



California Independent
System Operator Corporation

February 21, 2007

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FEDERAL ENERGY
REGULATORY COMMISSION

Ms. Magalie Roman Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

Re: California Independent System Operator Corporation
Docket Nos. ER06-723-001, ER06-723-002, and ER06-723-003
The Interim Reliability Requirements Program

Dear Secretary Salas:

In compliance with the Federal Energy Regulatory Commission's ("Commission" or "FERC") January 22, 2007 "Order on Rehearing, Clarification, and Compliance Filing," 118 FERC ¶ 61,045 (2007) ("January 22 Order"), the California Independent System Operator Corporation ("CAISO") hereby submits six copies of its revised Interim Reliability Requirements Program ("IRRP") for Commission approval and inclusion in the ISO Tariff.¹ The CAISO is also tendering two additional copies to be time and date stamped and returned to our courier.

I. Background

On March 13, 2006, the CAISO filed proposed revisions to its tariff to implement the IRRP. The background and fundamental objectives underlying the CAISO's development of the IRRP were detailed in the transmittal letter that accompanied the March 13 IRRP Tariff filing. The CAISO, therefore, will not repeat that background here. Generally, the IRRP adjusts the CAISO's existing operations to incorporate resource adequacy programs developed by the California Public Utilities Commission ("CPUC") and other Local Regulatory Authorities ("LRAs") in accordance with state mandates. The IRRP is intended to be effective until implementation of the CAISO's Market Redesign and Technology Upgrade ("MRTU") project.

The Commission accepted the IRRP Tariff revisions, with modifications, in its May 12, 2006 "Order Accepting Tariff Revisions, as Modified," 115 FERC ¶ 61,172 (2006) ("May 12 Order"). The May 12 Order required the CAISO to make a compliance filing within thirty (30) days of the date of the order. The CAISO submitted its filing in compliance with the May 12 Order on June 12, 2006. The January 22 Order accepted the CAISO's June 12, 2006 compliance filing, subject to further modifications, which are addressed in this filing.

¹ Capitalized terms that are not otherwise defined are defined in the Master Definitions Supplement, Appendix A to the ISO Tariff.

II. Contents of Filing

This filing comprises:

This Transmittal Letter

Attachment A IRRP Clean Tariff sheets incorporating changes shown in Attachment B.

Attachment B IRRP Tariff Language Blacklined.

III. Communications

Correspondence and other communications regarding this filing should be directed to:

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IV. Specific Changes to the IRRP in Response to the January 22 Order

The Commission required a number of modifications to the IRRP in the January 22 Order. These revisions are shown in blackline against the IRRP Tariff filed on June 12, 2006, in Attachment A to this filing. A discussion of these revisions to the IRRP follows in the sequence discussed in the January 22 Order.

1. Modifications to Permit Application of Pending Qualifying Capacity Criteria (Sections 40.4 and 40.5.1)

Under the June 12 version of the IRRP, the CAISO proposed to accept, up through September 2006, the resource adequacy program submitted by a municipal or federal Load Serving Entity ("LSE"), while the program is pending for approval before the LSE's governing board. In order for a resource adequacy plan, including Qualifying Capacity criteria and applicable Planning Reserve Margin, to be effective for the October reporting month, the plan had to be approved by August 31, 2006. The CAISO established these dates as an attempt to appropriately balance two objectives. The first objective specifically recognized by the Commission in the May 12 Order was the need to avoid unnecessarily triggering the use of the CAISO's default Quality Capacity and Planning Reserve Margin criteria. The second objective motivating the CAISO's compliance filing was to encourage LRA governing board's to act in a reasonably expeditious manner, rather than permit the issue to remain pending indefinitely.

Golden State Water Company ("GSW") challenged the temporal limitations on applying pending resource adequacy plans given that it is regulated by the California Public Utilities Commission

and therefore cannot control the pace of governing board approval. In response to these concerns, the Commission directed "the CAISO to similarly accept a resource adequacy plan proposed by GSW to the CPUC or that is being considered by the CPUC."² Similarly, the Commission agreed with GSW that the August 31, 2006 date was unsupported and directed "the CAISO to remove this provision from its tariff or explain to the Commission why such a deadline is necessary for implementation of the IRRP."³

The CAISO acknowledges that the CPUC intends to adopt a resource adequacy plan for small investor owned utilities such as GSW sometime in early 2008.⁴ Accordingly, the CAISO believes it is appropriate not to maintain an explicit deadline for governing boards to adopt resource adequacy plans and has removed the provision in compliance with the January 22 Order. These changes are reflected in ISO Tariff Sections 40.4 and 40.5.1.

