

36.8 Assignment of Firm Transmission Rights.

36.8.1 An FTR may be assigned, sold, or otherwise transferred by the FTR Holder to any entity eligible to be an FTR Holder in full MW increments, either for the entire term of the FTR or for any portion of that term providing, however, that any such transfer shall be in full hour increments that correspond to the FTR issued to the FTR Holder. All FTRs that are so assigned, sold, or otherwise transferred by the FTR Holder are subject to the terms and conditions for FTRs approved by FERC and set forth in the ISO Tariff. Both the FTR Holder of record and the entity to which the FTRs have been transferred shall register the transfer of the FTR with the ISO by notifying the ISO through the form specified for that purpose by the ISO, and within the number of Business Days following the transfer published by the ISO on the ISO Home Page and WEnet but no later than such time as the ISO shall specify before the deadline applicable to scheduling Energy in the Day-Ahead Market, of (i) the identity of the FTR Holder of record; (ii) the identity of the entity to which the FTRs have been transferred; (iii) the quantity and identification numbers of the FTRs being transferred; (iv) the portion of the term of the FTR for which they are transferred; (v) the price at which the FTRs are being transferred; and (vi) whether the transfer of FTRs is subject to any conditions. The entity to which the FTRs have been transferred must also notify the ISO of all entities with which the transferee is affiliated that are FTR Holders or Market Participants as defined in the ISO Tariff, pursuant to Section 36.2.7. After the ISO receives such notices, the transferee shall be considered the FTR Holder of record with respect to the portion of the term of the FTR that is transferred. In order to use the Scheduling Priority of an FTR, pursuant to Section 36.7, an FTR must be registered with the ISO.

36.8.2 The ISO shall publish on the ISO Home Page such information concerning the concentration of ownership of FTRs in each FTR Market as determined by the ISO Governing Board from time to time.

36.8.3 To facilitate the operation of secondary markets in FTRs, the ISO shall post on WEnet and the ISO Home Page: (i) the identity of entities that hold FTRs that have been registered with the ISO, together with the quantity of FTRs held by such entities in each FTR Market and the path rating of the interface; and (ii) the name and a contact telephone number or telecopy number of any entity that

operates a secondary market in FTRs and that requests the ISO to post such information. The ISO shall also post the prices at which FTRs are transferred through secondary market transactions and shall indicate whether such transfers are conditional.

37 ENFORCEMENT PROTOCOL.

37.1 Objectives, Definitions, and Scope.

37.1.1 Purpose.

This Section sets forth the guiding principles for participation in the markets administered by the California Independent System Operator. The specified Rules of Conduct are intended to provide fair notice to Market Participants of the conduct expected of them, to provide an environment in which all parties may participate on a fair and equal basis, to redress instances of gaming and other instances of anticompetitive behavior, and thereby to foster confidence of Market Participants, ratepayers and the general public in the proper functioning of the ISO markets.

37.1.2 Objectives.

The objectives of this ISO Tariff are to:

- (a) Provide clear Rules of Conduct specifying the behavior expected of Market Participants;
and
- (b) Establish in advance the Sanctions and other potential consequences for violation of the specified Rules of Conduct.

37.1.3 Application of Other Remedies.

The activities and remedies authorized under this Section 37 are in addition to any other actions or relief that may be available to the ISO elsewhere in the ISO Tariff or under law, regulation or order. Nothing in this Section 37 limits or should be construed to limit the right of the ISO to take action or seek relief otherwise available to it, and such action or relief may be pursued in lieu of or in addition to the action or relief specified in this Section 37.

37.1.4 FERC Authority.

In addition to any authority afforded Market Monitoring Unit in this Section 37, FERC shall have the authority to assess the sanctions, and otherwise to enforce the rules as set forth and described in this Section 37. FERC shall have authority to remedy a violation under this Section 37 from the date of the violation. Nothing in this Section 37 shall be deemed to be a limitation or condition on the authority of FERC or other entities under current law or regulation.

37.1.5 Administration.

The Marketing Monitor Unit will administer the Rules of Conduct specified herein, except for Section 37.7, which shall be administered by FERC, and except as provided in Section 37.2.5 and Section 37.4.4. Nothing in this ISO Tariff limits or should be construed to limit the ability of components of the ISO organization other than the Market Monitoring Unit to analyse data and refer matters to the Market Monitoring Unit for enforcement.

