



March 22, 2007

The Honorable Philis J. Posey
Acting Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

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 OFFICE OF THE
 SECRETARY
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 FEDERAL ENERGY
 REGULATORY COMMISSION

Re: California Independent System Operator Corporation,
Docket No. ER07-____-000
Assignment of Import Capability for Resource Adequacy Purposes

Dear Secretary Posey:

Pursuant to Section 205 of the Federal Power Act, 16 U.S.C § 824d, and Section 35.15 of the regulations of the Federal Energy Regulatory Commission ("Commission"), 18 C.F.R. § 35.15, the California Independent System Operator Corporation ("CAISO") respectfully submits for filing an original and five copies of proposed amendments to Section 40.5.2.2 of the ISO Tariff.¹ The proposed amendments revise the method for assigning transmission import capability into the ISO Control Area to Load Serving Entities ("LSEs") for resource adequacy reporting and compliance purposes ("Import Capability Assignment Amendments"). The Import Capability Assignment Amendments do not affect physical transmission capability of the ISO Controlled Grid, transmission rights, or the manner in which transmission service is obtained under the ISO Tariff. Rather, the Import Capability Assignment Amendments only apply to the right to "count" resources for resource adequacy reporting obligations as part of a forward planning process. The CAISO is also tendering two additional copies of the Import Capability Assignment Amendments to be time and date stamped and returned to our courier.

I. Introduction

In its order conditionally accepting the CAISO's Market Redesign and Technology Upgrade ("MRTU") Tariff, the Commission, at the CAISO's request, directed that a technical conference be convened to further develop a process for assigning import capability as part of the MRTU's resource adequacy-related provisions.² The resulting modified import capability assignment process was intended to supersede the approach originally included in the CAISO's February 9, 2006 MRTU Tariff filing and anticipated to be effective for 2008. The Import Capability Assignment Amendments

¹ The Commission has accepted the Simplified and Reorganized ("S&R") Tariff effective as of March 1, 2006. See *California Independent System Operator Corp.*, 114 FERC ¶ 61,199 (2006). The S&R Tariff as accepted by that order (see *id.* at Ordering Paragraph (A)) is referred to in the instant filing as the "ISO Tariff." Capitalized terms not otherwise defined herein are used in the sense given in the Master Definitions Supplement, Appendix A to the ISO Tariff.

² *California Independent System Operator Corp.*, 116 FERC ¶ 61,274 at P 12236 (2006) ("September 21 MRTU Order").

represent the culmination of the technical conference and stakeholder process conducted in compliance with the Commission's directive.

The Import Capability Assignment Amendments embody the strong preference expressed by the CAISO and stakeholders to abandon the import capability assignment approach set forth in the MRTU Tariff as originally filed and, instead, build from the process already approved by the Commission as part of the CAISO's Interim Reliability Requirements Program ("IRRP").³ Much of the IRRP's multi-step process and fundamental elements, therefore, remain intact. In particular, the Import Capability Assignment Amendments continue to follow the Commission's prior guidance on the IRRP to assign import capability first to existing resource commitments, to the maximum extent possible, and then to distribute the remaining import capability on a uniform basis using Load ratio share to all LSEs serving Load in the ISO Control Area regardless of jurisdictional oversight.⁴ Several material refinements, nevertheless, have been made to the accepted IRRP methodology in response to stakeholder input that will result in an even more equitable assignment of import capability going forward and are more suitable to a program of longer duration. These refinements involve:

- "Capping" the import capability assigned to each LSE based on the greater of a LSE's load ratio share or specifically defined existing resource commitments. Under the existing IRRP, LSEs receive an assignment of import capability in each assignment step even if previously assigned import capability exceeded its share calculated on a Load ratio basis.
- Placing all priority resource commitments on an equal footing regardless of the date the transactions commence delivery. The existing IRRP did not contemplate granting a future assignment priority to resource commitments that did not deliver during the 2007 calendar year.
- Adding a process to assign un-requested, residual import capability on a "first come, first served" basis.
- Enhancing the information collection and reporting provisions to facilitate oversight of secondary, bilateral transfers of import capability.

Notwithstanding virtual unanimity on using the IRRP as a foundation and strong support for the foregoing enhancements, starkly divergent stakeholder positions emerged on issues such as whether, and to what level, to assign an import capability priority to existing or future resource commitments. As a result of these irreconcilable differences, the Import Capability Assignment Amendments necessarily reflect a compromise with some concessions made by all parties. The CAISO believes, however, that the resulting compromise reasonably balances the competing interests of its diverse stakeholders, including those stakeholders that have existing, and seek, long-term resource commitments and those stakeholders that desire flexibility and the ability to effectively rely on short-term resource commitments.

The CAISO is requesting an effective date of May 22, 2007 and is, as noted, initially filing the Import Capability Assignment Amendments as part of the ISO Tariff, not the MRTU Tariff. This follows from the fact that the IRRP import capability assignment provisions apply only to Resource Adequacy

³ *California Independent System Operator Corporation*, 118 FERC ¶ 61,045 at P 53 (2007) ("June 22 IRRP Order")

⁴ *Id.*; see also *California Independent System Operator Corporation*, 115 FERC ¶ 61,172 at PP 94 and 96 (2006) ("May 12 IRRP Order").

Plans submitted by LSEs covering periods up through December 31, 2007. However, pursuant to requirements established by the California Public Utilities Commission ("CPUC") and reflected in the ISO Tariff, LSEs must comply with 2008 "year-ahead" resource adequacy reporting and procurement deadlines in 2007. Consequently, the authority replacing the IRRP must be effective in 2007 to enable the CAISO to timely complete the import capability assignment process for Resource Adequacy Plans covering periods in 2008. The methodology included in Import Capability Assignment Amendments would be performed on annual basis, with results valid for the following calendar year.

The CAISO further anticipates merging the Import Capability Assignment Amendments into the MRTU Tariff as part of a future CAISO filing intended to update the MRTU Tariff with germane changes to the ISO Tariff that have occurred after the filing of the February 9, 2006 MRTU Tariff.

II. BACKGROUND FOR FILING

A. Role of the Import Capability Assignment Process in Resource Adequacy

The underlying objective of resource adequacy is to ensure that sufficient resources are available when and where needed to reliably operate the transmission system and serve Load. To realize this fundamental goal, the resources relied upon must be "deliverable" to Load during peak Demand conditions. Given California's status as a net importer of Energy, imported resources represent an integral and necessary source of supply in LSE portfolios. Therefore, similar to resources internal to the ISO Control Area, imported resources must also be assessed for deliverability.

Under California's resource adequacy paradigm, LSEs generally demonstrate compliance with resource adequacy requirements by submitting Resource Adequacy Plans to the CAISO and their respective state regulatory authorities. The Resource Adequacy Plans detail the resources acquired to meet peak Demand plus the required reserve margin. However, in order to ensure LSEs are not relying on energy or capacity from sources external to the ISO Control Area in excess of that which the ISO Controlled Grid can accommodate, the maximum import capability into the ISO Control Area Load must be established, assigned to LSEs, and accounted for in Resource Adequacy Plans. In this latter regard, for a resource to "count" toward satisfying the LSE's resource adequacy obligation, the LSE must demonstrate on its Resource Adequacy Plan not only a qualifying external resource, but also sufficient assigned import capability. The Import Capability Assignment Amendments therefore constitute the authority by which the CAISO will fulfill the need to assess the deliverability of imports.

B. Procedural History

On February 9, 2006, the CAISO filed its proposed MRTU Tariff. As part of that filing, the CAISO included a method to assign import capability to Load Serving Entities for resource adequacy deliverability purposes. Subsequently, on March 13, 2006, the CAISO filed its IRRP amendments to the ISO Tariff. The IRRP amendments were intended to provide a "bridge" to facilitate implementation of resource adequacy programs of the CPUC and other Local Regulatory Authorities only until the MRTU Tariff became effective.

The IRRP amendments, as originally filed, included an import capability assignment process that largely mirrored the earlier proposal in the MRTU Tariff. Both established separate assignment rules for LSEs depending on whether or not they were CPUC-jurisdictional. Non-CPUC Load Serving Entities received import capability restricted solely to their existing resource commitments as of a

certain date. CPUC Load Serving Entities next received the aggregate remaining import capability after accounting for Existing Contracts, Transmission Ownership Rights, and the import capability previously assigned to the Non-CPUC Load Serving Entities. Many LSEs opposed the distinct rules applicable to the different LSE classifications in both the MRTU and the IRRP dockets. In general, Non-CPUC Load Serving Entities challenged their inability to obtain import capability beyond historical uses, while CPUC Load Serving Entities objected to the perceived preferential assignment of import capability to the Non-CPUC Load Serving Entities.

The CAISO first responded to these criticisms on April 19, 2006 in the IRRP docket. It agreed with the need to develop for 2008 and beyond an equitable method to assign import capability, but that the MRTU docket was the appropriate forum for those discussions.⁵ The CAISO further agreed to revise the 2007 IRRP import capability assignment process so that both CPUC Load Serving Entities and Non-CPUC Load Serving Entities received import capability on a uniform basis that first honored existing resource commitments to the extent possible and then proceeded to distribute remaining available import capability based on a LSE's load ratio share. On May 1, 2006, in the MRTU docket, the CAISO communicated a similar message in its answer by requesting that the Commission hold a technical conference in order to refine the import capability assignment process to be employed following expiration of that included in the IRRP on December 31, 2007.⁶

In its May 12 IRRP Order, the Commission accepted the IRRP tariff revisions with modifications and directed the CAISO to submit revised tariff sheets that reflected the import capability assignment method outlined in its April 19, 2006 answer.⁷ The CAISO submitted the revised IRRP import capability assignment process in compliance with the May 12 IRRP Order on June 12, 2006. On June 22, 2007, the Commission accepted the CAISO's revised IRRP import capability assignment process, subject only to minor modifications to clarify implementation dates.⁸

In the context of the MRTU Tariff, as part of the September 21 MRTU Order, the Commission accepted the CAISO's prior request to convene a technical conference refine the process for assigning import capability. On December 1, 2006, the CAISO filed a motion stating that the tariff language set forth in the CAISO's IRRP June 12, 2006 compliance filing constitutes the preferred and more equitable framework to use to further develop the import provisions of the MRTU Tariff, and that these provisions should replace the provisions that were included in the MRTU docket. The CAISO also noted that certain open questions remained, and put those open issues before stakeholders in an informational filing submitted on December 11, 2006.

Commission staff held a Technical Conference on February 1, 2007, wherein parties discussed the CAISO's initial proposal included in the December 11, 2006 informational filing and offered suggested changes. At the conclusion of the Technical Conference, Commission staff identified certain areas of significant consensus, including that: (1) parties generally agree that the IRRP amendments, rather than the present MRTU Tariff, represents the preferred foundation for the import capability assignment process; (2) the IRRP amendments could be improved by applying some form of "load

⁵ See, May 12 IRRP Order.

⁶ September 21 MRTU Order at P 1224.

⁷ May 12 IRRP Order at P 96; see also, June 22 IRRP Order at P 53 [clarifying that the May 12 IRRP Order accepted the revised CAISO assignment method].

⁸ June 22 IRRP Order at PP 67 and 71.

share" cap; (3) questions focused on honoring existing resource commitments, future resource commitments, and trading needed to be addressed by the CAISO; and (4) parties and Commission staff support an expedited filing process in order to meet the procurement deadlines for 2008. In regard to this latter point, Commission staff directed parties to submit written comments to the CAISO no later than February 9, 2007 on the discussions held at the Technical Conference and the CAISO was to utilize these comments to revise proposed tariff language by February 16, 2007.

