Configuration. Capacity that does not have Bids for Supply of Energy in the IFM will not be eligible to participate in the RUC process. The RUC Availability Bid component is MW-quantity of non-Resource Adequacy Capacity in \$/MW per hour.

* * *

31.5.1.2 RUC Availability Bids

Scheduling Coordinators may only submit RUC Availability Bids for capacity (above the Minimum Load) for which they are also submitting an Energy Bid (other than a Virtual Bid) to participate in the IFM. Any available Resource Adequacy Capacity and CPM Capacity will be optimized at \$0/MW in RUC. For Multi-Stage Generating Resources that fail to submit a \$0/MW per hour for the Resource Adequacy Capacity, the CAISO will insert the \$0/MW per hour for the resource's Resource Adequacy Capacity at the MSG Configuration level up to the minimum of the Resource Adequacy Capacity or the PMax of the MSG Configuration. Scheduling Coordinators may submit non-zero RUC Availability Bids for the portion of a resource's capacity that is not Resource Adequacy Capacity or CPM Capacity.

* * *

43. Capacity Procurement Mechanism

* * *

43.1.1 Capacity Procurement Mechanism Expiration

The CPM as well as changes made to other Sections to implement the CPM shall expire at midnight on the last day of the forty-eighth month following the effective date of this Section. CPM designations in existence on the expiration date shall continue in effect and remain subject to the CPM, including the

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provisions concerning compensation, cost allocation and Settlement, until such time as the CPM resources have been finally compensated for their services rendered under the CPM prior to the termination of the CPM, and the CAISO has finally allocated and recovered the costs associated with such CPM compensation.

* * *

43.2.5 Exceptional Dispatch ~~ICPM~~

Except as provided in Section 43.~~42~~.5.1, the CAISO shall designate as CPM Capacity to provide service on a prospective basis the capacity of a resource that responds to an Exceptional Dispatch if the Exceptional Dispatch is issued pursuant to Section 34.9.1, subsections (6), (9) or (10) of Section 34.9.2, or Section 34.9.3, unless the Exceptional Dispatch directs the curtailment or shut down of the resource.

43.2.5.1 Limitation on Eligibility for Exceptional Dispatch CPM Designation

The following capacity is not eligible to receive an Exceptional Dispatch CPM designation under this Section 43.~~42~~.5.1:

- (1) RA Capacity, RMR Capacity, and CPM Capacity; and
- (2) Capacity of a resource that is eligible to receive supplemental revenues under Section 39.10.3 during any month for which the resource has notified the CAISO under Section 39.10.3 that it chooses to receive supplemental revenues in lieu of an Exceptional Dispatch CPM designation.

43.2.5.2 Quantity of Capacity included in an Exceptional Dispatch CPM Designation

43.2.5.2.1 Exceptional Dispatch Commitments of Non RA, Non RMR and Non CPM Resources

If a resource does not have any self-schedule, market-based commitment, or RA, RMR or CPM Capacity and receives an Exceptional Dispatch ~~ICPM~~ designation under Section 43.2.5 following an Exceptional Dispatch eligible for an ~~ICPM~~ designation, the CAISO shall designate as ~~ICPM~~ Capacity the greater of the resource's PMin or the amount of capacity specified by the Exceptional Dispatchthe quantity of capacity needed from the resource to address the reliability issue as determined in an engineering assessment if available at that time. For designations made in the post-day ahead timeframe, the CAISO will make an initial determination of the quantity of Exceptional Dispatch CPM Capacity and will subsequently make a post-day ahead reliability assessment of the amount of capacity needed to address the reliability issue, as

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set forth in the Business Practice Manuals. If the post-day ahead reliability assessment shows that no additional Exceptional Dispatch CPM Capacity is needed from the resource to address the reliability issue, the resource will be compensated based on the initial quantity of capacity designated. If the post-day ahead reliability assessment shows that additional Exceptional Dispatch CPM Capacity is needed from the resource to address the reliability issue, the CAISO will designate the incremental quantity of capacity, will treat the initial and incremental quantities of the Exceptional Dispatch CPM Capacity as a single designation effective as of the date of the initial designation, and will compensate the resource based on the sum of the initial and incremental quantities of the Exceptional Dispatch CPM Capacity for the term of the designation. Any incremental Exceptional Dispatch CPM Capacity designated under this section does not result in a new thirty (30) day term or sixty (60) -day term, as applicable.