37.2 Comply with Operating Orders.

37.2.1 Compliance with Orders Generally.

37.2.1.1 Expected Conduct.

Market Participants must comply with operating orders issued by the ISO as authorized under the ISO Tariff. For purposes of enforcement under this Section 37.2, an operating order shall be an order(s) from the ISO directing a Market Participant to undertake, a single, clearly specified action (e.g., the operation of a specific device, or change in status of a particular Generating Unit) that is feasible and intended to resolve a specific operating condition. A Market Participant's failure to obey an operating order containing multiple instructions to address a specific operating condition will result in a single violation of Section 37.2. If some limitation prevents the Market Participant from fulfilling the action requested by the ISO, then the Market Participant must promptly and directly communicate the nature of any such limitation to the ISO. Compliance with ISO operating orders requires a good faith effort to achieve full performance as soon as is reasonably practicable in accordance with Good Utility Practice.

37.2.1.2 Sanctions.

The Sanction for a violation of this Section shall be the greater of the quantity of Energy non-performance multiplied by the applicable Hourly Ex Post Price or the following: for the first violation in a rolling twelve (12) month period, \$5,000; for the second and subsequent violations in a rolling twelve (12) month period, \$ 10,000. Sanctions under Section 37.2.1 will not be greater than \$10,000 per violation and will be subject to the limitation stated in Section 37.2.6. If a quantity of energy cannot be objectively determined, then the financial sanctions specified above will apply. A Market Participant may incur Sanctions for more than one violation per day.

37.2.2 Failure to Curtail Load.

37.2.2.1 Expected Conduct.

A UDC or MSS Operator shall promptly comply with any ISO operating order to curtail interruptible or firm load issued pursuant to the ISO's authority under Section 7.4.11.3 of the ISO Tariff.

37.2.2.2 Sanctions.

The Sanction for non-compliance with an operating order to curtail load will be \$10,000 for each violation.

37.2.3 Operations & Maintenance Practices.

37.2.3.1 Expected Conduct.

Market Participants shall undertake such operating and maintenance practices as necessary to avoid contributing to a major outage or prolonging response time as indicated by Section 7.4.13.3 of the ISO Tariff.

37.2.3.2 Sanctions.

The Sanction for a violation of Section 37.2.3 will be \$10,000.

37.2.4 Must-Offer Denials/Revocations.

37.2.4.1 Expected Conduct.

A Market Participant shall start a Generating Unit and have that Generating Unit operating at minimum

load within 30 minutes of the time at which a must-offer waiver revocation becomes effective, or report the derate, outage or other event outside the control of the Market Participant that prevents the Generating Unit from being started by such time. Notwithstanding the foregoing, no violation shall occur unless the Market Participant has been provided advance notice of the waiver revocation consistent with the relevant start-up time set forth in the ISO Master File. A Market Participant that fails to perform in accordance with the expected conduct described in this Section 37.2.4.1 shall be subject to Sanction.

37.2.4.2 Sanctions.

The Sanctions for a violation of Section 37.2.4 shall be as follows: for the first violation in a rolling twelve (12) month period, \$5,000; for the second and all subsequent violations in a rolling twelve (12) month period, \$10,000. A Market Participant is limited to one Sanction per Generating Unit per calendar day.

37.2.5 Enhancements and Exceptions.

Except as otherwise specifically provided, penalty amounts shall be tripled for any violation of Section 37.2.1 through Section 37.2.4 if an ISO System Emergency exists at the time an operating order becomes effective or at any time during the Market Participant's non-performance. Notwithstanding the foregoing, violations of Section 37.2.1 through Section 37.2.4 are subject to penalty under this rule only to the extent that the ISO has issued a separate and distinct non-automated Dispatch Instruction to the Market Participant. Any penalty amount that is tripled under this provision and that would exceed the \$10,000 per day penalty limit shall not be levied against a Market Participant until the ISO proposes and the Commission approves such an enhancement. A Market Participant that is subject to an enhanced penalty amount under this Section 37.2.5 may appeal that penalty amount to FERC if the Market Participant believes a mitigating circumstance not covered in Section 37.9.2 exists. The duty of the Market Participant to pay the enhanced penalty amount will be tolled until FERC renders its decision on the appeal.