In accordance with the instructions from Commission staff, on February 16, 2007 the CAISO posted on its website revised import capability assignment tariff language that modified the preferred IRRP amendments based on stakeholder input. The CAISO held a conference call with stakeholders to discuss the revised tariff language on February 21, 2007. Based on this additional input received from stakeholders, the CAISO further revised the import capability assignment process and posted the revised tariff language on February 28, 2007. The policy determinations reflected in the February 28, 2007 version of the proposed tariff language was submitted to and approved by the CAISO Board of Governors on March 7, 2007. On March 9, 2007, the CAISO received additional comments from stakeholders regarding specific modifications to the proposed tariff language to ensure consistency with the policy directives approved by the CAISO Board of Governors and to reduce potential ambiguities and drafting errors. The CAISO held a conference call on March 12, 2007 to discuss such stakeholder comments, which became the basis of the proposed Import Capability Assignment Amendments included herein.

III. CONTENTS OF FILING

This filing comprises:

This Transmittal Letter

Attachment A Clean Tariff sheets incorporating changes shown in Attachment B;
Attachment B Tariff Language Blacklined;
Attachment C Board of Governors Memorandum, dated March 1, 2007

IV. COMMUNICATIONS

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V. DESCRIPTION OF IMPORT CAPABILITY ASSIGNMENT AMENDMENTS

A. How It Works and Differences from the IRRP Process

Prior to explaining the substance of the Import Capability Assignment Amendments' thirteen-step process and the material differences from the IRRP, the CAISO notes several "stylistic" changes from the IRRP.⁹ First, the CAISO has created twelve (12) defined terms to avoid potential ambiguity. Those terms, which will be used in the following discussion, are included in the Master Definitions Supplement at Appendix A of the ISO Tariff. Second, the June 22 IRRP Order noted that the CAISO had a duty to provide market participants with certainty as to information that may affect their ability to sign contracts and therefore required the CAISO to provide more specificity regarding deadlines by which the assignment of import capability will take place.¹⁰ The Import Capability Assignment Amendments conform to the June 22 IRRP Order by setting forth specific dates for accomplishing the various assignment steps for the 2007 process. However, in accordance with the CAISO's practice in the MRTU Tariff and the expectation that the Import Capability Assignment Amendments will be merged into the MRTU Tariff, deadlines for the annual assignment process after 2007, i.e., 2008 assignment for 2009 RA Compliance Year, refer to dates included in a to-be-published business practice manual. Finally, the posting and Scheduling Coordinator notification tasks performed by the CAISO, which were embedded in the specific assignment steps of the IRRP, now constitute separate steps to match their greater detail. This largely explains why the process in the Import Capability Assignment Amendments has expanded from seven to thirteen steps.

Steps 1 – 3

Unchanged from the IRRP, the Import Capability Assignment Amendments process begins with the CAISO determining for each specific transmission path or "branch group" into the ISO Control Area its Maximum Import Capability, which is the total deliverable capability of the branch group. The CAISO then reserves from the Maximum Import Capability of an applicable branch group the capability associated with Existing Contracts and Transmission Ownership Rights on the branch group. In a non-substantive change from the IRRP, the CAISO will now distinguish between Existing Contracts and Transmission Ownership Rights held by LSEs that do not serve Load within the ISO Control Area and those that do. The change is non-substantive because all Existing Contract and Transmission Ownership Rights capability will continue to be fully reserved. The distinction is necessary simply to perform the mathematics required to implement the assignment "cap" on LSEs serving Load within the ISO Control Area, as explained below.

To facilitate the cap calculation, the Import Capability Assignment Amendments utilize new terms derived in Steps 2 and 3. Available Import Capability is the capability available on each particular branch group after accounting for Existing Contracts and Transmission Ownership Rights held by LSEs that do not serve Load within the ISO Control Area. Total Import Capability is the sum of all Available Import Capability. Again, as discussed further below, Total Import Capability is used in the determination of the Load Share Quantity of each LSE serving Load within the ISO Control Area, i.e.,

⁹ Additional information regarding the mechanics of the Import Capability Assignment Amendments is included in the Memorandum to the CAISO Board of Governors, dated March 1, 2007, and attached hereto as Attachment C.

¹⁰ June 22 IRRP Order at PP 72 and 73.

those receiving capability assignments. The capability reserved for LSEs serving Load within the ISO Control Area is defined as Existing Contract Import Capability. (Steps 1 – 3.)

Step 4

The Commission's May 12 IRRP Order directed the CAISO to file an import capability assignment process that, among other things, would permit both CPUC and non-CPUC jurisdictional LSEs to receive import capability for existing resource agreements as of March 10, 2006.¹¹ The Commission confirmed the equity of granting existing resource agreements an assignment priority in its June 22 IRRP Order.¹² The Import Capability Assignment Amendments accordingly next assign, to the extent possible, Pre-RA Import Commitments. A Pre-RA Commitment is any power purchase agreement, ownership interest, or other commercial arrangement entered into on or before March 10, 2006, by a LSE serving Load in the ISO Control Area for Energy or capacity from a resource(s) located outside the ISO Control Area. Unlike the IRRP, however, the Import Capability Assignment Amendments balance the competing interests of stakeholders by clarifying that a Pre-RA Import Commitment will be deemed to terminate and lose its priority status upon expiration of the arrangement's original term regardless of the presence of any "evergreen" or renewal provision.

Because, by definition, virtually all Pre-RA Import Commitments participated in the IRRP assignment process for 2007 RA Compliance Year and were accommodated, the CAISO does not anticipate that a branch group will be over requested during this step in the assignment process. However, the CAISO understands that a small number of Pre-RA Import Commitments may exist that did not deliver during 2007 and therefore were not presented as part of the 2007 RA Compliance Year assignment process. The CAISO proposes to include such commitments in the definition of Pre-RA Import Commitments in the year they do deliver. As such, it may be that in the future, the import capability on a particular branch group may be insufficient to accommodate all Pre-RA Import Commitment requests. In that case, the CAISO would assign Available Import Capability based on the Import Capability Load Share Ratios of each LSE submitting Pre-RA Import Commitments on that branch group.

Import Capability Load Share Ratio is a LSE's Import Capability Load Share divided by the sum of the Import Capability Load Shares of all LSEs with unfulfilled requests for import capability on a particular branch group. Import Capability Load Share, in turn, is a LSE's proportionate share of the forecasted RA Compliance Year coincident peak Demand for the ISO Control Area relative to the total coincident peak Demand for the ISO Control Area as determined by the California Energy Commission. This is the same "tie-breaker" mechanism used in the IRRP. To the extent this accounting does not fully assign the Available Import Capability for that branch group to the requested Pre-RA Import Commitments on the first application, the remaining Available Import Capacity will continue to be assigned in the same manner until fully exhausted. The following is an additional example of how this tie-breaker mechanism operates.

¹¹ May 12 IRRP Order at PP 94 and 96.

¹² June 22 IRRP Order at PP 53, 67, and 71.

Path Rating (MW) 1000

| Entity | Requested | Import Capability Load Share | Round 1 | | Round 2 | | Total |
|-----------|-------------|------------------------------|--|---|--|---|---------------|
| | | | Import Capability Load Share Ratio (Round 1) | Allocate Capability based on Import Capability Load Share Ratio | Import Capability Load Share Ratio (Round 2) | Allocate Capability based on Import Capability Load Share Ratio | |
| 1 | 600 | 70% | 82% | 600.0 | - | 0 | 600.0 |
| 2 | 0 | 15% | - | 0.0 | - | 0 | 0.0 |
| 3 | 500 | 10% | 12% | 117.6 | 66.7% | 149.0 | 266.7 |
| 4 | 200 | 5% | 6% | 58.8 | 33.3% | 74.5 | 133.3 |
| Total | 1300 | 100% | 100% | 776.5 | 100.0% | 223.5 | 1000.0 |
| Remaining | | | | 223.5 | | | |

Step 5

Step 5 is the most significant modification from the current IRRP process. Under the IRRP, after Pre-RA Import Commitments are assigned, the remaining Available Import Capability on each branch group is aggregated and assigned to all LSEs based on their load ratio share without regard for the quantity of import capability that may have been previously assigned to the LSE based on Existing Contracts, Transmission Ownership Rights, or Pre-RA Import Commitments. This methodology granted LSEs with priority resource commitments a further advantage and exacerbated the potential disparity in import capability assigned to LSEs relative to their Load Share Quantity.

The Import Capability Assignment Amendments largely alleviate this prior flaw in the IRRP. While specific existing rights continue to have assignment priority, the CAISO will now “cap” the further assignment of aggregated Available Import Capability to a LSE at the greater of the sum of the import capability received as Existing Contract Capacity and Pre-RA Import Commitment Capacity or the LSE’s Load Share Quantity. Thus, unlike the IRRP, a LSE whose Pre-RA Import Commitment Capacity exceeds its Load Share Quantity would not be eligible to receive any additional aggregated Available Import Capacity. Eligible LSEs receive aggregated Available Import Capacity based on Import Capability Load Share Ratios until fully exhausted. The amount of import capability assigned under this step is Remaining Import Capability.

Steps 6 – 7

Steps 6 and 7 both deal with the dissemination of information relating to the earlier steps in the process, but are divided into different steps to separate non-confidential information from confidential information. Step 6 provides for “posting” on the CAISO website non-confidential data. Confidential LSE-specific data is provided solely to the LSE’s Scheduling Coordinator under Step 7. Both of these steps are intended to provide sufficient information to permit LSEs to efficiently trade Remaining Import Capability in Step 8 and designate available and desired branch groups in Step 9.

Step 8

Step 8 allows LSEs to transfer Remaining Import Capability to other LSEs or Market Participants. This transfer step is substantively unchanged from the IRRP and is intended to provide a means for LSEs to acquire undifferentiated import capability prior to the initial opportunity to designate Remaining Import Capability to specific branch groups. Because Remaining Import Capacity has not been assigned to a particular branch group, the transfer of Remaining Import Capacity at this Step 8 differs from the “secondary” market under Section 40.5.2.2.2 in which the transferred import capability already has an ascribed branch group. All transfers under Step 8 must be reported to the CAISO.

Steps 9 - 12

After transfers of Remaining Import Capability have occurred under Step 8, holders of such import capability have two separate opportunities to request assignment on available branch groups (Steps 9 and 11). The CAISO will honor the requests to the extent a branch group is not over requested. If a branch group is over requested in either step, the Remaining Import Capability will be assigned on the basis of the LSE’s Import Capability Load Share Ratio in the same manner as performed for Step 4. A Market Participant, other than a LSE, that obtained Remaining Import Capability, but does not have its own Import Capability Load Share will be deemed to have the average of the Import Capability Load Shares of the LSEs from which it received the Remaining Import Capability.

LSEs with unassigned Remaining Import Capacity after Step 9 are provided a second opportunity to designate a preferred branch group in Step 11. In order to facilitate this second designation opportunity, the CAISO will notify relevant Scheduling Coordinators of accepted requests from Step 9 and publish the quantity of and branch group with unassigned Available Import Capacity (Step 10.) This same information will be provided after completion of the second designation opportunity (Step 12).

Step 13

Under the IRRP assignment process conducted in 2006 for the 2007 RA Compliance Year, Available Import Capacity remained unrequested following the iterative designation steps (Steps 9 – 12). As a result, stakeholders encouraged the CAISO to include a means to obtain the unassigned Available Import Capacity on a “first come first served” basis. Step 13 responds to that stakeholder request and is therefore new to the Import Capability Assignment Amendments.

On or before the 5th calendar day of each month, the CAISO will publish information on Available Import Capacity. Requests for Available Import Capacity must specify a MW quantity, branch group, and the LSE on whose behalf the request is made. The CAISO will honor requests for the residual Available Import Capacity until exhausted in priority of the time the requests from Scheduling Coordinators are received and without regard to a requesting LSE’s Load Share Quantity. Accordingly, the Import Capability Assignment Amendments provide for the CAISO to record and notify Scheduling Coordinators of the time requests are received. In addition, the CAISO must notify the Scheduling Coordinator regarding whether the request was honored within seven (7) days of receipt of the request. However, given the potential abuse of this mechanism resulting from speculative or excessive requests by Scheduling Coordinators, each Scheduling Coordinator is limited to two requests per week on behalf of any one LSE.