43.2.5.2.2 Exceptional Dispatch of Partial RA, Partial CPM Unit, or Market Committed Resource

If a resource is a Partial Resource Adequacy Resource, has an CPM designation of less than its entire capacity, has a Self Schedule or has a market based commitment, or has already received an

Exceptional Dispatch CPM designation under Section 43.2.5, the CAISO shall designate as CPM

Capacity the amount by which the Exceptional Dispatch quantity of capacity needed from the resource to address the reliability issue exceeds the greater of –

- (1) the capacity that the resources must make available to the CAISO as the result of an RA Capacity or CPM Capacity obligation; if any; and
- (2) the sum of any Self-Schedule and any market-based commitment or dispatch of the resource.

43.2.5.2.3 Subsequent Exceptional Dispatch

If the CAISO, during the term of a resource's Exceptional Dispatch CPM designation, issues a subsequent Exceptional Dispatch to the resource that requires Energy in excess of exceeds the sum of the resource's CPM Capacity and RA Capacity, the CAISO will increase the capacity designated as subsequent Exceptional Dispatch CPM Capacity by shall the amount equal to the difference between the Exceptional Dispatch quantity of capacity needed from the resource to address the reliability issue, as determined in an engineering assessment conducted as set forth in the Business Practice Manuals, and the sum of the resource's CPM Capacity or and RA Capacity, but not to exceed the resource's Eligible

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Capacity. The increase will be effective for the remainder of the initial Exceptional Dispatch CPM ~~Term of the Exceptional Dispatch CPM Designation~~ and retroactively to the beginning of the 30-day initial Exceptional Dispatch CPM ~~Term~~ or the first day of the month in which the increase occurs, whichever is later. Any incremental Exceptional Dispatch issued within any 30-day Exceptional Dispatch CPM ~~Term~~ does not result in a new 30-day term or 60-day term, as applicable.

43.2.5.2.4 Change in RA, RMR or CPM Status

If a resource has an RA, RMR or CPM Capacity obligation that pre-existed the resource's Exceptional Dispatch CPM designation and, during the term of the resource's Exceptional Dispatch CPM designation, the amount of the resource's RA, RMR or CPM Capacity is reduced, the CAISO will increase the CPM designation by the amount, if any, necessary to ensure that the sum of Exceptional Dispatch CPM designation quantity and any remaining RA Capacity is not less than PMin. If capacity that receives an Exceptional Dispatch ~~CPM~~ designation becomes RA Capacity or receives a monthly CPM designation or Significant Event designation or receives an RMR Contract as of a certain date, then the Exceptional Dispatch CPM designation shall be reduced by the amount of the new RA Capacity, CPM Significant Event designation, or RMR Contract from that date through the rest of the 30-day term.

* * *

43.3.6 Term – Exceptional Dispatch CPM

The CAISO shall make an explicit determination for each initial Exceptional Dispatch CPM designation as to whether it was necessary to address an Exceptional Dispatch CPM System Reliability Need or an Exceptional Dispatch CPM Non-System Reliability Need. Exceptional Dispatch CPM Capacity designated under Section 43.2.5 for an Exceptional Dispatch CPM System Reliability Need shall have an Exceptional Dispatch CPM ~~Term~~ of thirty (30) days. If the CAISO determines that the circumstances that led to the Exceptional Dispatch are likely to extend beyond the initial thirty (30) day period, the CAISO shall issue an Exceptional Dispatch CPM or other CPM designation for an additional thirty (30) days. Exceptional Dispatch CPM Capacity designated under Section 43.2.5 for an Exceptional Dispatch CPM Non-System Reliability Need shall have an Exceptional Dispatch CPM Term of sixty (60) days. If the CAISO determines that the circumstances that led to the Exceptional Dispatch are likely to extend beyond the initial sixty (60) day period, the CAISO shall issue an Exceptional Dispatch CPM or other CPM

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designation for an additional sixty (60) days.

