Attachment 1

Proposal

MRTU Resource Adequacy Import Capacity Tariff Filing

Provided below is a description of the key elements of the revised resource adequacy ("RA") import capacity accounting proposal to be presented for consideration at the March 7, 2007 Board of Governors ("Board") meeting.

Input from Stakeholders

In developing this proposal, the California Independent System Operator ("ISO") considered comments from stakeholders and members of the Market Surveillance Committee, direction from the January 22, 2007 Federal Energy Regulatory Commission ("FERC") Order on Rehearing on the Interim Reliability Requirements Program ("IRRP"), and its own experience in conducting the import capacity accounting process for 2007.

The ISO presented its proposal to stakeholders at a February 1, 2007 FERC-sponsored Technical Conference. Following the Technical Conference, the ISO revised its proposal to incorporate the input received from the entities listed above.

Need for a Methodology

The primary objective of RA programs is to ensure that sufficient resources are available when and where needed to reliably operate the system and serve Load. A necessary component in satisfying this objective is that resources used to meet RA requirements must, in fact, be "deliverable" to serve Load during periods of peak Demand. The ISO performs an engineering study each year to evaluate resource deliverability.

Load Serving Entities ("LSEs") generally demonstrate compliance with RA requirements by submitting reports (RA resource "showings") that detail the resources acquired to meet their peak Demand plus a reserve margin. California is a net importer of electricity. Imports, therefore, represent an integral source of supply included in LSE portfolios and RA showings. However, similar to internal resources, the maximum import capacity deliverable to ISO Control Area Load must also be accounted for and not exceeded in the RA showings in order to prevent over-reliance on imports to the potential impairment to system reliability. The ISO Tariff currently includes a methodology to account for import capacity in RA showings. This methodology was submitted as part of the IRRP, which is set to expire prior to implementation of the ISO's Market Redesign and Technology Upgrade ("MRTU") project. The MRTU Tariff, which was filed prior to the IRRP Tariff, also included an import capacity accounting methodology. However, the ISO and stakeholders unanimously consider the subsequently developed IRRP methodology to be superior to that currently included in the MRTU Tariff. Consequently, the tariff language applicable to the MRTU time period requires updating and refining. It is important to note that the proposed import capacity accounting methodology does not allocate physical transmission capacity or rights, but instead only affects RA reporting and therefore is better understood as part of a forward planning process.

Rationale for this Proposal

Management recommends this proposal because it:

- Conforms to FERC's prior finding in its May 12, 2006 IRRP Order that honoring resource commitments executed prior to implementation of RA and then accounting for remaining import capacity in a uniform manner based on load share is equitable.
- Can be implemented prior to the start of MRTU without affecting the current approved MRTU budget or timetable.
- Can be filed at FERC on an expedited schedule, as requested by stakeholders, so that the tariff provisions can be in place by summer 2007 - in time for LSEs to begin procurement for 2008 RA showings due in September 2007.
- Leverages systems and processes already in place and/or planned, with minimal additions.

Recent Revisions to Address Stakeholder Concerns

The following revisions have been incorporated into the final proposal in response to stakeholder concerns.

- The methodology will use the IRRP Tariff process as an initial framework. Stakeholders agree that the IRRP Tariff provides a superior process than what was initially included by the ISO in its MRTU Tariff filing on February 9, 2006.
- The amount of capacity assigned to each LSE would be capped based on the greater of a LSE's (1) load ratio share, or (2) Existing Contracts and resource commitments. The current IRRP process does not include this limitation.
- The proposal accommodates grandfathered resource commitments (executed prior to March 10, 2006) that deliver in the relevant year for RA compliance purposes. This clarification for the upcoming filing is not included in the current IRRP Tariff.
- A process has been added to account for any un-requested, residual capacity on transmission lines, and to make such residual capacity available on a "first come, first served" basis.
- The ISO will consider moving beyond a one-year term after the MRTU market and its procedures are fully implemented. Using a one-year term at this time preserves options into the future.

Key Elements of Proposal

The ISO is proposing to make small refinements to existing ISO Tariff language. As discussed above, the current process in the IRRP Tariff is being revised for use under MRTU. Much of that process is being preserved.

The proposed methodology would be filed in March 2007, with a FERC decision expected in May 2007. The new process would be implemented in summer 2007 and affect RA showings submitted by LSEs for showings covering 2008. The first affected showing is the 2008 "year-ahead" report due on September 30, 2007. The proposed accounting methodology would be performed on annual basis, with results valid for a one-year term. The key elements of the proposal are summarized below.