The Available Import Capability reflected in accepted request that occurs after the 20th calendar day of any month cannot be included in the Resource Adequacy Plan of the LSE submitted in that same calendar month. The reason for this limitation is to allow the CAISO and other regulatory entities to determine compliance with resource adequacy obligations by verifying the accuracy of import capability values included in LSE Resource Adequacy Plans.

Import Capability Transfer Registration Process

The IRRP did not explicitly provide for transferring import capability after completion of the CAISO's assignment process. The Import Capability Assignment Amendments add this feature in new Section 40.5.2.2.2. A critical consideration in structuring the trading process was that it have, at most, a negligible affect on CAISO systems or budget so as to not jeopardize the CAISO's ability to timely implement MRTU. As a result, the Import Capability Transfer Registration Process relies on decentralized bilateral trades among Market Participants that are reported to the CAISO.

To be eligible to transfer Existing Contract Import Capability, Pre-RA Import Commitment Capability, or Remaining Import Capability, the holder of such import capability must first "register" with the CAISO by simply providing its name and contact information. This information will be made available on the CAISO's website to facilitate identification of potential trading partners and will be updated on a monthly basis or in accordance with the business practice manual when published. For each transfer, the Scheduling Coordinator for the LSE or Market Participant receiving the import capability must report to the CAISO the identity of the parties to the transfer, the MW quantity, the branch group on which the transferred import capability had been assigned, the classification of import capability (i.e., Existing Contract Import Capability, Pre-RA Import Commitment Capability, etc.), the term of the transfer, and the price on a per MW basis. This information will not be published by the CAISO. However, the CAISO proposes to provide the Commission with a report including the transfer information at least on a semi-annual basis. Finally, similar to transfers under Step 8, the transferred import capability may only be reflected on the LSEs next Resource Adequacy Plan if the transfer information was received by the CAISO by the 20th calendar day of the month.

B. Stakeholder Recommendations Not Included in Import Capability Assignment Amendments

The CAISO declined to incorporate into the Import Capability Assignment Amendments several suggested stakeholder recommendations that warrant specific discussion.

- **Elimination of the Assignment Priority for Specified Pre-Existing Resource Commitments**

A vocal minority of smaller LSEs advocated for the termination of the assignment priority accorded to Pre-RA Commitments and, instead, urged reliance exclusively on load share to assign import capability. Although not entirely clear from submitted comments whether the proposal was merely intended to cap a LSE's eligible assignment at its Load Share Quantity or to limit assignment on a particular branch group by its load share, the CAISO believes neither outcome is appropriate. As noted above, the Commission's May 12 IRRP Order directed the CAISO to file an import capability assignment process that included a priority for existing resource agreements as of March 10, 2006.¹³ The June 22 IRRP Order necessarily recognized that such an approach is just and reasonable.

¹³ May 12 IRRP Order at PP 94 and 96.

Notwithstanding the Commission's prior decisions, the CAISO notes its election not to allow "evergreening" of Pre-RA Commitments reflects the intention to transition to a straight load share assignment methodology. Assigning import capability by load share admittedly conforms to the manner in which the underlying costs of the ISO Controlled Grid are recovered. However, other equitable considerations outweigh eliminating or significantly accelerating the transition. First, as noted above, the allocation of import capability for resource adequacy purposes is distinct from the provision of fair and equal access to the grid for obtaining physical transmission service. LSEs that pay for the grid will continue to receive the benefits of grid access. The Import Capability Assignment Amendments, as noted at the outset, are fundamentally an accounting exercise from a planning perspective to ensure LSEs have procured sufficient deliverable resources to reliably operate the ISO Controlled Grid and serve Load.

Second, many LSEs entered into long-term commitments well prior to the advent of California's resource adequacy program as a means of serving their customers. This practice is consistent with the objective and structure of California's resource adequacy program. In total, there are eight LSEs with Pre-RA Import Commitments that exceed their Load Share Quantity. The total excess is 890 MW, which represents approximately 240% of their aggregate Load Share Quantity, and approximately 9% of Available Import Capability. Given these numbers, and the relative potential affect on parties of eliminating the priority for Pre-RA Import Commitments, the CAISO has simply elected not to alter the balance previously deemed acceptable by the Commission.

- **Granting an Assignment Preference to Future Resource Commitments**

Certain parties raised the need for longer-term certainty in the allocation process and, in particular, providing future resource commitments with an assignment priority similar to that accorded Pre-RA Import Commitments. The CAISO agrees that a multi-year resource adequacy obligation has merit to promote investment and that appropriate actions should be taken to integrate such longer-term obligations into the resource adequacy program. However, the CAISO elected not to provide such priority on the basis that it would upset the careful balance reflected in the Import Capability Assignment Amendments. On the one hand, the CPUC is currently examining the issue of multi-year resource adequacy obligations and requested that the CAISO forego adoption of elements in its import capability assignment process that might limit the flexibility of its deliberations. On the other hand, LSEs desiring longer-term resource commitments are able to obtain the necessary certainty under the Import Capability Assignment Amendments. Absent the loss of respective Load share, a LSE can be assured on a year-in-year-out basis that it will receive Available Import Capability in accordance with its Import Capacity Load Share.

- **Adoption of a Transfer Mechanism to Avoid Bilateral Transactions of Assigned Import Capability**

Several stakeholders from the municipal utility community objected to the CAISO's decision to rely on bilateral trades between market participants to efficiently reassign import capability in "secondary" markets after completion of the CAISO assignment process. These parties agree that market participants should have the ability to gain access to unused or unwanted import capability. Nevertheless, they expressed concern over possible manipulation or creation of other improper incentives that may result from allowing holders of the assigned import capability to impose a monetary

value for what amounts to simply a resource adequacy “accounting” right. Accordingly, these parties sought an administrative or centralized mechanism to transfer surplus import capability.

While the CAISO is sensitive to the parties’ concerns over possible abuse, the CAISO believes valid practical and substantive reasons justify currently foregoing more complicated administrative solutions in favor of a bilateral secondary market. The CAISO must be capable of implementing the Import Capability Assignment Amendments beginning no later than July 2007 to satisfy CPUC imposed resource adequacy program deadlines for 2008 compliance year. This time constraint precludes adoption of any solution requiring new CAISO system functionality or other complex business process changes that may negatively impact the timely implementation of core MRTU market systems.

Moreover, under the proposed Section 40.5.2.2.2, the CAISO requires the Scheduling Coordinator for the LSE or Market Participant receiving the transferred Existing Contract Import Capability, Pre-RA Import Commitment Capability or Remaining Import Capability to report the transfer to the CAISO and provide information identifying the counter-parties, the MW quantity, the branch group on which the capacity was assigned, the term of the transfer, and any price paid. The CAISO has also committed to report this information to the Commission at least on a semi-annual basis. Accordingly, the Import Capability Assignment Amendments provide for the regulatory oversight of the bilateral market for import capability.

It is again important to emphasize that this is not a secondary market for assignment of actual transmission rights or for financial instruments such as FTRs or CRRs. This is a process under which Scheduling Coordinators, on behalf of LSEs, demonstrate that they have met their resource adequacy obligations on a prospective basis. The protections in Section 40.5.2.2.2 adequately mitigate against potential abuses while not requiring additional modifications to CAISO systems.

VI. Service

The CAISO has served copies of this filing on the Public Utilities Commission of the State of California, the California Energy Commission, the California Electricity Oversight Board, and all parties with Scheduling Coordinator Agreements under the CAISO Tariff. In addition, the CAISO has posted a copy of the filing on the CAISO Website and will provide courtesy copies of this filing to all parties in the MRTU proceeding, FERC Docket No. ER06-615-000, and the IRRP proceeding, FERC Docket No. ER06-723-000.

VII. Conclusion

The CAISO respectfully requests that the Import Capability Assignment Amendments as reflected in the revised ISO tariff sheets attached hereto be approved, without modification, suspension, or hearing, to go into effect on May 22, 2007.



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Attachment A – Clean Sheets
Import Capability Assignment Filing

40.5.2.2 Deliverability of Imports.

40.5.2.2.1 Available Import Capability Assignment Process.

For Resource Adequacy Plans covering any period after December 31, 2007, total Available Import Capability will be assigned on an annual basis for a one-year term to Load Serving Entities serving Load in the ISO Control Area and other Market Participants through their respective Scheduling Coordinators, as described by the following sequence of steps.

Step 1: Determination of Maximum Import Capability on Branch Groups into the ISO Control Area:

The ISO shall establish the Maximum Import Capability for each branch group into the ISO Control Area, and will post those values on the ISO website for RA Compliance Year 2008 by July 1, 2007, and for subsequent RA Compliance Years in accordance with the schedule and process set forth in the business practice manual.

Step 2: Determination of Available Import Capability by Accounting for Existing Contracts and

Transmission Ownership Rights Held by Out-of-ISO Control Area LSEs: For each branch group, the Available Import Capability will be determined by subtracting from the Maximum Import Capability established in Step 1 for each branch group the import capability on each branch group associated with (i) Existing Contracts and (ii) Transmission Ownership Rights held by load serving entities that do not serve Load within the ISO Control Area. The remaining sum of all branch group Available Import Capability is the Total Import Capability. Total Import Capability shall be used to determine the Load Share Quantity for each Load Serving Entity that serves Load within the ISO Control Area.

Step 3: Determination of Existing Contract Import Capability by Accounting for Existing Contracts and Transmission Ownership Rights Held by In-ISO Control Area LSEs: From the Available Import Capability remaining on each branch group after Step 2 above, Existing Contracts and Transmission Ownership Rights held by Load Serving Entities that serve Load within the ISO Control Area shall be reserved for the holders of such commitments and will not be subject to reduction under any subsequent steps in this Section. The import capability reserved pursuant to this Step 3 is the Existing Contract Import Capability.

Step 4: Assignment of Pre-RA Import Commitments: From the Available Import Capability remaining on each branch group after reserving Existing Contract Import Capability under Step 3 above, the ISO will assign to Load Serving Entities serving Load within the ISO Control Area Pre-RA Import Commitment Capability on a particular branch group based on Pre-RA Import Commitments in effect (where a supplier has an obligation to deliver the Energy or make the capacity available) at any time during the RA Compliance Year for which the Available Import Capability assignment is being performed. The Pre-RA Import Commitment will be assigned to the branch group selected by the Load Serving Entity during the RA Compliance Year 2007 import capability assignment process, which was required to be based on the branch group upon which the Energy or capacity from the Pre-RA Import Commitment had been primarily scheduled or, for a Pre-RA Import Commitment without a scheduling history at the time of the RA Compliance Year 2007 import capability assignment process, the primary branch group upon which the Energy or capacity was anticipated to be scheduled. To the extent a Pre-RA Import Commitment was not presented during the RA Compliance Year 2007 import capability assignment process, the Load Serving Entity shall select the branch group upon which the Pre-RA Import Commitment is primarily anticipated to be scheduled during the term of the Pre-RA Import Commitment and that selection shall be utilized in future annual Available Import Capability assignment processes.

To the extent a particular branch group becomes over requested with Pre-RA Import Commitments due to either Pre-RA Import Commitments not included in the RA Compliance Year 2007 import capability assignment process or changes in system conditions that decrease the Maximum Import

Capability of the branch group, such that the MW represented in all Pre-RA Import Commitments utilizing the branch group exceed the branch group's Available Import Capability in excess of that reserved for Existing Contracts and Transmission Ownership Rights under Steps 2 and 3, the Pre-RA Import Commitments will be assigned Pre-RA Import Commitment Capability, based on the Import Capability Load Share Ratio of each Load Serving Entity submitting Pre-RA Import Commitments on the particular branch group. To the extent this initial assignment of Pre-RA Import Commitment Capability has not fully assigned the Available Import Capability of the particular over requested branch

group, the remaining Available Import Capability on the over requested branch group will be assigned until fully exhausted based on the Import Capability Load Share Ratio of each Load Serving Entity whose submitted Pre-RA Import Commitment has not been fully satisfied by the previous Import Capability Load Share Ratio assignment iteration. The Available Import Capability assigned pursuant to this Step 4 is the Pre-RA Import Commitment Capability.