2. Symmetry in Submission Dates for Resource Adequacy Plans and Supply Plans (Section 40.2.1)

The January 22 Order directs the CAISO to "make a compliance filing that maintains symmetry between the submission of load resource adequacy plans and supply resource adequacy plans."⁵ The requested symmetry refers to filing dates for the annual Resource Adequacy Plan and Supply Plan. The CAISO has achieved the required equality by modifying ISO Tariff Section 40.2.1 to specify that annual Resource Adequacy Plans be submitted by September 30 of each year, which is the same date for submission of annual Supply Plans under ISO Tariff Section 40.6.

3. Additional Specificity in Import Allocation Process (Section 40.5.2.2)

With respect to the CAISO allocation of import capacity for purposes of resource adequacy, the January 22 Order required additional specificity as to "a deadline by which it will complete its annual import allocations" and "the manner and timeframe in which trades and/or additional requests for capacity must be submitted to the CAISO."⁶ The CAISO has added this specificity in ISO Tariff Section 40.5.2.2. However, it should be noted that such specificity will not have an impact going forward. The IRRP import allocation provisions apply only to Resource Adequacy Plans that cover periods through December 31, 2007. In other words, the IRRP applies only to the import allocation process completed in 2006 for calendar year 2007. The allocation process for calendar year 2008 is the subject of ongoing Commission proceedings in Docket No. ER06-615-000, relating to MRTU. It is anticipated that the CAISO will submit revisions to its MRTU Tariff in accordance with the outcome of the ongoing stakeholder process in that docket in sufficient time to apply to the 2008 allocation process.

4. Definition of Compliance Year for Deliverability Within the ISO Control Area Analysis (Section 40.5.2.1)

The January 22 Order correctly noted that the June 12 compliance filing failed to explain what was meant by the reference to "compliance year" in ISO Tariff Section 40.5.2.1, which states that the results of the CAISO's 2006 deliverability analysis shall be effective for a period "no shorter than

² January 22 Order at P 32.

³ *Id.* at P 69.

⁴ See *Order Instituting Rulemaking to Consider Refinements to and Further Development of the Commission's Resource Adequacy Requirements Program*, "Assigned Commissioner's Ruling and Scoping Memo for Phase 2," CPUC Docket No. R.05-12-013 (Dec. 22, 2006).


⁵ January 22 Order at P 70.

⁶ *Id.* at P 72 and 73.

compliance year 2007.⁷ The CAISO has clarified that the deliverability analysis will be effective for the entire calendar year following the deliverability analysis. In addition, the CAISO has also eliminated any ambiguity in application of the deliverability analysis to calendar year 2008, by permitting any deliverability analysis performed under the IRRP to apply during the next calendar year.

V. Conclusion

For the reasons set forth above, the CAISO respectfully requests that the Commission accept the IRRP Tariff provisions as revised in compliance with the Commission's January 22 Order.

 Sidney M. Davies Assistant General Counsel Grant Rosenblum Counsel California Independent System Operator Corporation 151 Blue Ravine Road Folsom, CA 95630 916-608-7138 – telephone 916-351-2350 – facsimile grosenblum@caiso.com Counsel for the California Independent System Operator Corporation	David B. Rubin Troutman Sanders, LLP 401 9 th Street, N.W., Ste. 1000 Washington, D.C. 20004 202-274-2950 – telephone david.rubin@troutmansanders.com
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⁷ *Id.* at P 74.

CERTIFICATE OF SERVICE

I hereby certify that I have, this 21st day of February 2007, caused to be served a copy of the forgoing document upon all parties listed on the official service list compiled by the Secretary of the Federal Energy Regulatory Commission in this proceeding.