- LSEs would receive import capacity that is capped based on the greater of their (1) load ratio share, or (2) Existing Contracts, Transmission Ownership Rights ("TOR")[1] and resource commitments amount as of March 10, 2006 (i.e., these type of arrangements that were executed prior to March 10, 2006 are "grandfathered").
- Existing Contracts, TORs and grandfathered resource commitments receive priority in determining space on individual transmission lines (referred to hereafter as "branch groups") based on the transmission facilities subject to the rights or where the resource commitment has historically delivered.
- The proposed methodology allows only the initial term of grandfathered resource commitments to receive favored treatment. "Evergreen provisions" are not allowed, except with respect to Existing Contracts. Therefore, as the grandfathered resource commitments expire, additional unencumbered capacity will become available on the branch groups.
- After Existing Contracts, TORs and grandfathered resource commitments are accounted for by branch group, to the extent capacity remains available on particular branch groups, that capacity will be aggregated and divided among all LSEs based on their respective load ratio shares. After receiving their load ratio share of the total available space on all branch groups, LSEs can request space on individual branch groups.
- Where branch group are over-requested, whether at the Existing Contract/TOR/resource commitment stage or at the later remainder capacity stage, available space would be provided based on the requesting LSEs' respective load ratio share.

Detailed Walk-Through of Methodology

Under the multi-step process set forth in the proposed methodology, the ISO would initially reserve, from the maximum available import capacity, capacity associated with Existing Contracts (i.e., transmission contracts) and other TORs. These capacity amounts would then be applied to individual branch groups as specified in the underlying Existing Contracts or TORs. One non-substantive change in the proposed methodology from the current IRRP Tariff is that the ISO will differentiate Existing Contracts (i.e., transmission contracts) and other TORs based on whether the LSE holding the right serves Load within or without the ISO Control Area. It is a non-substantive change because the ISO will continue to fully reserve Existing Contract and TOR capacity. However, the distinction is necessary from a mathematical perspective to ensure that all LSEs serving Load within the ISO Control Area receive a capacity amount that is capped based on greater of their load share ratio or the sum of Existing Contracts/TORs/grandfathered resource commitments.

The ISO next accommodates, to the extent possible, existing resource commitments entered into prior to March 10, 2006 by allowing all LSEs to identify those existing import resources and assign those resources to specific branch groups. In the accounting process for 2007, all of the pre-March 10, 2006 resource commitments could be fully honored. However, the ISO understands that certain resource commitments executed within the applicable time frame did

[1] Existing Contracts are "contracts which grant transmission service rights in existence on the ISO Operations Date … as may be amended in accordance with their terms or by agreement between the parties thereto from time to time." These contracts typically specify the individual path or branch group on which purchased transmission service applies.

Transmission Ownership Rights are "non-Participating TO ownership or joint ownership right[s] to transmission facilities within the ISO Control Area that has not executed a Transmission Control Agreement and the transmission facilities are not incorporated into the ISO Controlled Grid."

not deliver during 2007 and therefore were not presented as part of the 2007 accounting process. The ISO proposes to include such commitments in the definition of grandfathered resource commitments in the year they do deliver. As such, it may be that in the future capacity on a particular branch group may be insufficient to accommodate all requests. In that case, the ISO would account for available capacity on the branch group based on the load ratio share of each LSE submitting such resource commitments on that branch group. Load ratio share is each LSE's proportionate share of the forecasted coincident peak Load for the ISO Control Area for the next year, as determined by the California Energy Commission, relative to the total coincident load ratio share of those LSEs that have requested capacity on that particular branch group. To the extent this accounting does not fully assign the total import capacity for that branch group to the requested existing resource commitments, the remaining capacity will continue to be divided in the same manner to those LSEs whose submitted requests were not fully satisfied for that branch group through the initial application of the formula.

An example of how the methodology would resolve "over-requests" is provided below (this same mechanism is currently used the IRRP Tariff).

Example of How Methodology would resolve "Over-Requests"
Import Capacity Load Share Method, with Branch Group Limit of 1000 MW

			Round 1		Round 2	
Entity	Requested Branch Group Capacity	Coincident Load Share	Import Capacity Load Share (Round 1)	Allocate Capacity based on Load Ratio Share	Import Capacity Load Share (Round 2)	Allocate Capacity based on Load Ratio Share
Entity 1	600	70%	82%	600.0		600.00
Entity 2	0	15%	0%	0.0		0.00
Entity 3	500	10%	12%	117.6	67%	266.67
Entity 4	200	5%	6%	58.8	33%	133.33
Total	1300	100%	100%	776.5	100%	1000
Over-Request	300			223.5		0

Following this step, to the extent capacity remains available on particular branch groups, and to the extent that an LSE had not already received amounts equal to or greater than its load ratio share, that capacity would be aggregated and allocated to all eligible LSEs based on their respective load ratio shares. In other words, an LSE which receives an amount of capacity in the "contract stage" in excess of its load ratio share amount would not be eligible for further capacity in this "remainder stage." The ISO would distribute information on the quantity and location of available capacity by branch group.