Step 5: Assignment of Remaining Import Capability Limited by Load Share Quantity: The Total Import Capability remaining after Step 4 will be assigned only to Load Serving Entities serving Load within the ISO Control Area that have not received Existing Contract Import Capability and Pre-RA Import Commitment Capability under Steps 3 and 4, that exceed the Load Serving Entity's Load Share Quantity. This Total Import Capability will be assigned until fully exhausted to those Load Serving Entities eligible to receive an assignment under this Step based on each Load Serving Entity's Import Capability Load Share Ratio up to, but not in excess of, its Load Share Quantity. The quantity of Total Import Capability assigned to the Load Serving Entity under this Step is the Load Serving Entity's Remaining Import Capability. This Step 5 does not assign Remaining Import Capability on a specific branch group.

Step 6: ISO Posting of Assigned and Unassigned Capability: Following the completion of Step 5, the ISO will post to its website for RA Compliance Year 2008 by July 9, 2007 and for subsequent RA Compliance Years in accordance with the schedule set forth in the business practice manual the following information:

- a. The Total Import Capability;
- b. The quantity in MW of Existing Contracts and Transmission Ownership Rights assigned to each branch group, distinguishing between Existing Contracts and Transmission Ownership Rights held by Load Serving Entities within the ISO Control Area and those held by load serving entities outside the ISO Control Area;

- c. The aggregate quantity in MW, and identify the holder, of Pre-RA Import Commitments assigned to each branch group; and
- d. The aggregate quantity in MW of Available Import Capability after Step 4, the identity of the branch groups with Available Import Capability, and the MW quantity of Available Import Capability on each such branch group.

Step 7: ISO Notification of LSE Assignment Information: Following the completion of Step 5, by July 9, 2007 for RA Compliance Year 2008 and for subsequent RA Compliance Years in accordance with the schedule set forth in the business practice manual, the ISO will notify the Scheduling Coordinator for each Load Serving Entity of:

- a. The Load Serving Entity's Import Capability Load Share;
- b. The Load Serving Entity's Load Share Quantity; and
- c. The amount of, and branch group on which, the Load Serving Entity's Existing Contract Import Capability and Pre-RA Import Commitment Capability, as applicable, has been assigned; and
- d. The Load Serving Entity's Remaining Import Capability.

Step 8: Transfer of Import Capability: Up to and including July 17, 2007 for RA Compliance Year 2008 and for subsequent RA Compliance Years in accordance with the schedule set forth in the business practice manual, a Load Serving Entity shall be allowed to transfer some or all of its Remaining Import Capability to any other Load Serving Entity or Market Participant. The ISO will accept transfers among

LSEs and Market Participants only to the extent such transfers are reported to the ISO by July 18, 2007 for RA Compliance Year 2008 and for subsequent RA Compliance Years in accordance with the schedule set forth in the business practice manual through the ISO's Import Capability Transfer Registration Process by the entity receiving the Remaining Import Capability that sets forth (1) the name of the counter-party and (2) the MW quantity.

Step 9: Initial Scheduling Coordinator Request to Assign Remaining Import Capability by Branch

Group: At any time up to and including July 19, 2007 for RA Compliance Year 2008 and for subsequent RA Compliance Years in accordance with the schedule set forth in the business practice manual, the Scheduling Coordinator for each Load Serving Entity or Market Participant shall notify the ISO of its request to assign its post-trading Remaining Import Capability on a MW basis per available branch group. Total requests for assignment of Remaining Import Capability by a Scheduling Coordinator cannot exceed the sum of the post-traded Remaining Import Capability of its Load Serving Entities. The ISO will honor the requests to the extent a branch group has not been over requested. If a branch group is over requested, the requests for Remaining Import Capability on that branch group will be assigned based on each Load Serving Entity's Import Capability Load Share Ration in the same manner as set forth in Step 4. A Market Participant without an Import Capability Load Share will be assigned the Import Capability Load Share equal to the average Import Capability Load Share of those Load Serving Entities from which it received transfers of Remaining Import Capability.

Step 10: ISO Notification of Initial Remaining Import Capability Assignments and Unassigned

Capability: At any time up to and including July 27, 2007 for RA Compliance Year 2008 and for subsequent RA Compliance Years in accordance with the schedule set forth in the business practice manual, the ISO will:

- a. Notify the Scheduling Coordinator for each Load Serving Entity or Market Participant of the Load Serving Entity or Market Participant's accepted request(s) for assigning Remaining Import Capability under Step 9; and

- b. Publish on its website aggregate unassigned Available Import Capability, if any, the identity of the branch groups with unassigned Available Import Capability, and the MW quantity of Available Import Capability, on each such branch group.

Step 11: Secondary Scheduling Coordinator Request to Assign Remaining Import Capability by Branch Group: To the extent Remaining Import Capability remains unassigned as disclosed by Step 10, at any time up to and including August 1, 2007 for RA Compliance Year 2008 and for subsequent RA Compliance Years in accordance with the schedule set forth in the business practice manual, Scheduling Coordinators for Load Serving Entities or Market Participants shall notify the ISO of their requests to assign any remaining Remaining Import Capability on a MW per available branch group basis. The ISO will honor the requests to the extent a branch group has not been over requested. If a branch group is over requested, the requests on that branch group will be assigned based on each Load Serving Entity or Market Participant's Import Capability Load Share Ratio, as used in Steps 4 and 9.

Step 12: Notification of Secondary Remaining Import Capability Assignments and Unassigned Capability: At any time up to and including August 8, 2007 for RA Compliance Year 2008 and for subsequent RA Compliance Years in accordance with the schedule set forth in the business practice manual, the ISO will:

- a. Notify the Scheduling Coordinator for each Load Serving Entity or Market Participant of the Load Serving Entity or Market Participant's accepted request(s) for assigning Remaining Import Capability under Step 11; and
- b. Publish on its website unassigned aggregate Available Import Capability, if any, the identity of the branch groups with Available Remaining Import Capability, and the MW quantity of Availability Import Capability on each such branch group.

Step 13: Requests for Balance of Year Unassigned Available Import Capability: To the extent total Available Import Capability remains unassigned as disclosed by Step 12, Scheduling Coordinators for Load Serving Entities or Market Participants shall notify the ISO at any time, except as limited herein, of a request for unassigned Available Import Capability on a specific branch group on a per MW basis. Each request must include the identity of Load Serving Entity or Market Participant on whose behalf the request is made. The ISO will accept only two (2) requests per calendar week from any Scheduling Coordinator on behalf of a single Load Serving Entity or other Market Participant. The ISO will honor requests in priority of the time requests from Scheduling Coordinators were received until the branch group is fully assigned and without regard to any Load Serving Entity's Load Share Quantity. Any honored request shall be for the remainder of the RA Compliance Year; however, any notification by the ISO of acceptance of the request in accordance with this Section after the 20th calendar day of any month shall not be permitted to be included in the Load Serving Entity's Resource Adequacy Plan submitted in the same month as the acceptance.

The ISO shall provide an electronic means, either through the Import Capability Transfer Registration Process or otherwise, of notifying the Scheduling Coordinator of the time the request was deemed received by the ISO and, within seven (7) days of receipt of the request, whether the request was honored. If honored, it shall be the responsibility of the Scheduling Coordinator and its Load Serving Entity to notify the CPUC or applicable Local Regulatory Authority of the unassigned import capability. If the request is not honored because the branch group requested was fully assigned, the request will be deemed withdrawn and the Scheduling Coordinator will be required to submit a new request for unassigned import capability on a different branch group. For RA Compliance Year 2008, the ISO will update on its website the list of unassigned capability by branch group on or before the 5th calendar day of each month and for subsequent RA Compliance Years in accordance with the schedule set forth in the business practice manual.

This multi-step process for assignment of Total Import Capability does not guarantee or result in any actual transmission service being assigned and is only used for determining the import capability that can be

credited towards satisfying the Planning Reserve Margin of a Load Serving Entity under this Section 40. Upon the request of the ISO, Scheduling Coordinators must provide the ISO with information on Pre-RA Import Commitments and any transfers or sales of assigned Total Import Capability. To the extent that the ISO's review of Resource Adequacy Plans identifies reliance upon Total Import Capability that exceeds the Total Import Capability assigned to the Load Serving Entity under this section, the ISO will inform the CPUC or appropriate Local Regulatory Authority, as appropriate.

40.5.2.2.2 Bilateral Import Capability Transfers and Registration Process

40.5.2.2.2.1 Eligibility Registration for Bilateral Import Capability Transfers

To be eligible to engage in any bilateral assignment, sale, or other transfer of Existing Contract Import Capability, Pre-RA Import Commitment Capability or Remaining Import Capability, whether pursuant to Step 8 of Section 40.5.2.2.1 or Section 40.5.2.2.2.2, a Load Serving Entity or other Market Participant must provide the ISO through the Import Capability Transfer Registration Process the following information:

- a. Name of the Load Serving Entity or Market Participant
- b. E-mail contact information

For RA Compliance Year 2008, the ISO will post to its website the information received under this Section on a monthly basis on or before the 5th calendar day of the month and for subsequent RA Compliance Years in accordance with the schedule set forth in the business practice manual. Any assignment, sale, or other transfer of Existing Contract Import Capability, Pre-RA Import Commitment Capability or Remaining Import Capability may only be made by or to a Load Serving Entity or Market Participant whose information received under this Section has been posted to the ISO website prior to the date of the assignment sale or other transfer of the Existing Contract Import Capability, Pre-RA Import Commitment Capability or Remaining Import Capability. It shall be the exclusive responsibility of the Load Serving Entity or Market Participant to ensure that the information posted to the ISO website under this Section is accurate and up to date.

40.5.2.2.2.2 Reporting Process for Bilateral Import Capability Transfers

This Section shall apply to all transfers of Existing Contract Import Capability, Pre-RA Import Commitment Capability or Remaining Import Capability other than that provided for in Step 8 of Section 40.5.2.2.1.

Any Load Serving Entity or other Market Participant that has obtained Existing Contract Import Capability, Pre-RA Import Commitment Capability or Remaining Import Capability may assign, sell, or otherwise transfer such Existing Contract Import Capability, Pre-RA Import Commitment Capability or Remaining Import Capability in MW increments. The import capability subject to each transfer shall remain on the branch group assigned pursuant to Section 40.5.2.2.1.

The Scheduling Coordinator for the Load Serving Entity or Market Participant receiving the transferred Existing Contract Import Capability, Pre-RA Import Commitment Capability or Remaining Import Capability must report the transfer to the ISO through the ISO's Import Capability Transfer Registration Process by providing the following information:

- a. Identity of the counter-party(ies);
- b. The MW quantity;
- c. The branch group on which the Existing Contract Import Capability, Pre-RA Import Commitment Capability or Remaining Import Capability was assigned; and
- d. The term of the transfer; and
- e. Price on a per MW basis.

At least on a semi-annual basis, the ISO shall report to FERC the transfer information received under this Section. Transfer information received in accordance with this Section after the 20th calendar day of any month shall not be permitted to be included in the Load Serving Entity's Resource Adequacy Plan submitted in the same month as the transfer submission.

Approved Load Profile

Local Regulatory Authority approved Load profiles applied to cumulative End-Use Meter Data in order to allocate consumption of Energy to Settlement Periods.

Approved Maintenance Outage

A Maintenance Outage which has been approved by the ISO through the ISO Outage Coordination Office.

“Area Control Error (ACE)”

The sum of the instantaneous difference between the actual net interchange and the scheduled net interchange between the ISO Control Area and all adjacent Control Areas and the ISO Control Area’s frequency correction and time error correction obligations.

Authorized Users

A person or an entity identified as an authorized user in a meter service agreement between the ISO and an ISO Metered Entity or a meter service agreement between the ISO and a SC.

Automatic Mitigation Procedure (AMP)

The market power mitigation procedure described in Attachment A to Appendix P.