37.2.6 Per-Day Limitation on Amount of Sanctions.

The amount of Sanctions that any Market Participant will incur for committing two or more violations of Section 37.2.1 through Section 37.2.4 on the same day will be no greater than \$10,000 per day.

37.3 Submit Feasible Energy and Ancillary Service Bids and Schedules.

37.3.1 Bidding Generally.

37.3.1.1 Expected Conduct.

Market Participants must bid and schedule Energy and Ancillary Services from resources that are reasonably expected to be available and capable of performing at the levels specified in the bid and/or schedule, and to remain available and capable of so performing based on all information that is known to the Market Participant or should have been known to the Market Participant at the time of bidding or scheduling. Hourly Pre-Dispatched bids for import or export of Supplemental Energy are not subject to the foregoing requirement, but failure to deliver on such pre-dispatched bids can violate the anti-manipulation rule in Section 37.7 and in any regulations issued by FERC.

37.3.1.2 Consequence for Non-Performance.

A Market Participant that fails to perform in accordance with the expected conduct described in Section 37.3.1.1 above shall be subject to having the payment rescinded for any portion of an Ancillary Service that is unavailable. If a Market Participant fails to deliver on an Hourly Pre-Dispatch bid for import or export of Supplemental Energy, it shall be subject to any charge that may apply in Section 11.31 and to any penalty or sanction FERC may impose for violation of Section 37.7, but shall not be subject to Sanctions pursuant to any other provision of Section 37, including this Section 37.3.

37.3.2 Exceptions.

Violations of Section 37.3.1 that result in circumstances in which an Uninstructed Deviation Penalty under Section 11.2.4.1.2 of the ISO Tariff may be assessed or for which payments have been eliminated under Section 8.10.2 of the ISO Tariff are not subject to Sanction under this section. The submission of a Schedule that causes, or that the ISO expects to cause Intra-Zonal Congestion shall not, by itself, constitute a violation of Section 37.3.1 unless the Market Participant fails to comply with an obligation under the ISO Tariff to modify Schedules as determined by the ISO to mitigate such congestion or such Schedules violate another element of this Rule.

37.4 Comply with Availability Reporting Requirements.

37.4.1 Reporting Availability.

37.4.1.1 Expected Conduct.

A Market Participant shall notify the ISO Control Center of any Outage reportable pursuant to Section 9.3.10.2.1 of the ISO Tariff of a Generating Unit subject to Section 4.6 of the ISO Tariff within sixty (60) minutes after the Outage is discovered.

37.4.1.2 Sanctions.

A "violation" for purposes of this Section shall mean each failure to notify the ISO Control Center about an Outage of a Generating Unit within sixty (60) minutes after the Outage is discovered, as required by Section 37.4.1, except that (a) for each Generating Unit, the first such failure in a calendar month shall not constitute a violation, and (b) for each Generating Unit, multiple failures in the same calendar day shall constitute a single violation. The Sanctions for a violation of Section 37.4.1 shall be as follows:

- (a) for each Generating Unit that is the subject of a violation, the Sanction for the first violation in a calendar month shall be a warning letter;
- (b) for each Generating Unit that is the subject of a violation, the Sanction for the second and subsequent violations in a calendar month will be a financial penalty, as follows:
 - (i) if the Generating Unit has not been the subject of a financial penalty for a previous violation within twelve (12) months of the instant violation, the Sanction will be \$1,000;
 - (ii) if the Generating Unit has been the subject of one financial penalty for a previous violation within twelve (12) months of the instant violation, the Sanction will be \$2,000;
 - (iii) if the Generating Unit has been the subject of two or more financial penalties for previous violations within twelve (12) months of the instant violation, the Sanction will be \$5,000.

37.4.2 Scheduling and Final Approval of Outages.

37.4.2.1 Expected Conduct.

A Market Participant shall not undertake an Outage except as approved by the ISO Outage Coordination Office in accordance with Section 9.3.2, Section 9.3.9, and Section 9.3.6.6 of the ISO Tariff. A Market Participant shall not commence any Outage without obtaining final approval from the ISO Control Center in accordance with Sections 9.3.9 and 9.3.10 of the ISO Tariff.