* * *

43.4 Selection Of Eligible Capacity Under The ICPM

In accordance with Good Utility Practice, the CAISO shall make designations of Eligible Capacity as CPM Capacity under Section 43.1 by applying the following criteria in the order listed:

- (1) the effectiveness of the Eligible Capacity at meeting the designation criteria specified in Section 43.2;
- (2) the capacity costs associated with the Eligible Capacity;
- (3) the quantity of a resource's available Eligible Capacity, based on a resource's PMin, relative to the remaining amount of capacity needed;
- (4) the operating characteristics of the resource, such as dispatchability, Ramp Rate, and load-following capability;
- (5) whether the resource is subject to restrictions as a Use-Limited Resource; and
- (6) for designations under Section 43.2.3, the effectiveness of the Eligible Capacity in meeting local and/or zonal constraints or other CAISO system needs.

In applying these selection criteria, the goal of the CAISO is to designate lower cost resources that will be effective in meeting the reliability needs underlying the CPM designations. In making this determination, the CAISO will apply the first criterion to identify the effective Eligible Capacity by considering the effectiveness of the resources at meeting the designation criteria for the type of CPM to be issued and at resolving the underlying reliability need. The CAISO will apply the second criterion by considering the cost of the effective Eligible Capacity. The CAISO will endeavor to designate a resource at the CPM Capacity price determined in accordance with Section 43.6.1 before selecting a resource with a higher unit-specific CPM Capacity price specified under Section 43.6.2. The CAISO will endeavor to designate resources that have specified a capacity price before designating resources that have not specified a CPM Capacity price under Section 43.6.2.1. The CAISO will apply the third criterion by considering the quantity of a resource's Eligible Capacity. The CAISO will endeavor to select a resource that has a PMin at or below the capacity that is needed to meet the reliability need before selecting a resource that has a PMin that would result in over-procurement. The CAISO will apply the fourth criterion by considering

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specific operating characteristics of a resource, such as dispatchability, ramp rate, and load-following capability to the extent that such characteristics are an important factor in resolving the reliability need. The CAISO will apply the fifth criterion by considering whether a resource is use-limited and whether that status may restrict its ability to be available to the CAISO in the Day-Ahead Market and Real-Time Market throughout the period for which it is being procured. To the extent that use-limited resources are capable of performing the required service for the duration of the CPM designation, the CAISO will not unduly discriminate in favor of non-Use Limited resources when applying the selection criteria. The ISO will apply the sixth criterion by considering the effectiveness of the Eligible Capacity to meet local and/or zonal constraints or other CAISO system needs for CPM designations under 43.2.3. If after applying these criteria, two or more resources that are eligible for designation equally satisfy these criteria, the CAISO shall utilize a random selection method to determine the designation between those resources. While the CAISO does not have to designate the full capability of a resource, the CAISO may designate under the CPM an amount of CPM Capacity from a resource that exceeds the amount of capacity identified to ensure compliance with the Reliability Criteria set forth in Section 40.3 due to the PMin or other operational requirements/limits of a resource that has available capacity to provide CPM service. The CAISO shall not designate the capacity of a resource for an amount of capacity that is less than the resource's PMin.

* * *

43.6.1 **!CPM Designation Market Notice**

The CAISO shall issue a Market Notice within two (2) Business Days of a CPM designation under Sections 43.2.1 through 43.2.6. CPM designations as a result of Exceptional Dispatches shall be subject to the reporting requirement set forth in Section 34.9.4. The Market Notice shall include a preliminary description of what caused the CPM designation, the name of the resource(s) procured, the preliminary expected duration of the CPM designation, the initial designation period, and an indication that a designation report is being prepared in accordance with Section 43.5.2. For Exceptional Dispatch CPM designations, the market notice shall additionally indicate whether the designation was made to address an Exceptional Dispatch CPM System Reliability Need or an Exceptional Dispatch CPM Non-System Reliability Need, specify the quantity of the Exceptional Dispatch CPM capacity that was procured and the

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Exceptional Dispatch CPM Term, and identify the engineering assessment the CAISO used to determine the quantity of capacity needed from the resource to address the reliability issue.