Available Import Capability

The Maximum Import Capability of a branch group into the ISO Control Area in MW deliverable to the ISO Control Area based on ISO study criteria minus the sum in MW of all Existing Contracts and Transmission Ownership Rights over that branch group held by load serving entities that do not serve Load within the ISO Control Area.

Available Transfer Capacity

For a given transmission path, the capacity rating in MW of the path established consistent with ISO and WECC transmission capacity

| | |
|---|--|
| <u>Existing Contract Import Capability</u> | The quantity of Available Import Capability reserved for Existing Contracts and Transmission Ownership Rights held by Load Serving Entities that serve Load within the ISO Control Area under Step 3 of ISO Tariff Section 40.5.2.2.1. |
| <u>Existing High Voltage Facility</u> | A High Voltage Transmission Facility of a Participating TO that was placed in service on or before the Transition Date defined in Section 4.2 of Schedule 3 of Appendix F. |
| <u>Existing Rights</u> | Those transmission service rights defined in Section 16.2.1.1 of the ISO Tariff. |
| <u>Facility Owner</u> | An entity owning transmission, Generation, or distribution facilities connected to the ISO Controlled Grid. |
| <u>Facility Study</u> | An engineering study conducted by a Participating TO to determine required modifications to the Participating TO's transmission system, including the cost and scheduled completion date for such |

Spinning Reserves, or Replacement Reserve, or Energy from other Generating Units, System Units, System Resources, or Loads that are able to respond to the ISO's request for more or less Energy.

Import Capability Load Share

A Load Serving Entity's proportionate share of the forecasted RA Compliance Year coincident peak Demand for the ISO Control Area relative to the total coincident peak Demand for the ISO Control Area as determined by the California Energy Commission.

Import Capability Load Share Ratio

A Load Serving Entity's Import Capability Load Share divided by the sum of the Import Capability Load Shares of all Load Serving Entities with unfulfilled requests for import capability on a particular branch group.

Import Capability Transfer Registration Process

The electronic means by which Load Serving Entities and Market Participants must register with the ISO any bilateral transfers of Existing Contract Import Capability, Pre-RA Import Commitment Capability, or Remaining Import Capability.

Inactive Zone

All Zones which the ISO Governing Board has determined do not have a workably competitive Generation market and as set out in Appendix I to the ISO Tariff.

Incremental Change

The change in dollar value of a specific charge type from the Preliminary Settlement Statement to the Final Settlement Statement including any new charge types or Trading Day charges appearing for the first time on the Final Settlement Statement.

In-Service Date

The date upon which the Interconnection Customer reasonably expects it will be ready to begin use of the Participating TO Interconnection Facilities to obtain back feed power.

"Interim Black Start Agreement"

An agreement entered into between the ISO and a Participating Generator (other than a Reliability Must-Run Agreement) for the provision by the Participating Generator of Black Start capability and Black Start Energy on an interim basis until the introduction by the ISO of its Black Start auction (or until terminated earlier by either party in accordance with its terms).

Intermediary Control Area

Any Control Area between a Host Control Area and the ISO Control Area. An Intermediary Control Area may, or may not, be directly interconnected with the ISO Control Area.

Instructed Imbalance

Energy

The real-time change in Generation output or Demand (from dispatchable Generating Units, System Units, System Resources or Loads) which is instructed by the ISO to ensure that reliability of the ISO Control Area is maintained in accordance with Applicable Reliability Criteria. Sources of Imbalance Energy include Spinning and Non-Spinning Reserves, Replacement Reserve, and Energy from other dispatchable Generating Units, System Units, System Resources or Loads that are able to respond to the ISO's request for more or less Energy.

Inter-Scheduling

Ancillary Service transactions between Scheduling Coordinators.

ISO Website

The ISO internet home page at <http://www.caiso.com> or such other internet address as the ISO shall publish from time to time.

ISP (Internet Service Provider)

An independent network service organization engaged by the ISO to establish, implement and operate WEnet.

Joint Powers Agreement

An agreement governing a Joint Powers Authority that is subject to the California Joint Exercise of Powers Act (California Government Code, Section 6500, *et seq.*).

Joint Powers Authority

An authority authorized by law through which two or more public entities jointly exercise their powers.

Large Generating Facility

A Generating Facility having a Generating Facility Capacity of more than 20 MW.

LARN Report for 2006

The report, published by the ISO, which identifies each Local Reliability Area for 2006 and the contingencies that require the ISO to specify a geographically contiguous area as a Local Reliability Area, and the amount of generation (in MW) needed for each Local Reliability Area in order to satisfy Applicable Reliability Criteria, taking into account Non-Generation Solutions.

Line Loss Correction Factor

The line loss correction factor as set forth in the Technical Specifications.

Load

An end-use device of an End-Use Customer that consumes power. Load should not be confused with Demand, which is the measure of power that a Load receives or requires.

Load-Serving Entity (LSE)

Any entity (or the duly designated agent of such an entity, including, e.g. a Scheduling Coordinator), including a load aggregator or power marketer; (i) serving End Users within the ISO Control Area and (ii) that has been granted authority or has an obligation pursuant to California State or local law, regulation, or franchise to sell electric energy to End Users located within the ISO Control Area or (iii) is a Federal Power Marketing Authority that serves retail Load.

Load Share Quantity

The product of Total Import Capability and Import Capability Load Share.

Load Shedding

The systematic reduction of system Demand by temporarily decreasing the supply of Energy to Loads in response to transmission system or area capacity shortages, system instability, or voltage control considerations.

Market Usage Charge

The component of the Grid Management Charge that provides for the recovery of the ISO's costs, including, but not limited to the costs for processing Supplemental Energy and Ancillary Service bids, maintaining the Open Access Same-Time Information System, monitoring market performance, ensuring generator compliance with market protocols, and determining Market Clearing Prices. The formula for determining the Market Usage Charge is set forth in Appendix F, Schedule 1, Part A of this Tariff.

Master File

A file containing information regarding Generating Units, Loads and other resources.

Material Change in

Financial Condition

A change in or potential threat to the financial condition of a Market Participant or FTR Bidder that increases the risk that the Market Participant or FTR Bidder will be unlikely to meet some or all of its financial obligations. The types of Material Change in Financial Condition include but are not limited to the following:

- (a) a credit agency downgrade;
- (b) being placed on a credit watch list by a major rating agency;
- (c) a bankruptcy filing;
- (d) insolvency;
- (e) the filing of a material lawsuit that could significantly and adversely affect past, current, or future financial results; or
- (f) any change in the financial condition of the Market Participant or FTR Bidder which exceeds a five percent reduction in the Market Participant's or FTR Bidder's tangible net worth for the Market Participant or FTR Bidder's preceding fiscal year, calculated in accordance with generally accepted accounting practices.

Material Modification

Those modifications that have a material impact on the cost or timing of any Interconnection Request or any other valid interconnection request with a later queue priority date.

Maximum Import Capability

A quantity in MW determined by the ISO for each branch group into the ISO Control Area to be deliverable to the ISO Control Area based on ISO study criteria.

CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

FERC ELECTRIC TARIFF

THIRD REPLACEMENT VOLUME NO. II

Original Sheet No. 512.00

MDAS

The ISO's revenue meter data acquisition and processing
system.

Preferred Schedule

The initial Schedule produced by a Scheduling Coordinator that represents its preferred mix of Generation to meet its Demand. For each Generator, the Schedule will include the quantity of output, details of any Adjustment Bids, and the location of the Generator. For each Load, the Schedule will include the quantity of consumption, details of any Adjustment Bids, and the location of the Load. The Schedule will also specify quantities and location of trades between the Scheduling Coordinator and all other Scheduling Coordinators. The Preferred Schedule will be balanced with respect to Generation, Transmission Losses, Load and trades between Scheduling Coordinators.

Preliminary Settlement Statement

The initial statement issued by the ISO of the calculation of the Settlements and allocation of the charges in respect of all Settlement Periods covered by the period to which it relates.

Pre-RA Import Commitment

Any power purchase agreement, ownership interest, or other commercial arrangement entered into on or before March 10, 2006, by a Load Serving Entity serving Load in the ISO Control Area for the procurement of Energy or capacity from a resource or resources located outside the ISO Control Area. The Pre-RA Import Commitment shall be deemed to terminate upon the expiration of the initial term of the Pre-RA Import Commitment, notwithstanding any "evergreen" or other renewal provision exercisable at the option of the Load Serving Entity.

Pre-RA Import Commitment Capability

The quantity in MW assigned to a particular branch group into the ISO Control Area based on a Pre-RA Import Commitment.

Price Overlap

The price range of bids for Supplemental Energy or Energy associated with Ancillary Services bids for any Dispatch Interval that includes decremental and incremental Energy Bids where the price of the decremental Energy Bids exceeds the price of the incremental Energy Bids.

Primary ISO Control Center

The ISO Control Center located in Folsom, California.

Project Sponsor

A Market Participant or group of Market Participants or a Participating TO that proposes the construction of a transmission addition or upgrade in accordance with Section 24 of the ISO Tariff.

Proposal for Installation

A written proposal submitted by an ISO Metered Entity to the ISO describing a proposal for the installation of additional Metering Facilities.

Proxy Price

The value determined for each gas-fired Generating Unit owned or controlled by a Must-Offer Generator in accordance with Section 40.10.1.

PTO Service Territory

The area in which an IOU, a Local Public Owned Electric Utility, or federal power marketing administration that has turned over its transmission facilities and/or Entitlements to ISO Operational Control is obligated to provide electric service to Load. A PTO

Service Territory may be comprised of the Service Areas of more than one Local Public Owned Electric Utility, if they are operating under an agreement with the ISO for aggregation of their MSS and their MSS Operator is designated as the Participating TO.

Queue Position

The order of a valid Interconnection Request, relative to all other pending valid Interconnection Requests, that is established based upon the date and time of receipt of the valid Interconnection Request by the ISO.

Qualifying Capacity

The maximum capacity of a Resource Adequacy Resource. The criteria for calculating Qualifying Capacity from Resource Adequacy Resources may be established by the CPUC or other applicable Local Regulatory Authority and provided to the ISO, or default provisions in Section 40.13 of this ISO Tariff.

Qualifying Facility

A qualifying co-generation or small power production facility recognized by FERC.

RA Compliance Year

Calendar year from January 1 to December 31.

RA Entity

Any entity identified in Section 40.1 of the ISO Tariff.

RA Entity Load Share

Percentage

An RA Entity's proportionate share of load in a TAC Area. The RA Entity Load Share Percentage shall be calculated for each RA Entity by dividing the RA Entity's actual annual coincident peak Load in each TAC area in 2005 by the total coincident peak Load of all RA Entities in the TAC Area in 2005.

Ramping

Changing the loading level of a Generating Unit in a constant manner over a fixed time (e.g., ramping up or ramping down). Such changes may be directed by a computer or manual control.

RAS (Remedial Action Schemes)

Protective systems that typically utilize a combination of conventional protective relays, computer-based processors, and telecommunications to accomplish rapid, automated response to unplanned power system events. Also, details of RAS logic and any special requirements for arming of RAS schemes, or changes in RAS programming, that may be required.

are deemed by the ISO as necessary to maintain reliable electric service in the ISO Control Area; and 2) whose costs are billed by the ISO to the Participating TO pursuant to the ISO Tariff. Reliability Services Costs include costs charged by the ISO to a Participating TO associated with service provided under an RMR Contract (Section 30.6.1.2), local out-of-market dispatch calls (Section 11.2.4.2.1) and Minimum Load Costs associated with units committed under the must-offer obligation for local reliability requirements (Section 40.8.6)

Remaining Import Capability

The quantity in MW of Total Import Capability assigned to a Load Serving Entity up to its Load Share Quantity after the assignment of Existing Contract Import Capability and Pre-RA Import Commitment. Capability.

Remote Self-Supply

Positive Net Output from generating resources in the Station Power Portfolio that is deemed to have self-supplied Station Power load of other Generating Units in the Station Power Portfolio during the Netting Period, where such self-supply requires use of the ISO Controlled Grid.