37.4.2.2 Sanctions.

The Sanctions for a violation of Section 37.4.2 shall be as follows: for the first violation within a rolling twelve (12) month period, \$5,000; for subsequent violations within a rolling twelve (12) month period, \$10,000. A "violation" shall mean each Outage undertaken for which all required approvals were not obtained.

37.4.3 Explanation of Forced Outages.

37.4.3.1 Expected Conduct.

As required by Section 9.3.10.5, a Market Participant must provide a detailed explanation of a Forced Outage within two (2) Business Days after the Operator initially notifies the ISO pursuant to Section 9.3.10.2.1 of the change in maximum output capability. An Operator must promptly provide information requested by the ISO to enable

the ISO to review the explanation submitted by the Operator and to prepare a report on the Forced Outage.

37.4.3.2 Sanctions.

The Sanction for failing to provide a timely explanation of Forced Outage shall be \$500 per day for each day the explanation is late. The Sanction for failing to provide a timely response to information requested shall be as specified in Section 37.6.1.

37.4.4 Enhancements and Exceptions.

Except as otherwise specifically provided, penalty amounts shall be tripled for any violation of Section 37.4.1 through Section 37.4.3 that occurs during an ISO System Emergency. Violations of the above rules that result in circumstances in which an Uninstructed Deviation Penalty under Section 11.2.4.1.2 of the ISO Tariff may be assessed shall not be subject to Sanction under this Section 37.4. A Market Participant that is subject to an enhanced penalty amount under this Section 37.4.4 may appeal that penalty amount to FERC if the Market Participant believes a mitigating circumstance not covered in Section 37.9.2 exists. The duty of the Market Participant to pay the enhanced penalty amount will be tolled until FERC renders its decision on the appeal.

37.5 Provide Factually Accurate Information.

37.5.1 Accurate Information Generally.

37.5.1.1 Expected Conduct.

All applications, Schedules, reports, and other communications by a Market Participant or agent of a Market Participant to the ISO, including maintenance and outage data, bid data, transaction information, and load and resource information, must be submitted by a responsible company official who is knowledgeable of the facts submitted. The Market Participant shall provide accurate and factual information and not submit false or misleading information, or omit material information, in any communication with FERC, FERC-approved market monitors, FERC-approved regional transmission organizations, or FERC-approved independent system operators, or jurisdictional transmission providers, unless the Market Participant exercised due diligence to prevent such occurrences.

37.5.1.2 Sanctions.

The Sanctions for a violation of Section 37.5.1 shall be as follows: for the first violation within a rolling twelve (12) month period, \$2,500; for the second violation within a rolling twelve (12) month period, \$5,000; subsequent violations within a rolling twelve (12) month period, \$10,000.

37.5.2 Inaccurate Meter Data.

37.5.2.1 Expected Conduct.

Market Participants shall provide complete and accurate Settlement Quality Meter Data for each Trade hour and shall correct any errors in such data prior to the issuance of Final Settlement Statements. Failure to provide complete and accurate Settlement Quality Meter Data, as required by Section 10 of the ISO Tariff and that results in an error that is discovered after issuance of Final Settlement Statements, shall be a violation of this rule.

37.5.2.2 Sanctions.

Violations under this Section 37.5.2 shall be subject to Sanction described in Section 37.11.

37.5.2.3 Disposition of Sanction Proceeds.

For purposes of redistributing collected penalties, any amounts collected under this provision shall be applied first to those parties affected by the conduct. Any excess amounts shall be disposed of as set forth in Section 37.9.4.

37.6 Provide Information Required by ISO Tariff.

37.6.1 Required Information Generally.

37.6.1.1 Expected Conduct.

Except as provided below in Section 37.6.4 (Review by FERC), all information that is required to be submitted to the ISO under the ISO Tariff, ISO protocols, or jurisdictional contracts must be submitted in a complete, accurate, and timely manner. Market Participants must comply with requests for information or data by the ISO authorized under the ISO Tariff, including timelines specified in the ISO Tariff for

submitting Schedules and other information.