43.6.2 Designation Of A Resource Under The CPM

The CAISO shall post a designation report to the CAISO Website and provide a Market Notice of the availability of the report within the earlier of thirty (30) days of procuring a resource under Sections 43.2.1 through 43.2.6 or ten (10) days after the end of the month. The designation report shall include the following information:

- (1) A description of the reason for the designation (LSE procurement shortfall, Local Capacity Area Resource effectiveness deficiency, or CPM Significant Event), and an explanation of why it was necessary for the CAISO to utilize the CPM authority);
- (2) The following information would be reported for all backstop designations:
 - (a) the resource name;
 - (b) the amount of CPM Capacity designated (MW),
 - (c) an explanation of why that amount of CPM Capacity was designated,
 - (d) the date CPM Capacity was designated,
 - (e) the duration of the designation; and
 - (f) the price for the CPM procurement; and
- (3) If the reason for the designation is an CPM Significant Event, the CAISO will also include:
 - (a) a discussion of the event or events that have occurred, why the CAISO has procured CPM Capacity, and how much has been procured;
 - (b) an assessment of the expected duration of the CPM Significant Event;
 - (c) the duration of the initial designation (thirty (30) days); and
 - (d) a statement as to whether the initial designation has been extended (such that the backstop procurement is now for more than thirty (30) days), and, if it has been extended, the length of the extension.

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(4) If the reason for the designation is Exceptional Dispatch CPM Capacity, the CAISO will also include additional information about the CAISO's determination of the quantity and term of the designation, which supplements the information included in the market notice issued pursuant to Section 43.6.1.

* * *

43.7 Payments To Resources Designated Under The ~~I~~CPM

Scheduling Coordinators for Eligible Capacity may submit to the CAISO an intention to be paid a monthly CPM Capacity Payment under Section 43.7.1 or Section 43.7.2. Scheduling Coordinators for Eligible Capacity will be able to change their selections annually within thirty (30) days of a CAISO Market Notice seeking such payment preferences. To the extent a Scheduling Coordinator for Eligible Capacity does not submit a selection to be compensated in accordance with Section 43.7.1, the Scheduling Coordinator shall be deemed to have selected to be paid on a resource-specific basis pursuant to Section 43.7.2, for purposes of the CAISO's ~~I~~CPM designation determinations.

43.7.1 Monthly CPM Capacity Payment

On _____, 2011 [the Settlement Order Date], the fixed CPM Capacity price of \$67.50/kW-year shall become effective and shall remain in effect for two (2) years. On _____, 2013 [the second anniversary of the Settlement Order Date], the fixed CPM Capacity price shall increase by five (5) percent and the effective price shall be \$70.88/kW-year, which shall remain in effect for two (2) years until _____, 2015 [the fourth anniversary of the Settlement Order Date].

43.7.1.1 Calculation of Monthly CPM Capacity Payment

Scheduling Coordinators representing resources receiving payment under ~~this~~ Section 43.~~67~~.1 shall receive a monthly CPM Capacity Payment for each month of CPM designation equal to the product of the amount of their CPM Capacity, the relevant CPM Availability Factor for Forced Outages, as determined in accordance with Appendix F, Schedule 6, a monthly shaping factor as set forth in Appendix F, Schedule 6, ~~at the effective~~ fixed CPM Capacity price ~~per of \$55~~/kW-year and the CPM Availability Percentage for Maintenance Outages, so that the formula for determining the monthly CPM Capacity Payment would be as follows:

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(CPM Capacity MW) x (CPM Availability Factor for Forced Outages) x (1/12 monthly shaping factor) x (~~effective fixed CPM €Capacity price per \$55/kW-year~~) x CPM Availability Percentage for Maintenance Outages.

The CPM Availability Percentage for Maintenance Outages is equal to the ratio of: (1) the sum of the CPM Capacity MW for each hour of the month across all hours of the month, where the actual capacity MW available to the CAISO, if less than the CPM Capacity MW, shall be substituted for CPM Capacity MW for each hour the resource is not available due to a Maintenance Outage or non-temperature-related ambient de-rates to (2) the product of CPM Capacity MW and the total hours in the month.

The foregoing formula shall apply to all ~~CPM Capacity~~ receiving monthly ~~CPM Capacity~~ Payments under this Section 43.67.1 except for ~~CPM Capacity~~ designated to respond to an ~~CPM Significant Event~~ or an Exceptional Dispatch ~~CPM~~, in which case the monthly ~~CPM Capacity~~ Payment shall be based proportionately on the actual number of days the resource was designated as ~~CPM Capacity~~ during the month to the total number of days in the month.