REMnet

The Wide Area Network through which the ISO acquires Meter Data.

Replacement Reserve

Generating capacity that is dedicated to the ISO, capable of starting up if not already operating, being synchronized to the ISO Controlled Grid, and Ramping to a specified operating level within a sixty (60) minute period, the output of which can be continuously maintained for a two hour period. Also, Curtailable Demand that is capable of being curtailed within sixty minutes and that can remain curtailed for two hours.

Resource Adequacy

The program that ensures that adequate physical generating capacity dedicated to serving all load requirements is available to meet peak demand and planning and operating reserves, at or deliverable to locations and at times as may be necessary to ensure local area reliability and system reliability.

Resource Adequacy

The capacity of a Resource Adequacy Resource listed on a Resource Adequacy Plan and a Supply Plan.

Capacity

Resource Adequacy Plan

A submission by a Scheduling Coordinator for a Load Serving Entity serving Load in the ISO Control Area in order to satisfy the requirements of Section 40 of this ISO Tariff.

generating resources, or allocated portions of generating resources, that comprise the System Resource.

The tolerance band expressed in terms of Energy (MWh) for the performance requirement for Participating Loads for each Settlement Interval will equal the greater of the absolute value of: 1) 5 MW divided by number of Settlement Intervals per Settlement Period or 2) three percent (3%) of the applicable Final Hour-Ahead Schedule or ISO Dispatch amount divided by number of Settlement Intervals per Settlement Period.

The Tolerance Band shall not be applied to non-dynamically scheduled System Resources.

Total Import Capability

The aggregate Maximum Import Capability of all branch groups into the ISO Control Area in MW deliverable to the ISO Control Area based on ISO study criteria minus the aggregate sum in MW of all Existing Contracts and Transmission Ownership Rights held by load serving entities that do not serve Load within the ISO Control Area.

Total Transfer Capability (TTC)

The amount of power that can be transferred over an interconnected transmission network in a reliable manner while meeting all of a specific set of defined pre-contingency and post-contingency system conditions.

Trading Day

The twenty-four hour period beginning at the start of the hour ending 0100 and ending at the end of the hour ending 2400 daily, except where there is a change to and from daylight savings time.

Transition Charge

The component of the Access Charge collected by the ISO with the High Voltage Access Charge in accordance with Section 5.7 of Appendix F, Schedule 3.

Trading Interval

A Settlement Period as defined in the Master Definitions Supplement of the ISO Tariff.

Transformer Loss Correction Factor

The transformer loss correction factor as set forth in the Technical Specifications to be applied to revenue quality meters of ISO Metered Entities which are installed on the low voltage side of step-up transformers.

Transition Period

The period of time established by the California Legislature and CPUC to allow IOUs and Local Publicly Owned Electric Utilities an opportunity to recover Transition Costs or Severance Fees.

Transmission Losses

Energy that is lost as a natural part of the process of transmitting Energy from Generation to Load delivered at the ISO/UDC boundary or Control Area boundary.

Attachment B – Blacklines
Import Capability Assignment Filing

40.5.2.2 Deliverability of Imports.

40.5.2.2.1 Available Import Capability Assignment Process.

~~This Section 40.5.2.2 shall apply only to Resource Adequacy Plans covering the period through December 31, 2007, unless superseded earlier by alternative ISO Tariff provisions. For Resource Adequacy Plans covering any period after December 31, 2007, Total Available Import Capacity Capability will be assigned on an annual basis for a one-year term to Load Serving Entities serving Load in the ISO Control Area and other Market Participants through their respective Scheduling Coordinators, if applicable, for 2007 as described by the following sequence of steps.~~

~~1-Step 1: Determination of Maximum Import Capability on Branch Groups into the ISO Control Area:~~

~~The ISO shall establish for 2007 for each branch group the total Maximum Import Capacity Capability for each branch group into values for the ISO Control Area, and will post those values on the ISO Website for RA Compliance Year 2008 by July 1, 2007, and for subsequent RA Compliance Years in accordance with the schedule and process set forth in the business practice manual. by July 1, 2006.~~

~~2-Step 2: Determination of Available Import Capability by Accounting for Existing Contracts and~~

~~Transmission Ownership Rights Held by Out-of-ISO Control Area LSEs: For each branch group, the total capacity Available Import Capability will be determined by subtracting from the Maximum Import Capacity established in Step 1 for each branch group will be reduced by subtracting the import capacity capability on each branch group associated with (i) Existing Transmission Contracts and (ii) encumbrances and Transmission Ownership Rights held by load serving entities that do not serve Load within the ISO Control Area. The remaining sum of all branch group Available Import Capability is the Total Import Capability. Total Import Capability shall be used to determine the Load Share Quantity for each Load Serving Entity that serves Load within the ISO Control Area, and the resulting values for each branch group will be posted on the ISO Website by July 1, 2006. Existing Contracts~~

~~and encumbrances and transmission ownership rights therefore shall be reserved for holders of such commitments as part of the deliverability study and will not be subject to allocation under this Section.~~

Step 3: Determination of Existing Contract Import Capability by Accounting for Existing Contracts and Transmission Ownership Rights Held by In-ISO Control Area LSEs: From the Available Import Capability remaining on each branch group after Step 2 above, Existing Contracts and Transmission Ownership Rights held by Load Serving Entities that serve Load within the ISO Control Area shall be reserved for the holders of such commitments and will not be subject to reduction under any subsequent steps in this Section. The import capability reserved pursuant to this Step 3 is the Existing Contract Import Capability.

~~3-Step 34: Assignment of Pre-RA Import Commitments: From the amount of Available Import Capacity remaining on each branch group after reserving Existing Contract Import Capability under Step 3 determined in Step 2 above, the ISO will assign to Load Serving Entities serving Load within the ISO Control Area will receive on or before July 19, 2006, to the extent feasible, an allocation Pre-RA Import Commitment Capability on a particular branch group based on Pre-RA Import Commitments in effect (where a supplier has an obligation to deliver the Energy or make the capacity available) at any time during the RA Compliance Year for which the Available Import Capability assignment is being performed. selected by the Load Serving Entity equal to each entity's resource commitments from outside the ISO Control Area, as of March 10, 2006, the terms of which runs through at least calendar year 2007. The Pre-RA Import Commitment will be assigned to the branch group shall be selected by the Load Serving Entity during the RA Compliance Year 2007 import capability assignment process, which was required to be based on the primary branch group upon which the Energy or capacity from the particular resource Pre-RA Import Commitment from outside the ISO Control Area has been primarily historically scheduled or, for a resource Pre-RA Import Commitment without a scheduling history at the time of the RA Compliance Year 2007 import capability assignment process, the primary branch group upon which the Energy or capacity from the particular resource commitment from outside the ISO Control Area is was anticipated to be scheduled. To the extent a Pre-RA Import Commitment was not presented during the RA~~

Compliance Year 2007 import capability assignment process, the Load Serving Entity shall select the branch group upon which the Pre-RA Import Commitment is primarily anticipated to be scheduled during the term of the Pre-RA Import Commitment and that selection shall be utilized in future annual Available Import Capability assignment processes.

To the extent a particular branch group is becomes over requested with Pre-RA Import Commitments due to either Pre-RA Import Commitments not included in the RA Compliance Year 2007 import capability assignment process or changes in system conditions that decrease the Maximum Import Capability of the branch group, such that the MWs represented in all requested resource Pre-RA Import eCommitments utilizing the branch group exceed the branch group's remaining Available iImport capacityCapability in excess of that reserved for Existing Contracts and Transmission Ownership Rights under Steps 2 and 3, the requested resource Pre-RA Import eCommitments MW quantities will be allocated available capacity assigned Pre-RA Import Commitment Capability, based on the "Import Capacity Capability Load Share" rRatio of each Load Serving Entity submitting such resource Pre-RA Import eCommitments on the particular branch group. To the extent this initial assignment of Pre-RA Import Commitment Capabilityallocation has not fully assigned the Available total iImport capacity Capability of a the particular over requested branch group to the requested resource commitments, the remaining Available Import capacity Capability on the over requested branch group will be allocated assigned until fully exhausted based on the Import Capacity Capability Load Share rRatio of each Load Serving Entity whose submitted resource Pre-RA Import eCommitment has not been fully satisfied by the previous Import Capability Load Share Ratio assignment iteration.

a. Import Capacity Load Share is each Load Serving Entity's proportionate share of the forecasted 2007 coincident peak Load for the ISO Control Area relative to the total coincident peak Load of all Load Serving Entities that have not had their request for import capacity for a resource commitment on a particular branch group fully satisfied. The proportionate share of the forecasted 2007 peak Load for the ISO Control Area for each Load Serving Entity is the "Coincident Load Share," as determined by the California Energy Commission.

~~b. The ISO will notify the Scheduling Coordinator for each Load Serving Entity of the Load Serving Entity's Coincident Load Share. The ISO will further notify the Scheduling Coordinator for each Load Serving Entity of the amount of, and branch group on which, import capacity has been allocated to the Load Serving Entity pursuant to this Step 3. The Available ~~Import Capacity~~ Capability ~~allocated~~ assigned pursuant to this Step ~~3~~ 4 shall be referred to as "is the Pre-RA Import Commitment ~~Import Capacity~~ Capability."~~

~~4. Step 45: Assignment of Remaining Import Capacity Limited by Load Share Quantity: To the extent import capacity remains unallocated following Steps 1-3 above, the ISO will publish on its Website by July 19, 2006 remaining aggregate import capacity, the identity of the branch groups with available capacity, and the MW quantity remaining on each such branch group. The remaining aggregate ~~Total~~ Import Capacity ~~remaining after Step 4~~ will be ~~assigned~~ allocated only to Load Serving Entities serving Load within the ISO Control Area ~~through their Scheduling Coordinators that have not received Existing Contract Import Capacity and Pre-RA Import Commitment Capacity under Steps 3 and 4, that exceed the Load Serving Entity's Load Share Quantity. This Total Import Capacity will be assigned until fully exhausted to those Load Serving Entities eligible to receive an assignment under this Step based on each Load Serving Entity's Import Capacity Coincident Load Share Ratio up to, but not in excess of, its Load Share Quantity. The quantity of Total ~~Import Capacity~~ Capability assigned~~ allocated to the Load Serving Entity under this Step is the ~~to a Load Serving Entity's under this paragraph is that entity's~~ "Remaining ~~der~~ Import Capacity Capability." This Step ~~45~~ 4 does not ~~allocate~~ assign ~~Remaining~~ Import Capacity Capability on a specific branch group, but rather ~~allocates~~ allocates aggregate import capacity.~~

Step 6: ISO Posting of Assigned and Unassigned Capability: Following the completion of Step 5, the ISO will post to its website for RA Compliance Year 2008 by July 9, 2007 and for subsequent RA Compliance Years in accordance with the schedule set forth in the business practice manual the following information:

a. The Total Import Capability:

- b. The quantity in MW of Existing Contracts and Transmission Ownership Rights assigned to each branch group, distinguishing between Existing Contracts and Transmission Ownership Rights held by Load Serving Entities within the ISO Control Area and those held by load serving entities outside the ISO Control Area;
- c. The aggregate quantity in MW, and identify the holder, of Pre-RA Import Commitments assigned to each branch group; and
- d. The aggregate quantity in MW of Available Import Capability after Step 4, the identity of the branch groups with Available Import Capability, and the MW quantity of Available Import Capability on each such branch group.

Step 7: ISO Notification of LSE Assignment Information: Following the completion of Step 5, by July 9, 2007 for RA Compliance Year 2008 and for subsequent RA Compliance Years in accordance with the schedule set forth in the business practice manual, the ISO will notify the Scheduling Coordinator for each Load Serving Entity of:

- a. The Load Serving Entity's Import Capability Load Share;
- b. The Load Serving Entity's Load Share Quantity; and
- c. The amount of, and branch group on which, the Load Serving Entity's Existing Contract Import Capability and Pre-RA Import Commitment Capability, as applicable, has been assigned; and
- d. The Load Serving Entity's Remaining Import Capability.