37.6.1.2 Sanctions.

Except as otherwise provided below, in Section 37.6.2 and Section 37.6.3, a violation of this rule is subject to a penalty of \$500 for each day that the required information is late.

37.6.2 Investigation Information.

37.6.2.1 Expected Conduct.

Except as provided below in Section 37.6.4 (Review by FERC), Market Participants must submit timely information in response to a written request by the ISO for information reasonably necessary to conduct an investigation authorized by the ISO Tariff.

37.6.2.2 Sanctions.

The Sanction for a violation of Section 37.6.2 shall be as follows: for the first violation in a rolling 12-month period, \$1000/day; for the second violation in a rolling 12-month period, \$2000/day; for the third and subsequent violations in a rolling 12-month period, \$5000/day. For purposes of this subsection, a violation shall be each failure to provide a full response to a written request and the Sanction shall be determined from the date that the response was due until a full response to the request is received.

37.6.3 Audit Materials.

37.6.3.1 Expected Conduct.

Except as provided below in Section 37.6.4 (Review by FERC), Market Participants shall comply with the ISO's audit and/or test procedures, and further shall perform and timely submit an annual self-audit as required under the ISO Tariff.

37.6.3.2 Sanctions.

For failure to submit an annual Scheduling Coordinator Self Audit report, the Sanction shall be \$1000/day until such report is received by the ISO. For all other violations of this rule the Sanctions shall be as follows: for the first violation in a rolling 12-month period, \$1000/day; for the second violation in a rolling

12-month period, \$2000/day; for the third and subsequent violations in a rolling 12-month period, \$5000/day. For purposes of this subsection, a "violation" shall be each failure to provide all information required under the audit or test, from the date that the information was due until all required information is received by the ISO.

37.6.4 Review by FERC.

A Market Participant who objects to an information, audit or test obligation that is enforceable under Section 37.6.1, Section 37.6.2 or Section 37.6.3 above shall have the right immediately (and in all events, no later than the due date for the information) to seek review of the obligation with FERC. In the event that such review is sought, the time for submitting the response or other information to the ISO shall be tolled until FERC resolves the issue.

37.7 No Market Manipulation.

37.7.1 Market Manipulation Generally.

37.7.1.1 Expected Conduct.

Actions or transactions that are without a legitimate business purpose and that are intended to or foreseeably could manipulate market prices, market conditions, or market rules for electric energy or electricity products are prohibited. Actions or transactions by a Market Participant that are explicitly contemplated in the ISO Tariff or are undertaken at the direction of the ISO are not in violation of this Rule of Conduct.

37.7.1.2 Sanctions.

Violations or potential violations of this rule shall be referred to FERC for appropriate sanction.

37.7.2 Wash Trades.

37.7.2.1 Expected Conduct.

Market Participants shall not engage in pre-arranged offsetting trades of the same product among the same parties, which involve no economic risk and no net change in beneficial ownership (sometimes called "wash trades").

37.7.2.2 Sanctions.

Violations or potential violations of this rule shall be referred to FERC for appropriate sanction.

37.7.3 False Information.

37.7.3.1 Expected Conduct.

A Market Participant shall not engage in transactions predicated on submitting false information to transmission providers or other entities responsible for operation of the transmission grid (such as inaccurate load or generation data; or scheduling non-firm service or products sold as firm), unless the Market Participant exercised due diligence to prevent such occurrences.

37.7.3.2 Sanctions.

Violations or potential violations of this rule shall be referred to FERC for appropriate sanction.

37.7.4 Artificial Congestion.

37.7.4.1 Expected Conduct.

A Market Participant shall not engage in transactions in which it first creates artificial congestion and then purports to relieve such artificial congestion (unless the Market Participant exercised due diligence to prevent such an occurrence).

37.7.4.2 Sanctions.

Violations or potential violations of this rule shall be referred to FERC for appropriate sanction.

37.7.5 Collusion.

37.7.5.1 Expected Conduct.

Market Participants shall not engage in collusion with another party for the purpose of manipulating market prices, market conditions, or market rules for electric energy or electricity products.