/s/ Grant Rosenblum
Grant Rosenblum

ATTACHMENT A – IRRP COMPLIANCE FILING CLEAN SHEETS

40.2 Submission of Annual and Monthly Resource Adequacy Plan.

40.2.1 Annual Resource Adequacy Plan.

Each Scheduling Coordinator for a Load Serving Entity serving Load within the ISO Control Area must provide the ISO with an annual Resource Adequacy Plan; however, Scheduling Coordinators representing a Load Serving Entity with an MSS Agreement shall submit the information required by this section pursuant to the terms and formal standards set forth in the MSS Agreement. The annual Resource Adequacy Plan provided to the ISO by Scheduling Coordinators for the CPUC Load Serving Entity or Entities for whom they schedule Demand within the ISO Control Area shall be submitted on the schedule and in the form approved by the CPUC. The annual Resource Adequacy Plan provided to the ISO by Scheduling Coordinators for the non-CPUC Load Serving Entity or Entities for whom they schedule Demand within the ISO Control Area, except Load Serving Entities with an MSS Agreement, shall be submitted no later than September 30th of each year and in the form set forth on the ISO Website. Other than for good cause, the form of the Resource Adequacy Plan and the date for submission for the CPUC Load Serving Entities and the Non-CPUC Load Serving Entities should be identical. The annual Resource Adequacy Plan must identify the Resource Adequacy Resources that will be relied upon to satisfy the Planning Reserve Margin under Section 40.4, or portion thereof as established by the CPUC or applicable Local Regulatory Authority, and must apply the Net Qualifying Capacity requirements of Section 40.5.2.

40.2.2 Monthly Resource Adequacy Plan.

Each Scheduling Coordinator for a Load Serving Entity serving Load within the ISO Control Area must provide the ISO with a monthly Resource Adequacy Plan; however, (1) Scheduling Coordinators representing a Load Serving Entity with an MSS Agreement shall submit the information required by this section pursuant to the terms and formal standards set forth in the MSS Agreement and (2) Scheduling Coordinators for a Load Serving Entity serving Load within the ISO Control Area in a forecasted peak amount of less than (1) MW on average per day over the compliance year may notify the ISO that the Load Serving Entity's annual Resource Adequacy Plan pursuant to Section 40.2.1 will constitute its monthly Resource Adequacy Plan under this section for each month of the following compliance year.

Planning Reserve Margin, peak demand, and operating reserves.

40.4 Planning Reserve Margin.

The monthly Resource Adequacy Plan must include a level of Resource Adequacy Capacity sufficient to meet 100% of the Demand Forecast in Section 40.3 plus a Planning Reserve Margin as follows:

- a. For Scheduling Coordinators representing CPUC Load Serving Entities, the Planning Reserve Margin shall be that adopted by the CPUC.
- b. For Scheduling Coordinators representing non-CPUC Load Serving Entities, the Planning Reserve Margin shall be that adopted by the appropriate Local Regulatory Authority.
- c. Scheduling Coordinators representing a Load Serving Entity that has proposed a Planning Reserve Margin to, and is pending consideration by, the CPUC or other Local Regulatory Authority, the Planning Reserve Margin shall be that pending before the CPUC or other Local Regulatory Authority.
- d. For Scheduling Coordinators representing a Load Serving Entity that has not proposed a Planning Reserve Margin to the CPUC or other Local Regulatory Authority or the CPUC or other Local Regulatory Authority has not established a Planning Reserve Margin, the Planning Reserve Margin shall be no less than 115% of the peak hour of the month in the Demand Forecast set forth in Section 40.3.

40.5 Determination of Resource Adequacy Capacity.

Resource Adequacy Capacity shall be the quantity of capacity in MWs from a resource listed in a Resource Adequacy Plan. Resource Adequacy Capacity cannot exceed a resource's Net Qualifying Capacity.

40.5.1 Qualifying Capacity.

Qualifying Capacity is the capacity from a resource prior to application of the Net Capacity provisions of Section 40.5.2. The criteria for determining the types of resources that may be eligible to provide Qualifying Capacity and for calculating Qualifying Capacity from eligible resource types may be established by the CPUC or other applicable Local Regulatory Authority and provided to the ISO.