5-Step 58: Transfer of Import Capability: Up to and including July 17, 2007 for RA Compliance Year 2008 and for subsequent RA Compliance Years in accordance with the schedule set forth in the business practice manual, a Load Serving Entityies shall be allowed to trade-transfer some or all of their-its Remainingder Import CapacityCapability or Commitment Import Capacity to any other Load

Serving Entity or Market Participant ~~up to and including July 26, 2006~~. The ISO will accept ~~trades~~ transfers among LSEs and Market Participants only to the extent such ~~trades-transfers~~ are reported to the ISO by July 18, 2007 for RA Compliance Year 2008 and for subsequent RA Compliance Years in accordance with the schedule set forth in the business practice manual through the ISO's Import Capability Transfer Registration Process via e-mail by the entity receiving the Remaining ~~der~~ Import Capacity ~~Capability or Commitment Import Capacity~~ that sets forth (1) the name of the counter-party and (2) the MW quantity.

6.—Step 69: Initial Scheduling Coordinator Request to Assign Remaining Import Capability by Branch Group: At any time up to and including July 19, 2007 for RA Compliance Year 2008 and for subsequent RA Compliance Years in accordance with the schedule set forth in the business practice manual ~~Three business days after the close of the trading period set forth in Step 5 above~~, the Scheduling Coordinator for each Load Serving Entity or Market Participant shall notify the ISO of its request to ~~allocate~~ assign its post-trading Remaining ~~der~~ Import Capacity ~~Capability~~ on a MW basis per available branch group basis. Total requests for assignment of Remaining Import Capability by a Scheduling Coordinator cannot exceed the sum of the post-traded Remaining Import Capability of its Load Serving Entities. The ISO will honor the requests to the extent a branch group has not been over requested. If a branch group is over requested, the requests for Remaining ~~der~~ Import Capacity ~~Capability~~ on that branch group will be ~~allocated~~ assigned based on ~~the ratio of each Load Serving Entity's Import Capacity~~ Capability Load Share Ratio in the same manner as set forth, ~~as used in Step 34~~. A Market Participant without an Import Capability Coincident Load Share will be assigned the Import Capability Coincident Load Share equal to the average Import Capability Coincident Load Share of those Load Serving Entities from which it received transfers of Remaining ~~der~~ Import Capacity ~~Capability~~. ~~The ISO will notify each Scheduling Coordinator for Load Serving Entities or Market Participants of their accepted allocation under this Step 6 on or before August 10, 2006.~~

7-Step 710: ISO Notification of Initial Remaining Import Capability Assignments and Unassigned Capacity: At any time up to and including July 27, 2007 for RA Compliance Year 2008 and for

subsequent RA Compliance Years in accordance with the schedule set forth in the business practice manual. Following Step 6, on or before August 10, 2006, the ISO will:

- a. Notify the Scheduling Coordinator for each Load Serving Entity or Market Participant of the Load Serving Entity or Market Participant's accepted request(s) for assigning Remaining Import Capability under Step 9; and
- b. Publish on its Website remaining aggregate unassigned Available Import Capacity, if any, the identity of the branch groups with unassigned Available Import Capacity, and the MW quantity of remaining Available Import Capability on each such branch group.

Step 11: Secondary Scheduling Coordinator Request to Assign Remaining Import Capability by Branch Group: To the extent Remaining Import Capacity remains unallocated unassigned as disclosed by Step 10, at any time up to and including August 1, 2007 for RA Compliance Year 2008 and for subsequent RA Compliance Years in accordance with the schedule set forth in the business practice manual, on or before August 16, 2006 via e-mail, all Scheduling Coordinators for Load Serving Entities or Market Participants shall notify the ISO of their requests to allocate assign any remaining Remaining Import Capacity on a MW per available branch group basis. The ISO will honor the requests to the extent a branch group has not been over requested. If a branch group is over requested, the requests on that branch group will be allocated assigned based on the ratio of each Load Serving Entity or Market Participant's Import Capacity Load Share Ratio, as used in Steps 3-4 and 6-9.

Step 12: Notification of Secondary Remaining Import Capability Assignments and Unassigned Capacity: At any time up to and including August 8, 2007 for RA Compliance Year 2008 and for subsequent RA Compliance Years in accordance with the schedule set forth in the business practice manual, the ISO will:

- a. ~~Notify each~~ the Scheduling Coordinator for ~~a each~~ Load Serving Entity or Market Participant of the Load Serving Entity or Market Participant's accepted request(s) allocation for assigning Remaining Import Capability under this Step 711; and on or before August 23, 2006. No further iterations will be permitted.
- b. Publish on its website unassigned aggregate Available Import Capability, if any, the identity of the branch groups with Available Remaining Import Capability, and the MW quantity of Availability Import Capability on each such branch group.

Step 13: Requests for Balance of Year Unassigned Available Import Capability: To the extent total Available Import Capability remains unassigned as disclosed by Step 12, Scheduling Coordinators for Load Serving Entities or Market Participants shall notify the ISO at any time, except as limited herein, of a request for unassigned Available Import Capability on a specific branch group on a per MW basis. Each request must include the identity of Load Serving Entity or Market Participant on whose behalf the request is made. The ISO will accept only two (2) requests per calendar week from any Scheduling Coordinator on behalf of a single Load Serving Entity or other Market Participant. The ISO will honor requests in priority of the time requests from Scheduling Coordinators were received until the branch group is fully assigned and without regard to any Load Serving Entity's Load Share Quantity. Any honored request shall be for the remainder of the RA Compliance Year; however, any notification by the ISO of acceptance of the request in accordance with this Section after the 20th calendar day of any month shall not be permitted to be included in the Load Serving Entity's Resource Adequacy Plan submitted in the same month as the acceptance.

The ISO shall provide an electronic means, either through the Import Capability Transfer Registration Process or otherwise, of notifying the Scheduling Coordinator of the time the request was deemed received by the ISO and, within seven (7) days of receipt of the request, whether the request was honored. If honored, it shall be the responsibility of the Scheduling Coordinator and its Load Serving Entity to notify the CPUC or applicable Local Regulatory Authority of the unassigned import capability. If the request is not honored because the branch group requested was fully assigned, the request will

be deemed withdrawn and the Scheduling Coordinator will be required to submit a new request for unassigned import capability on a different branch group. For RA Compliance Year 2008, the ISO will update on its website the list of unassigned capability by branch group on or before the 5th calendar day of each month and for subsequent RA Compliance Years in accordance with the schedule set forth in the business practice manual.

This multi-step process for assignment allocation of Total Import Capacity does not guarantee or result in any actual transmission service being allocated assigned and is only used for determining the maximum import capacity capability that can be credited towards satisfying the Planning Reserve Margin of a Load Serving Entity under this Section 40. Upon the request of the ISO, Scheduling Coordinators must provide the ISO with information on Pre-RA Import Commitments existing import contracts and any trades transfers or sales of assigned Total Import Capacity their load share allocation. To the extent that the ISO's review of Resource Adequacy Plans identifies reliance upon Total Imports Capability that exceeds the Total Import Capacity Capability assigned allocated to the Load Serving Entity under this section, the ISO will inform the CPUC or appropriate Local Regulatory Authority, as appropriate, of any Resource Adequacy Plan submitted by a Scheduling Coordinator for a Load Serving Entity under their respective jurisdiction that exceeds its allocation of import capacity.

40.5.2.2.2 Bilateral Import Capability Transfers and Registration Process

40.5.2.2.2.1 Eligibility Registration for Bilateral Import Capability Transfers

To be eligible to engage in any bilateral assignment, sale, or other transfer of Existing Contract Import Capability, Pre-RA Import Commitment Capability or Remaining Import Capability, whether pursuant to Step 8 of Section 40.5.2.2.1 or Section 40.5.2.2.2.2, a Load Serving Entity or other Market Participant must provide the ISO through the Import Capability Transfer Registration Process the following information:

- a. Name of the Load Serving Entity or Market Participant

b. E-mail contact information

For RA Compliance Year 2008, the ISO will post to its website the information received under this Section on a monthly basis on or before the 5th calendar day of the month and for subsequent RA Compliance Years in accordance with the schedule set forth in the business practice manual. Any assignment, sale, or other transfer of Existing Contract Import Capability, Pre-RA Import Commitment Capability or Remaining Import Capability may only be made by or to a Load Serving Entity or Market Participant whose information received under this Section has been posted to the ISO website prior to the date of the assignment sale or other transfer of the Existing Contract Import Capability, Pre-RA Import Commitment Capability or Remaining Import Capability. It shall be the exclusive responsibility of the Load Serving Entity or Market Participant to ensure that the information posted to the ISO website under this Section is accurate and up to date.

40.5.2.2.2 Reporting Process for Bilateral Import Capability Transfers

This Section shall apply to all transfers of Existing Contract Import Capability, Pre-RA Import Commitment Capability or Remaining Import Capability other than that provided for in Step 8 of Section 40.5.2.2.1. Any Load Serving Entity or other Market Participant that has obtained Existing Contract Import Capability, Pre-RA Import Commitment Capability or Remaining Import Capability may assign, sell, or otherwise transfer such Existing Contract Import Capability, Pre-RA Import Commitment Capability or Remaining Import Capability in MW increments. The import capability subject to each transfer shall remain on the branch group assigned pursuant to Section 40.5.2.2.1.

The Scheduling Coordinator for the Load Serving Entity or Market Participant receiving the transferred Existing Contract Import Capability, Pre-RA Import Commitment Capability or Remaining Import Capability must report the transfer to the ISO through the ISO's Import Capability Transfer Registration Process by providing the following information:

- a. Identity of the counter-party(ies);
- b. The MW quantity;

- c. The branch group on which the Existing Contract Import Capability, Pre-RA Import Commitment Capability or Remaining Import Capability was assigned; and
- d. The term of the transfer; and
- e. Price on a per MW basis.

At least on a semi-annual basis, the ISO shall report to FERC the transfer information received under this Section. Transfer information received in accordance with this Section after the 20th calendar day of any month shall not be permitted to be included in the Load Serving Entity's Resource Adequacy Plan submitted in the same month as the transfer submission.

* * *

Appendix A

Available Import Capability

The Maximum Import Capability of a branch group into the ISO Control Area in MW deliverable to the ISO Control Area based on ISO study criteria minus the sum in MW of all Existing Contracts and Transmission Ownership Rights over that branch group held by load serving entities that do not serve Load within the ISO Control Area.

* * *

Existing Contract Import Capability

The quantity of Available Import Capability reserved for Existing Contracts and Transmission Ownership Rights held by Load Serving Entities that serve Load within the ISO Control Area under Step 3 of ISO Tariff Section 40.5.2.2.1.

* * *

Import Capability Load Share

A Load Serving Entity's proportionate share of the forecasted RA Compliance Year coincident peak Demand for the ISO Control Area relative to the total coincident peak Demand for the ISO Control Area as determined by the California Energy Commission.

* * *

Import Capability Load Share Ratio

A Load Serving Entity's Import Capability Load Share divided by the sum of the Import Capability Load Shares of all Load Serving Entities with unfulfilled requests for import capability on a particular branch group.

* * *

Import Capability Transfer Registration Process

The electronic means by which Load Serving Entities and Market Participants must register with the ISO any bilateral transfers of Existing Contract Import Capability, Pre-RA Import Commitment Capability, or Remaining Import Capability.

* * *

Load Share Quantity

The product of Total Import Capability and Import Capability Load Share.

* * *

Maximum Import Capability

A quantity in MW determined by the ISO for each branch group into the ISO Control Area to be deliverable to the ISO Control Area based on ISO study criteria.

* * *

Pre-RA Import Commitment

Any power purchase agreement, ownership interest, or other commercial arrangement entered into on or before March 10, 2006, by a Load Serving Entity serving Load in the ISO Control Area for the procurement of Energy or capacity from a resource or resources located outside the ISO Control Area. The Pre-RA Import Commitment shall be deemed to terminate upon the expiration of the initial term of the Pre-RA Import Commitment, notwithstanding any "evergreen" or other renewal provision exercisable at the option of the Load Serving Entity.