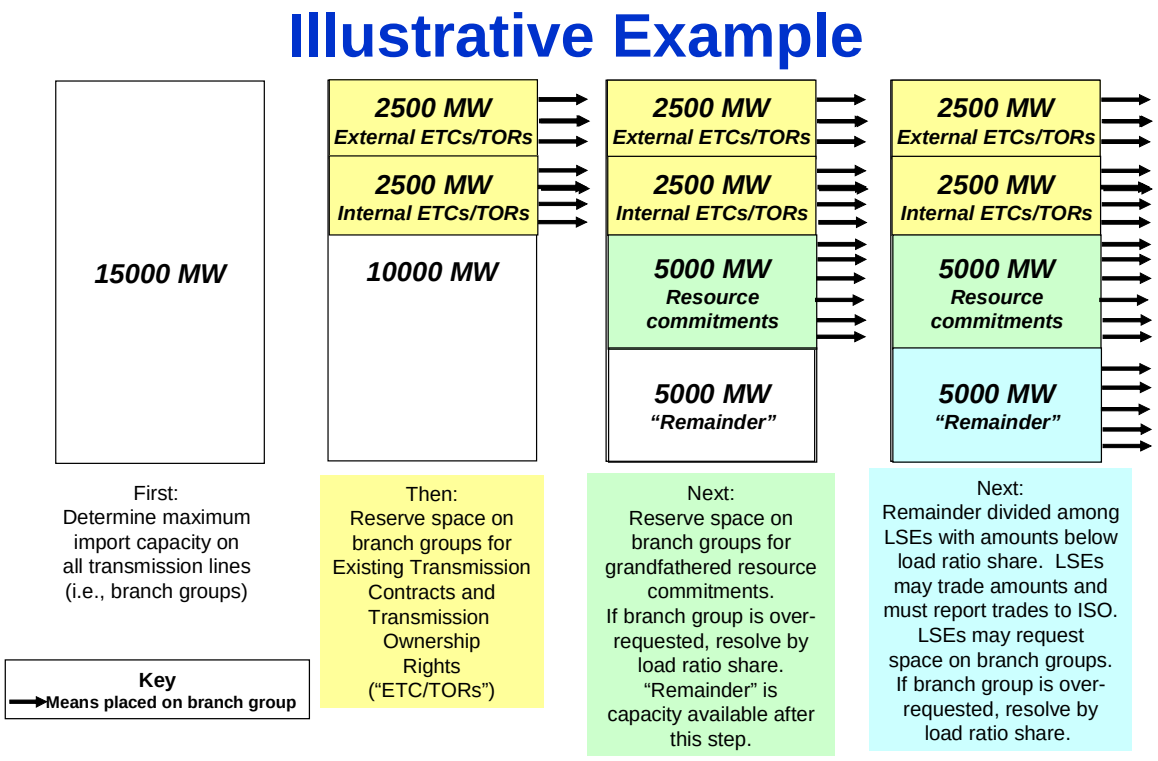
LSEs would be provided an opportunity to trade this allocation not only to other LSEs, but also to any Market Participant. The inclusion of other Market Participants is consistent with the California Public Utility Commission's ("CPUC") determination regarding the identity of entities that may participate in trading import capacity for RA purposes. Trading would be done bilaterally between entities, reported to the ISO, and the ISO would record the information manually. The ISO intends to monitor the level of activity and complexity needed for recording trades over the next year. Manual recording of trades may be replaced by a more robust solution at some point in the future, if warranted.

LSEs and other Market Participants would then notify the ISO where they want their import capacity assigned. Again, to the extent a branch group is over requested, the ISO would apply the load ratio share "tie-breaker" methodology. Market Participants without a load ratio share would be given a load ratio share equal to the average of the LSEs from which they received their capacity share(s). The ISO would provide entities with two iterative opportunities to request remaining available import capacity.

The ISO would post information, by branch group, on import capacity that can be accounted for, amount set aside for Existing Contracts, TORs and grandfathered resource commitments, and the remainder unallocated import capacity.

The key steps of the process described above are shown visually in Figure 1 below.

Figure 1



Items not included in Proposal

A few stakeholders suggested that the ISO ignore Existing Contracts, TORs, and existing resource commitments and instead divide the total available capacity solely by load ratio share. As noted above, the ISO has not included this recommendation in its proposal based on the FERC's prior pronouncement that honoring resource commitments entered into prior to the implementation of RA programs was equitable.

Several stakeholders requested that the methodology include multi-year terms for the capacity. The ISO has not adopted this recommendation, in large part, based on comments from the CPUC requesting the ISO not foreclose or otherwise restrict the outcome through its import account rules pending CPUC deliberations on multi-year RA obligations.

Several stakeholders requested that a mechanism be included that would provide a preference for resource commitments entered after the March 10, 2006 grandfathered date. The ISO believes that excluding such a preference achieves the appropriate balance among LSE business models. On the one hand, LSEs that desire certainty to promote long-term transactions can execute long-term commitments up to their expected load share on any particular branch group. On the other hand, those LSEs that have a more difficult time predicting their load share will continue to receive access on desirable branch groups on a year-to-year basis.

Several stakeholders asked for the disclosure of particular contract information. The ISO has attempted to achieve the appropriate balance between disclosure of information to facilitate trading, while maintaining the confidentiality of commercially sensitive information.