To the extent the CPUC or other Local Regulatory Authority has not established for a particular Load Serving Entity the criteria for determining the types of resources that may be eligible to provide Qualifying Capacity and for calculating Qualifying Capacity from eligible resource types at the time the Load Serving Entity must submit a Resource Adequacy Plan, the criteria for determining the types of resources that may be eligible to provide Qualifying Capacity and for calculating Qualifying Capacity from eligible resource types may be provided by the Load Serving Entity where such criteria has been proposed by the Load Serving Entity and is pending before the CPUC or applicable Local Regulatory Authority. Only if criteria for determining the types of resources that may be eligible to provide Qualifying Capacity and for calculating Qualifying Capacity from eligible resource types has not been provided by the CPUC or other Local Regulatory Authority or Load Serving Entity as provided for in this Section, then Section 40.13 will apply. The ISO shall use the criteria provided by the CPUC, other Local Regulatory Authority, or Load Serving Entity or, if necessary, Section 40.13, to determine and verify, if necessary, the Qualifying Capacity of all resources listed in a Resource Adequacy Plan; however, to the extent a resource is listed by one or more Scheduling Coordinators in their respective Resource Adequacy Plans, which apply the criteria of more than one regulatory entity that leads to conflicting Qualifying Capacity values for that resource, the ISO will apply the respective Qualifying Capacity formulas applicable for each Load Serving Entity.

40.5.2 Net Qualifying Capacity.

Net Qualifying Capacity is Qualifying Capacity, determined under the criteria provided by the CPUC or other Local Regulatory Authority or, if such criteria is not provided by the CPUC or Local Regulatory Authority, under Section 40.13 of this ISO Tariff, reduced, as applicable, based on: (1) testing and verification or (2) deliverability restrictions. The Net Qualifying Capacity determination shall be made by the ISO pursuant to the provisions of this ISO Tariff. The ISO shall produce a report, posted to the ISO Website and updated from time to time, setting forth the Net Qualifying Capacity of Participating Generators. All other resources may be included in the report under this Section upon their request. Any disputes as to the ISO's determination regarding Net Qualifying Capacity shall be subject to the ISO's alternative dispute resolution procedures.

40.5.2.1 Deliverability Within the ISO Control Area.

In order to determine Net Qualifying Capacity from a Generating Unit, the ISO will determine that the Generating Unit is able to serve the aggregate of Load by means of a deliverability analysis. The deliverability analysis will be performed annually and shall focus on peak Demand conditions. The ISO will review its input assumptions and draft results with Market Participants before completing its determination. The ISO will coordinate with the CPUC and other Local Regulatory Authorities so that the results of the deliverability analysis can be incorporated in annual and monthly Resource Adequacy Plans. The results of the ISO's annual deliverability analysis shall be effective for a period no shorter than the entire next calendar year. To the extent the deliverability analysis shows that the Qualifying Capacity of a Generating Unit is not deliverable to the aggregate of Load under the conditions studied, the Qualifying Capacity of the Generating Unit will be reduced on a MW basis for the capacity that is undeliverable.

40.5.2.2 Deliverability of Imports.

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. Total import capacity will be assigned to Load Serving Entities serving Load in the ISO Control Area and other Market Participants, if applicable, for 2007 as described by the following sequence of steps.

1. Step 1: The ISO shall establish for 2007 for each branch group the total import capacity values for the ISO Control Area, and will post those values on the ISO Website by July 1, 2006.
2. Step 2: For each branch group, the total capacity established in Step 1 will be reduced by subtracting the import capacity associated with (i) Existing Transmission and (ii) encumbrances and transmission ownership rights, 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.

3. Step 3: From the amount of import capacity remaining on each branch group determined in Step 2 above, Load Serving Entities serving Load within the ISO Control Area will receive on or before July 19, 2006, to the extent feasible, an allocation on a particular branch group 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 branch group shall be selected by the Load Serving Entity based on the primary branch group upon which the energy or capacity from the particular resource commitment from outside the ISO Control Area has been historically scheduled or, for a resource commitment without a scheduling history, the primary branch group upon which the energy or capacity from the particular resource commitment from outside the ISO Control Area is anticipated to be scheduled. To the extent a particular branch group is over requested, such that the MWs represented in all requested resource commitments utilizing the branch group exceed the branch group's remaining import capacity, the requested resource commitment MW quantities will be allocated available capacity based on the "Import Capacity Load Share" ratio of each Load Serving Entity submitting such resource commitments. To the extent this initial allocation has not fully assigned the total import capacity of a particular branch

group to the requested resource commitments, the remaining capacity will be allocated until fully exhausted based on the Import Capacity Load Share ratio of each Load Serving Entity whose submitted resource commitment has not been fully satisfied.