The foregoing formula shall apply to all CPM Capacity receiving monthly CPM Capacity Payments under this Section 43.7.1 except for CPM Capacity designated to respond to an ~~CPM Significant Event~~ or an Exceptional Dispatch CPM, in which case the monthly CPM Capacity Payment shall be based proportionately on the actual number of days the resource was designated as CPM Capacity during the month to the total number of days in the month.

For purposes of CPM designations, except for designations for CPM Significant Events and Exceptional Dispatch CPM, the CPM Availability Factor for Forced Outages shall be calculated as the ratio of: (1) the sum of the CPM Capacity MW for each hour of the month across all hours of the month, where the actual capacity MW available to the CAISO, if less than the CPM Capacity MW, shall be substituted for CPM Capacity MW for each hour the resource is not available due to a Forced Outage or temperature-related ambient de-rate, to (2) the product of CPM Capacity MW and the total hours in the month.

For purposes of CPM designations for CPM Significant Events and Exceptional Dispatch CPM, the CPM Availability Factor for Forced Outages shall be calculated as the ratio of: (1) the sum of the CPM Capacity MW for each hour across all hours of the month or part of the month for which a unit is designated, whichever is applicable, where the actual capacity MW available to the CAISO, if less than

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the CPM Capacity MW, shall be substituted for CPM Capacity MW for each hour the resource is not available due to a Forced Outage or temperature-related ambient de-rate, to (2) the product of CPM Capacity MW and the total hours in the month or part of the month for which a unit is designated, whichever is applicable.

43.7.2 Resource-Specific CPM Capacity Payment

If a Scheduling Coordinator for Eligible Capacity believes that the ~~\$55/kW-year~~fixed CPM Capacity price per kW-year in effect under Section 43.7.1 will not compensate a resource for its going forward costs, as calculated in accordance with the formula provided in Section 43.7.2.2, the Scheduling Coordinator may annually in accordance with Section 43.7, inform the CAISO of what proposed higher CPM Capacity price would compensate the resource for its going forward costs and which the Scheduling Coordinator is willing to have the CAISO use for purposes of the CPM designation process ("going forward cost offer price").

43.7.2.1 Failure to Submit Going Forward Cost Offer Price

A Scheduling Coordinator for a resource is not required to submit a specific going forward cost offer price for such resource under the process provided for in Section 43.6; however, except for an Exceptional Dispatch CPM designation, a Scheduling Coordinator that has not previously identified the going forward cost offer price for a resource must notify the CAISO of what that price is before any CAISO designation of that resource's capacity as CPM Capacity can become effective. In the case of an Exceptional Dispatch CPM designation on behalf of a resource that has not selected the supplemental revenues option, the CPM designation shall become effective notwithstanding the resource's failure to select compensation pursuant to Section 43.7.1 or to identify a going forward cost offer price pursuant to Section 43.7.2. In such a case, the CAISO shall use the compensation under Section 43.7.1 for both dispatch and compensation for the ~~30-day~~Exceptional Dispatch CPM ~~term~~. In the case of a Scheduling Coordinator that has not previously identified the going forward cost offer price for a resource, the cap on supplemental revenues under Section 39.10.4 will be calculated using the monthly capacity payment under Section 43.7.1.

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43.7.2.1.1 Determination of Capacity Price

If the CAISO designates a resource that has proposed a CPM Capacity price above the fixed CPM Capacity price per \$55/kW-year in effect under Section 43.7.1, and the sales from the resource are under the jurisdiction of the FERC, the Scheduling Coordinator for the resource shall make a limited resource-specific filing before the FERC to determine the just and reasonable capacity price for the going forward costs for the resource to be used in applying the CAISO's FERC jurisdictional monthly CPM Capacity Payment formula. If the sales from the resource are not under the jurisdiction of the FERC, the Scheduling Coordinator for the resource shall make a non-jurisdictional filing with the FERC to determine the just and reasonable capacity price for the going forward costs for the resource to be used in applying the CAISO's FERC-jurisdictional monthly CPM Capacity Payment formula.

43.7.2.2 Going Forward Cost

In making the cost justification filing with FERC for an CPM Capacity price above the fixed CPM Capacity price per \$55/kW-year under Section 43.7.1, the Scheduling Coordinator for the resource may not propose -- and shall not get paid -- an amount higher than the going forward cost offer price that it had previously proposed to the CAISO as its going forward cost offer price under Section 43.7 or this Section 43.7.2, either prior to or at the time of CPM designation.