37.7.5.2 Sanctions.

Violations or potential violations of this rule shall be referred to FERC for appropriate sanction.

37.8 Process for Investigation and Enforcement.

37.8.1 Purpose; Scope.

The provisions of this Section 37.8 set forth the procedures by which the Market Monitoring Unit will independently investigate potential violations of the Rules of Conduct and administer enforcement activities. Except as hereinafter provided, and except as provided in Section 37.2.5 and Section 37.4.4, the provisions of this section apply to the Rules of Conduct set forth in Sections 37.2 through 37.7.

37.8.2 Referrals to FERC.

Section 37.7 shall be enforced by FERC, in accordance with FERC's rules and procedures. The Market Monitoring Unit shall refer to FERC and its staff all matters in which it has formed a reasonable belief that a violation of Section 37.7 may have occurred. Although Sections 37.2 through 37.6 will generally be enforced by the Market Monitoring Unit, the Market Monitoring Unit shall refer to FERC any matter for which the particular circumstances preclude the objective determination of a Rules of Conduct violation, and shall refer to FERC any Sanction that it believes should be modified in accordance with Sections 37.2.5, 37.4.4, or 37.9.1. The time limitation contained in Section 37.10.1 to assess a Sanction under this Protocol shall be determined as of the date that a Sanction is initially assessed by the ISO, excluding the time required for FERC to investigate a potential Rules of Conduct violation and/or determine a Sanction in accordance with this section, Sections 37.2.5, 37.4.4, or 37.9.1.

37.8.3 Investigation.

The Market Monitoring Unit shall conduct a reasonable investigation seeking available facts, data, and other information relevant to the potential Rules of Conduct violation.

37.8.4 Notice.

The Market Monitoring Unit shall provide notice of the investigation in sufficient detail to allow for a meaningful response to the Scheduling Coordinator and, as limited below, to all Market Participants the Scheduling Coordinator represents that are the subject(s) of the investigation. The Market Monitoring Unit shall contact the Market Participant(s) that may be involved, so long as the ISO has sufficient objective information to identify and verify the role of the Market Participant(s) in the potential Rules of

Conduct violation. Such Market Participant(s) will likely have an existing contractual relationship with the ISO (e.g., UDC, MSS, ISO Metered Entity, Participating Transmission Owner, Participating Generator, or Participating Load).

37.8.5 Opportunity to Present Evidence.

The Market Monitoring Unit shall provide an opportunity to the Market Participant(s) that are the subject(s) of the investigation to present any issues of fact or other information relevant to the potential Rules of Conduct violation being investigated. The Market Monitoring Unit shall consider all such information or data presented.

37.8.6 Results of Investigation.

The Market Monitoring Unit shall notify the Market Participant(s) that are the subject(s) of the investigation of the results of the investigation. The Market Participant(s) shall have 30 days to respond to the findings of the Market Monitoring Unit before the Market Monitoring Unit makes a determination of whether a Sanction is required by this ISO Tariff.

37.8.7 Statement of Findings and Conclusions.

Where the investigation results in a Sanction, the Market Monitoring Unit shall state its findings and conclusions in writing, and will make such writing available to the Scheduling Coordinator and, as provided in Section 37.8.4, to the Market Participant(s) that are the subject(s) of the investigation.

37.8.8 Officer Representative.

Where an investigation results in a Sanction by the Market Monitoring Unit, the Market Monitoring Unit shall direct its notice of such result to a responsible representative of the Scheduling Coordinator and, as provided in Section 37.8.4, to the Market Participant(s) that are the subject(s) of the investigation at the officer level.

37.8.9 Record of Investigation.

Where an investigation results in a Sanction, the Market Monitoring Unit will maintain a record of the investigation until its decision has been finally reviewed, if review is sought, or until the period for seeking

review has expired.