- 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 import capacity allocated pursuant to this Step 3 shall be referred to as "Commitment Import Capacity."
4. Step 4: 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 import capacity will be allocated to Load Serving Entities serving Load within the ISO Control Area through their Scheduling Coordinators based on each Load Serving Entity's Coincident Load Share. The quantity of import capacity allocated to a Load Serving Entity under this paragraph is that entity's "Remainder Import Capacity." This Step 4 does not allocate import capacity on a specific branch group, but rather allocates aggregate import capacity.

5. Step 5: Load Serving Entities shall be allowed to trade some or all of their Remainder Import Capacity 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 among

LSEs and Market Participants only to the extent such trades are reported to the ISO via e-mail by the entity receiving the Remainder Import Capacity or Commitment Import Capacity that sets forth (1) the name of the counter-party and (2) the MW quantity.

6. Step 6: 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 its post-trading Remainder 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 for Remainder Import Capacity on that branch group will be allocated based on the ratio of each Load Serving Entity's Import Capacity Load Share, as used in Step 3. A Market Participant without a Coincident Load Share will be assigned the Coincident Load Share equal to the average Coincident Load Share of those Load Serving Entities from which it received Remainder Import Capacity. 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 7: Following Step 6, on or before August 10, 2006, the ISO will publish on its Website remaining aggregate import capacity, if any, the identity of the branch groups with available capacity, and the MW quantity remaining on each such branch group. To the extent import capacity remains unallocated, on or before August 16, 2006 via e-mail, all Load Serving Entities or Market Participants shall notify the ISO of their requests to allocate any remaining Remainder 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 based on the ratio of each Load Serving Entity or Market Participant's Import Capacity Load Share, as used in Steps 3 and 6. The ISO will notify each Scheduling Coordinator for a Load Serving Entity or Market Participant of the Load Serving Entity or Market Participant's accepted allocation under this Step 7 on or before August 23, 2006. No further iterations will be permitted.

This multi-step allocation of total import capacity does not guarantee or result in any actual transmission service being allocated and is only used for determining the maximum import capacity that can be

ATTACHMENT B – IRRP COMPLIANCE FILING BLACKLINES

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40.2.1 Annual Resource Adequacy Plan.

Each Scheduling Coordinator for a Load Serving Entity serving Load within the ISO Control Area must provide the ISO with an annual Resource Adequacy Plan; however, Scheduling Coordinators representing a Load Serving Entity with an MSS Agreement shall submit the information required by this section pursuant to the terms and formal standards set forth in the MSS Agreement. The annual Resource Adequacy Plan provided to the ISO by Scheduling Coordinators for the CPUC Load Serving Entity or Entities for whom they schedule Demand within the ISO Control Area shall be submitted on the schedule and in the form approved by the CPUC. The annual Resource Adequacy Plan provided to the ISO by Scheduling Coordinators for the non-CPUC Load Serving Entity or Entities for whom they schedule Demand within the ISO Control Area, except Load Serving Entities with an MSS Agreement, shall be submitted no later than ~~September 30th~~^{October 25th} of each year and in the form set forth on the ISO Website. Other than for good cause, the form of the Resource Adequacy Plan and the date for submission for the CPUC Load Serving Entities and the Non-CPUC Load Serving Entities should be identical. The annual Resource Adequacy Plan must identify the Resource Adequacy Resources that will be relied upon to satisfy the Planning Reserve Margin under Section 40.4, or portion thereof as established by the CPUC or applicable Local Regulatory Authority, and must apply the Net Qualifying Capacity requirements of Section 40.5.2.

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40.4 Planning Reserve Margin.