* * *

Pre-RA Import Commitment Capability

The quantity in MW assigned to a particular branch group into the ISO Control Area based on a Pre-RA Import Commitment.

* * *

RA Compliance Year

Calendar year from January 1 to December 31.

* * *

Remaining Import Capability

The quantity in MW of Total Import Capability assigned to a Load Serving Entity up to its Load Share Quantity after the assignment of Existing Contract Import Capability and Pre-RA Import Commitment. Capability.

* * *

Total Import Capability

The aggregate Maximum Import Capability of all branch groups into the ISO Control Area in MW deliverable to the ISO Control Area based on ISO study criteria minus the aggregate sum in MW of all Existing Contracts and Transmission Ownership Rights held by load serving entities that do not serve Load within the ISO Control Area.

* * *

Attachment C – Board Memorandum and Board Decision

Memorandum

To: ISO Board of Governors

From: Keith Johnson, Senior Market and Product Developer
Phil Pettingill, Manager, Infrastructure Policy and Contracts Negotiation

cc: ISO Officers

Date: March 1, 2007

Re: *Decision on MRTU Resource Adequacy Import Capacity Tariff Filing*

This memorandum requires Board action.

Executive Summary

Over the past two months, CAISO staff has collaborated with Federal Energy Regulatory Commission ("FERC") staff and stakeholders to refine how import capacity into the ISO Control Area will be assigned for resource adequacy ("RA") reporting purposes under the CAISO's Market Redesign and Technology Update ("MRTU") project. Management recommends that the Board of Governors approve the policy elements underlying the proposed methodology as described in this memorandum and attachments, and authorize Management to file the conforming tariff provisions necessary to implement the new methodology. The proposed methodology achieves the following:

- Provides a methodology for accounting for import capacity that is consistent with current deliverability standards, builds upon the current methodology in the ISO Tariff, and adds refinements based on stakeholder comments, input received from members of the Market Surveillance Committee and experience gained by the CAISO in allocating import capacity for 2006 and 2007.
- Can be implemented prior to MRTU "go live" without impacting the CAISO's ability to deliver MRTU.
- Can be filed at FERC shortly after Board approval to meet the expedited tariff filing schedule that FERC staff and the stakeholders agree is needed to meet the procurement deadlines for 2008.
- Establishes a methodology that reasonably balances the interests of entities that have existing long-term contracts and resource commitments with the interests of entities that desire flexibility and the ability to enter into short-term resource commitments.
- Continues to recognize existing contracts and resource commitments executed as of March 10, 2006, but provides a priority going forward only during the initial term of such existing arrangements.
- Eliminates the risk of ISO Tariff provisions getting ahead of efforts of the Californian Public Utilities Commission ("CPUC") and other Local Regulatory Authorities ("LRAs") that are considering multi-year RA obligation.

Background

The CAISO has accounted for import capacity among LSEs for RA “counting” purposes for 2006 and 2007 under the Interim Reliability Requirements Program (“IRRP”) Tariff. This authority is approved for RA reports covering periods up through calendar year 2007. The CAISO needs FERC approval of additional tariff language that will be effective for RA reports covering periods starting January 1, 2008. The proposed tariff amendment described in this memorandum and attachments meets that need.

The CAISO initially filed an import accounting methodology in its proposed MRTU Tariff on February 9, 2006. However, on March 13, 2006, the CAISO filed its IRRP Tariff, which included a methodology for accounting for import capacity that built upon and was, in critical ways, superior to the language that was included in the February 9, 2006 MRTU Tariff filing. On May 12, 2006, FERC approved the IRRP filing and found the CAISO’s proposal for accounting of import capacity for 2007 to be equitable.

In response to a request from the CAISO, in its September 21, 2006 MRTU Order the FERC directed its staff to convene a technical conference to address the accounting of import capacity. On December 1, 2006, the CAISO filed a motion stating that the tariff language currently in effect in the CAISO’s IRRP compliance filing constitutes a preferred and more equitable framework to use to refine the import provisions of the MRTU Tariff, and that these provisions should replace the provisions that were included in the MRTU filing. The CAISO also noted that certain open questions remain, and put those open issues before stakeholders in an informational filing that was made on December 11, 2006. The December 11, 2006 informational filing is considered to be the CAISO’s “initial proposal” for accounting for import capacity under MRTU.

FERC held a Technical Conference on February 1, 2007, wherein parties discussed the CAISO’s initial proposal and offered suggested changes. At the conclusion of the conference, FERC staff stated they heard that: (1) parties generally agree with the IRRP methodology proposed by the CAISO, subject to the CAISO responding to a few requests for information, and (2) stakeholders and FERC staff support an expedited filing process in order to meet the procurement deadlines for 2008.¹ FERC staff directed parties to submit written comments no later than February 9, 2007 to the CAISO regarding the CAISO’s revised “proposal” that was based on the discussions held at the Technical Conference.

Proposed Tariff Amendment

As noted above, the CAISO has used the existing IRRP Tariff language as a foundation for the MRTU Tariff language. Changes were made to the IRRP language based on the following sources of changes: (1) stakeholder comments, (2) input received from members of the Market Surveillance Committee, (3) the January 22, 2007 FERC Order on Rehearing, Clarification and Compliance

¹ Stakeholders desire to have their allocations as early in summer 2007 as possible, hoping for as early as June 2007, so that they can have up to 90 days to procure resources in advance of the September 30, 2007 due date for the RA “showings” that they must submit to the CPUC or other LRAs.

Filing regarding the IRRP, and (4) CAISO experience in conducting allocations for 2006 and 2007 under the IRRP.

Under the CAISO proposal, the CAISO will continue to account for available import capacity on the various individual transmission lines (referred to as "branch groups") into the ISO Control Area first to the holders of Existing Transmission Contracts and other Transmission Ownership Rights ("TORs"). Once those Existing Transmission Contracts and TORs have been reserved, the CAISO will next account for contractual resource commitments in place as of March 10, 2006 ("grandfathered resource commitments"). All import capacity remaining after accounting for Existing Transmission Contracts, TORs, and grandfathered and resource commitments will be allocated to Load Serving Entities ("LSEs") on a "load ratio share" ("LRS") basis (a LRS is a measure of that LSE's load in relation to the total coincident peak load of the ISO Control Area.) However, in a change from the current practice, the CAISO will "cap" the accounting of this capacity at the greater of the capacity received through Existing Contracts, TORs, and grandfathered resource commitments or the respective LRS of the LSE seeking an allocation. A LSE, therefore, can have an amount of capacity greater than its LRS for an interim period up through the expiration of its Existing Contracts, TORs, and grandfathered resource commitments. LSEs can then assign the capacity received under this step to desired branch groups.

In instances where a branch group is over-requested, whether at the contract/rights/commitments stage or later remainder capacity accounting stage, the available capacity will be accounted for based on LRS. The accounting will be performed on an annual basis, and will be valid for a one-year term. The capacity is effective for a calendar year, starting in calendar year 2008, with the first implementation in mid-2007 for RA showings for calendar year 2008.

A number of parties, including Pacific Gas & Electric Company, Southern California Edison Company, and The Utility Reform Network, have raised the need for longer-term certainty in the allocation process to promote resource development. The CAISO agrees that a multi-year RA obligation has merit and appropriate actions should be taken to integrate such longer-term obligations into the RA program. However, the CAISO believes doing so through the present import capacity accounting methodology is premature in that all other elements of the California Public Utilities Commission's ("CPUC") current RA program are implemented on an annual cycle. The CPUC is currently reviewing this issue in its pending RA docket. Accordingly, as the CPUC examines multi-year RA obligations, the CAISO expects to reconsider the need to refine its import capacity accounting methodology to conform to the outcome of the CPUC's deliberations.

The CAISO will further set up a system to record trades of import capacity and will post final calendar year accountings, which will include the results of the executed trades, to the CAISO web site. In this regard, several parties from the municipal utility community objected to reliance on bilateral trades to efficiently reallocate import capacity. The CAISO believes that alternative methods of ensuring import capacity is available to those entities that most value the capacity are impractical under the implementation timelines necessary to permit 2008 RA procurement to proceed. Nevertheless, the CAISO is sensitive to parties concerns and will be prepared to modify its current approach as experience is gained and state decision-makers evaluate the potential development of a capacity market.

Two of the key criteria that the CAISO considered in developing this proposal are provided below:

- The solution must be able to be implemented prior to Phase 1 of MRTU with minimal impacts to CAISO resources, legacy systems or new MRTU systems, and sustainable after MRTU. It must not impact the CAISO's ability to timely implement MRTU.
- It is appropriate to honor, to the maximum extent possible, existing resource contracts and commitments executed as of March 10, 2006.

Attachment 1 provides a detailed description of the CAISO proposal that was developed with input from stakeholders. Implementation details may be subject to non-material change as the tariff language reflecting the proposal is further developed.

Stakeholder Process

Attachment 2 provides a list of the stakeholder engagements, the people and organizations that participated, the parties that support the proposal, and the issues that were addressed to develop the final proposal. At the conference call on February 21, 2007, a broad range of stakeholders voiced support for many of the provisions in the proposal described in this memorandum and attachments. Key dates and milestones of the stakeholder process are listed below.

| | |
|--------|---|
| Sep 21 | FERC issues order announcing technical conference to be scheduled |
| Dec 1 | CAISO files motion requesting use of IRRP allocation process for MRTU |
| Dec 11 | CAISO files its initial proposal (to use IRRP process as the foundation) |
| Dec 27 | FERC issues notice announcing technical conference on February 1 |
| Feb 1 | FERC holds technical conference |
| Feb 9 | 10 stakeholders submitted written comments to CAISO |
| Feb 12 | CAISO posts written stakeholder comments received |
| Feb 13 | Discuss tariff filing with members of Market Surveillance Committee |
| Feb 16 | Post draft tariff sheets and presentation for February 21 conference call |
| Feb 21 | Conference call with stakeholders |
| Feb 28 | Post draft tariff sheets for review of tariff language, not policy |
| Feb 28 | Distribute market notice for review of tariff language, not policy |
| Feb 28 | Stakeholder comment period starts for tariff language |
| Mar 1 | Board documents sent to Board of Governors |
| Mar 7 | Brief Board of Governors and request Board approval to make filing |
| Mar 9 | Stakeholder comment period ends on tariff language, not policy |
| Mar 12 | Conference call with stakeholders on tariff language, not policy |
| Mar 19 | Proposed date for filing |

Conclusion of Management and Recommendation

Management recommends that the ISO Board of Governors approve the policies summarized in this memorandum and offers the following motion:

MOVED,

That the ISO Board of Governors approve the Market Redesign and Technology Upgrade resource adequacy import capacity policy proposals, as described in this memorandum dated March 1, 2007, and related attachments; and

That the ISO Board of Governors authorize management to make all appropriate and necessary filings with FERC in support of tariff provisions to implement the Market Redesign and Technology Upgrade resource adequacy import capacity policy proposals, as described in this memorandum dated March 1, 2007.

Attachments

Board of Governors 3/7/2007 **Decision on MRTU Resource Adequacy Import Capacity**

MOVED, That the ISO Board of Governors approve the Market Redesign and Technology Upgrade resource adequacy import capacity policy proposals, as described in this memorandum dated March 1, 2007, and related attachments; and

That the ISO Board of Governors authorize management to make all appropriate and necessary filings with FERC in support of tariff provisions to implement the Market Redesign and Technology Upgrade resource adequacy import capacity policy proposals, as described in this memorandum dated March 1, 2007.

Moved: Lowe Second: Gage

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|--|---|
| Board Action: Passed Vote Count: 5-0-0 | |
| Capuano | Y |
| Gage | Y |
| Lowe | Y |
| Page | Y |
| Willrich | Y |

Motion Number: 2007-03-G4