Going forward costs for any resource-specific filing under this Section shall be calculated based on the following formula:

(fixed operation & maintenance costs, plus ad valorem taxes, plus administrative & general costs, plus ten percent (10%) of the foregoing amounts),

provided such costs shall be converted to a fixed \$/kW-year amount.

43.7.2.3 Resource-Specific Monthly CPM Capacity Payment

Scheduling Coordinators representing resources receiving payment under Section 43.7.2 shall receive a monthly CPM Capacity Payment for each month of CPM designation equal to the product of the amount of their CPM Capacity, the relevant CPM Availability Factor for Forced Outages as determined in accordance with Appendix F, Schedule 6, a monthly shaping factor as set forth in Appendix F, Schedule 6, the resource-specific CPM Capacity price, as determined by FERC and the CPM Availability Percentage for Maintenance Outages, in accordance with the following formula:

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(CPM Capacity MW) x (CPM Availability Factor for Forced Outages) x (1/12 monthly shaping factor) x (the resource-specific CPM Capacity price as determined by FERC) x CPM Availability Percentage for Maintenance Outages.

The CPM Availability Percentage for Maintenance Outages is equal to the ratio of: (1) the sum of the CPM Capacity MW for each hour of the month across all hours of the month, where the actual capacity MW available to the CAISO, if less than the CPM Capacity MW, shall be substituted for CPM Capacity MW for each hour the resource is not available due to a Maintenance Outage or non-temperature-related ambient de-rate to (2) the product of CPM Capacity MW and the total hours in the month.

The foregoing formula shall apply to all CPM Capacity receiving monthly CPM Capacity Payments under Section 43.7.2 except for CPM Capacity designated to respond to an CPM Significant Event or Exceptional Dispatch CPM, in which case the monthly CPM Capacity Payment shall be based proportionately on the actual number of days the resource was designated as CPM Capacity during the month and available to the CAISO to the total number of days in the month.

Prior to the determination by FERC of the resource-specific going forward costs for CPM Capacity designated and paid pursuant to Section 43.7.2, the CAISO shall proceed as follows. For the period between the CAISO's designation and the FERC's determination, the CAISO shall utilize the fixed CPM Capacity price per \$55/kW-year rate in effect under Section 43.7.1 for purposes of the resource-specific monthly CPM Capacity Payment for financial Settlement. This amount shall be subject to surcharge based on the outcome of the FERC proceeding so that the resource will receive any higher actual resource-specific payment as determined by FERC for the full period of the CPM designation. Once approved by FERC, the CAISO shall apply the higher of the fixed CPM Capacity price per \$55/kW-year in effect under Section 43.7.1 or the resource-specific CPM Capacity price as determined by the FERC.

For purposes of CPM designations, except for designations for CPM Significant Events, the CPM Availability Factor for Forced Outages shall be calculated as the ratio of: (1) the sum of the CPM Capacity MW for each hour of the month across all hours of the month, where the actual capacity MW available to the CAISO, if less than the CPM Capacity MW, shall be substituted for CPM Capacity MW for each hour the resource is not available due to a Forced Outage or temperature-related ambient de-rates, to (2) the product of CPM Capacity MW and the total hours in the month.

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For purposes of CPM designations for CPM Significant Events, the CPM Availability Factor for Forced Outages shall be calculated as the ratio of: (1) the sum of the CPM Capacity MW for each hour across all hours of the month or part of the month for which a unit is designated, whichever is applicable, where the actual capacity MW available to the CAISO, if less than the CPM Capacity MW, shall be substituted for CPM Capacity MW for each hour the resource is not available and is not on an authorized Outage, to (2) the product of CPM Capacity MW and the total hours in the month or part of the month for which a unit is designated, whichever is applicable.

For purposes of this Section 43.7.2, an authorized Outage shall be limited to a CAISO Approved Maintenance Outage.

* * *

43.8 Allocation Of CPM Capacity Payment Costs

For each month, the CAISO shall allocate the costs of CPM Capacity Payments made pursuant to Section 43.6 as follows:

* * *

43.8.4 LSE Shortage Of Demand Or Reserve Margin Requirement In Plan

If the CAISO makes CPM designations under Section 43.1.3, then the CAISO will allocate the total costs of the CPM Capacity Payments for such CPM designations (for the full term of those CPM designations) pro rata to each LSE based on the proportion of its deficiency to the aggregate deficiency.