The monthly Resource Adequacy Plan must include a level of Resource Adequacy Capacity sufficient to meet 100% of the Demand Forecast in Section 40.3 plus a Planning Reserve Margin as follows:

- a. For Scheduling Coordinators representing CPUC Load Serving Entities, the Planning Reserve Margin shall be that adopted by the CPUC.
- b. For Scheduling Coordinators representing non-CPUC Load Serving Entities, the Planning Reserve Margin shall be that adopted by the appropriate Local Regulatory Authority.

- c. For Scheduling Coordinators representing a Load Serving Entity that has proposed a Planning Reserve Margin to, and is pending consideration by, for which the CPUC or other Local Regulatory Authority, has not established a Planning Reserve Margin as of May 31, 2006, the Planning Reserve Margin shall be that pending before the CPUC or other Local Regulatory Authority.
- d. For Scheduling Coordinators representing a Load Serving Entity that has not proposed a Planning Reserve Margin to the CPUC or other Local Regulatory Authority or the CPUC or other Local Regulatory Authority has not established a Planning Reserve Margin, the Planning Reserve Margin shall be: (1) for compliance months June through September 2006, the Planning Reserve Margin provided by the Load Serving Entity to accommodate any processes to approve the Planning Reserve Margin that may be pending before the applicable Local Regulatory Authority and (2) thereafter, no less than 115% of the peak hour of the month in the Demand Forecast set forth in Section 40.3.

40.5.1 Qualifying Capacity.

Qualifying Capacity is the capacity from a resource prior to application of the Net Capacity provisions of Section 40.5.2. The criteria for determining the types of resources that may be eligible to provide Qualifying Capacity and for calculating Qualifying Capacity from eligible resource types may be established by the CPUC or other applicable Local Regulatory Authority and provided to the ISO. For

~~compliance months June through September 2006, To the extent the CPUC or other Local Regulatory Authority has not established for a particular Load Serving Entity the criteria for determining the types of resources that may be eligible to provide Qualifying Capacity and for calculating Qualifying Capacity from eligible resource types at the time the Load Serving Entity must submit a Resource Adequacy Plan, the criteria for determining the types of resources that may be eligible to provide Qualifying Capacity and for calculating Qualifying Capacity from eligible resource types may be provided by the Load Serving Entity to accommodate any processes to approve the Qualifying Capacity where such criteria that may be has been proposed by the Load Serving Entity and is pending before the CPUC or applicable Local Regulatory Authority. Only if such criteria for determining the types of resources that may be eligible to provide Qualifying Capacity and for calculating Qualifying Capacity from eligible resource types are has not been provided by the CPUC or other Local Regulatory Authority or Load Serving Entity as provided for in this Section, by August 31, 2006 for compliance month October 2006, then Section 40.13 will apply. The ISO shall use the criteria provided by the CPUC, other Local Regulatory Authority, or Load Serving Entity or, if necessary, Section 40.13, to determine and verify, if necessary, the Qualifying Capacity of all resources listed in a Resource Adequacy Plan; however, to the extent a resource is listed by one or more Scheduling Coordinators in their respective Resource Adequacy Plans, which apply the criteria of more than one regulatory entity that leads to conflicting Qualifying Capacity values for that resource, the ISO will apply the respective Qualifying Capacity formulas applicable for each Load Serving Entity.~~

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40.5.2.1 Deliverability Within the ISO Control Area.

In order to determine Net Qualifying Capacity from a Generating Unit, the ISO will determine that the Generating Unit is able to serve the aggregate of Load by means of a deliverability analysis. The deliverability analysis will be performed annually and shall focus on peak Demand conditions. The ISO will review its input assumptions and draft results with Market Participants before completing its determination. The ISO will coordinate with the CPUC and other Local Regulatory Authorities so that the results of the deliverability analysis can be incorporated in annual and monthly Resource Adequacy Plans. The results of the ISO's 2006 annual deliverability analysis shall be effective for a period no

shorter than the entire next calendar year. ~~compliance year 2007.~~ To the extent the deliverability analysis shows that the Qualifying Capacity of a Generating Unit is not deliverable to the aggregate of Load under the conditions studied, the Qualifying Capacity of the Generating Unit will be reduced on a MW basis for the capacity that is undeliverable.

40.5.2.2 Deliverability of Imports.

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. Total import capacity will be assigned to Load Serving Entities serving Load in the ISO Control Area and other Market Participants, if applicable, for 2007 as described by the following sequence of steps.

1. Step 1: The ISO shall establish for 2007 for each branch group the total import capacity values for the ISO Control Area, and will post those values on the ISO Website by July 1, 2006.
2. Step 2: For each branch group, the total capacity established in Step 1 will be reduced by subtracting the import capacity associated with (i) Existing Transmission and (ii) encumbrances and transmission ownership rights, 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.
3. Step 3: From the amount of import capacity remaining on each branch group determined in Step 2 above, Load Serving Entities serving Load within the ISO Control Area will receive on or before July 19, 2006, to the extent feasible, an allocation on a particular branch group 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 branch group shall be selected by the Load Serving Entity based on the primary branch group upon which the energy or capacity from the particular resource commitment from outside the ISO Control Area has been historically scheduled or, for a resource commitment without a scheduling history, the primary branch group upon which the energy or capacity from the particular resource commitment from outside the ISO Control Area is anticipated to be scheduled. To the extent a

particular branch group is over requested, such that the MWs represented in all requested resource commitments utilizing the branch group exceed the branch group's remaining import capacity, the requested resource commitment MW quantities will be allocated available capacity based on the "Import Capacity Load Share" ratio of each Load Serving Entity submitting such resource commitments. To the extent this initial allocation has not fully assigned the total import capacity of a particular branch group to the requested resource commitments, the remaining capacity will be allocated until fully exhausted based on the Import Capacity Load Share ratio of each Load Serving Entity whose submitted resource commitment has not been fully satisfied.

- 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 import capacity allocated pursuant to this Step 3 shall be referred to as "Commitment Import Capacity."

4. Step 4: 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 import capacity will be allocated to Load Serving Entities serving Load within the ISO Control Area through their Scheduling Coordinators based on each Load Serving Entity's Coincident Load Share. The quantity of import capacity allocated to a Load

Serving Entity under this paragraph is that entity's "Remainder Import Capacity." This Step 4 does not allocate import capacity on a specific branch group, but rather allocates aggregate import capacity.

5. Step 5: Load Serving Entities shall be allowed to trade some or all of their Remainder Import Capacity or Commitment Import Capacity to any other Load Serving Entity or Market Participant up to and including July 26, 2006, during a period of time established by ISO Market Notice. The ISO will accept trades among LSEs and Market Participants only to the extent such trades are reported to the ISO via e-mail by the entity receiving the Remainder Import Capacity or Commitment Import Capacity that sets forth (1) the name of the counter-party and (2) the MW quantity, in a manner established by ISO Market Notice.
6. Step 6: 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 its post-trading Remainder 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 for Remainder Import Capacity on that branch group will be allocated based on the ratio of each Load Serving Entity's Import Capacity Load Share, as used in Step 3. A Market Participant without a Coincident Load Share will be assigned the Coincident Load Share equal to the average Coincident Load Share of those Load Serving Entities from which it received Remainder Import Capacity. 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 7: Following Step 6, on or before August 10, 2006, the ISO will publish on its Website remaining aggregate import capacity, if any, the identity of the branch groups with available capacity, and the MW quantity remaining on each such branch group. To the extent import capacity remains unallocated, on or before August 16, 2006 via e-mail in the time period and manner established by ISO Market Notice, all Load Serving Entities or Market Participants shall notify the ISO of their requests to allocate any remaining Remainder 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 based on the ratio of each Load Serving Entity or Market Participant's Import Capacity Load Share, as used in Steps 3 and 6. The ISO will notify each Scheduling Coordinator for a Load Serving Entity or Market Participant of the Load Serving Entity or Market Participant's accepted allocation under this Step 7 on or before August 23, 2006. No further iterations will be permitted.

This multi-step allocation of total import capacity does not guarantee or result in any actual transmission service being allocated and is only used for determining the maximum import capacity 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 existing import contracts and any trades or sales of their load share allocation. To the extent that the ISO's review of Resource Adequacy Plans identifies reliance upon imports that exceed the import capacity allocated to the Load Serving Entity under this section, the ISO will inform the CPUC or appropriate Local Regulatory Authority 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.

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