* * *

43.8.6 Allocation Of Exceptional Dispatch CPMs

If the CAISO makes any Exceptional Dispatch CPM designations under Section 43.2.5, the CAISO shall allocate the costs of such designations to all Scheduling Coordinators for LSEs that serve Load in the TAC Area(s) in which the need for the Exceptional Dispatch CPM arose based on the percentage of actual Load of each LSE represented by the Scheduling Coordinator in the TAC Area(s) to total Load in the TAC Area(s) as recorded in the CAISO Settlement system for the actual days during any Settlement month period over which the designation has occurred.

* * *

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**APPENDIX A
MASTER DEFINITION SUPPLEMENT**

Capacity Procurement Mechanism (ICPM)

The Capacity Procurement Mechanism, as set forth in Section 43.

* * *

Eligible Capacity

Capacity of Generating Units, System Units, System Resources, or Participating Load that is not already under a contract to be a Resource Adequacy Resource, is not under an RMR Contract or is not currently designated as ICPM Capacity that effectively resolves a procurement shortfall or reliability concern and thus is eligible to be designated under the CPM in accordance with Section 43.1.

* * *

Exceptional Dispatch CPM Non-System Reliability Need

The existence of a reliability issue where resolution depends on a resource in a specific geographic area within the CAISO Balancing Authority Area, which may include, but is not limited to, a local reliability area, zone, or region.

* * *

Exceptional Dispatch CPM System Reliability Need

The existence of a reliability issue where resolution does not require a resource to be in a specific geographic area within the CAISO Balancing Authority Area, which may include, but is not limited to, a forced outage of a major transmission line or a forced outage at a large generating unit.

* * *

Exceptional Dispatch Term

The term of each Exceptional Dispatch CPM designation, as determined pursuant to Section 43.3.6.

* * *

APPENDIX F

**Schedule 6
CPM SCHEDULES**

Monthly CPM Capacity Payment

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The monthly CPM Capacity Payment shall be calculated by multiplying the monthly shaping factor of 1/12 by the ~~annual effective fixed~~ CPM Capacity price ~~per of \$55/kW-year~~ in accordance with Section 43.7.1, unless the Scheduling Coordinator for the CPM Capacity resource has agreed to another price that has been determined in accordance with Section 43.7.2.

Availability

The target availability for a resource designated under CPM is 95%. Incentives and penalties for availability above and below the target are as set forth in the table below, entitled "Availability Factor Table." The CAISO shall calculate availability on a monthly basis using actual availability data. The CPM Availability Factor for Forced Outages for each month shall be calculated using the following curve:

AVAILABILITY FACTOR TABLE

Availability	Capacity Payment Factor	CPM Availability Factor
100%	3.3%	1.139
99%	3.3%	1.106
98%	3.3%	1.073
97%	2.5%	1.040
96%	1.5%	1.015
95%	-	1.000
94%	-1.5%	.985
93%	-1.5%	.970
92%	-1.5%	.955
91%	-1.5%	.940
90%	-1.5%	.925
89-80%	-1.7%*	.908-.755
79-41%	-1.9%*	.736-.014
-40%	-	0.0

*The "Capacity Payment Factor" decreases by 1.7% and 1.9% respectively for every 1% decrease in availability.

The CPM Capacity Payment shall be adjusted upward from the 95% availability starting point by the positive percentages listed as the "Capacity Payment Factor" above, by multiplication by the amounts listed for each CPM Availability Factor above 95%, so that, for example, if a 97% availability is achieved for the month, then the CPM Capacity Payment for that month would be the monthly value for 95% plus an additional 4% (1.5% for the first percent availability above 95%, and 2.5% for the second percent availability above 95%), i.e., multiplication of the otherwise applicable CPM Capacity Payment by the CPM Availability Factor of 1.040. Reductions in the CPM Capacity Payment shall be made correspondingly according to the "Capacity Payment Factor" above for monthly availability levels falling short of the 95% availability starting point, by multiplication by the amounts listed for each CPM Availability Factor below 95%.