37.8.10 Review of Determination.

A Market Participant that receives a Sanction may obtain immediate review of the Market Monitoring Unit's determination by directly appealing to FERC, in accordance with FERC's rules and procedures. In such case, the applicable Scheduling Coordinator shall also dispute the Preliminary Settlement Statement containing the financial penalty, in accordance with Section 11 of the ISO Tariff. The Preliminary Settlement Statement dispute and appeal to FERC must be made in accordance with the timeline for raising disputes specified in Section 11.7.2 of the ISO Tariff. The penalty will be tolled until FERC renders its decision on the appeal. The disposition by FERC of such appeal shall be final, and no separate dispute of such Sanction may be initiated under Section 13 of the ISO Tariff, except as provided in Section 37.9.3.4. For the purpose of applying the time limitations set forth in Section 37.10.1, a sanction will be considered assessed when it is included on a Preliminary Settlement Statement, whether or not the ISO accepts a Scheduling Coordinator's dispute of such Preliminary Settlement Statement pending resolution of an appeal to FERC in accordance with this section or Section 37.9.3.3.

37.9 Administration of Sanctions

37.9.1 Assessment; Waivers and Adjustments. Penalty amounts for violation of these Rules of Conduct shall be calculated as specified in Section 37.2 through Section 37.7. A Sanction specified in this Section 37 may be modified by FERC when it determines that such adjustment is just and reasonable. The ISO may make a recommendation to FERC to modify a Sanction. An adjustment generally shall be deemed appropriate if the prescribed Sanction appears to be insufficient to deter the prohibited behavior, or if the circumstances suggest that the violation was inadvertent, unintentional, or some other mitigating circumstances exist.

37.9.2 Excuse.

The following circumstances shall excuse a violation of a Rule of Conduct under the terms of this ISO Tariff:

37.9.2.1 Uncontrollable Force.

No failure by a Market Participant to satisfy the Rules of Conduct shall be subject to penalty to the extent and for the period that the Market Participant's inability to satisfy the Rules of Conduct is caused by an event or condition of Uncontrollable Force affecting the Market Participant; provided that the Market Participant gives notice to the ISO of the event or condition of Uncontrollable Force as promptly as possible after it knows of the event or condition and makes all reasonable efforts to cure, mitigate, or remedy the effects of the event or condition.

37.9.2.2 Safety, Licensing, or Other Requirements.

Failure by a Market Participant to perform its obligations shall not be subject to penalty if the Market Participant is able to demonstrate that it was acting in accordance with Section 4.2.1 of the ISO Tariff.

37.9.2.3 Emergencies.

Failure by a Market Participant to perform its obligations may not be subject to penalty if the Market Participant is able to demonstrate that it was acting in good faith and consistent with Good Utility Practice to preserve System Reliability in a System Emergency, unless contrary to an ISO operating order.

37.9.2.4 Conflicting Directives.

To the extent that any action or omission by a Market Participant is specifically required by a FERC Order or ISO operating order, the Market Participant may not be subject to penalty for that act or omission.

37.9.3 Settlement.

37.9.3.1 Settlement Statements.

The ISO will administer any penalties issued under this Enforcement Protocol through Preliminary Settlement Statements, and Final Settlement Statements issued to the responsible Scheduling Coordinator by the ISO. Before invoicing a financial penalty through the Settlement process, the ISO will provide a description of the penalty to the responsible Scheduling Coordinator and all Market Participants the Scheduling Coordinator represents that are liable for the penalty, when the ISO has sufficient objective information to identify and verify responsibility of such Market Participants. The ISO shall

specify whether such penalty is modified pursuant to Section 37.2.5, Section 37.4.4 or Section 37.9.1.

The description shall include the identity of the Market Participant that committed the violation and the amount of the penalty. Where FERC has determined the Sanction, the ISO will provide such of the above information as is provided to it by FERC. The ISO also may publish this information under the ISO Home Page after Final Settlement Statements are issued.

37.9.3.2 Payment.

Except as provided in Section 37.2.5, Section 37.4.4, Section 37.8.10 or Section 37.9.3.3 below, the Scheduling Coordinator shall be obligated to pay all penalty amounts reflected on the Preliminary and Final Settlement Statements to the ISO pursuant to the ISO's Settlement process, as set forth in Section 11 of the ISO Tariff.

37.9.3.3 Other Responsible Party.

Where a party or parties other than the Scheduling Coordinator is responsible for the conduct giving rise to a penalty reflected on a Preliminary or Final Settlement Statement, and where the Scheduling Coordinator bears no responsibility for the conduct, such other party or parties ultimately shall be liable for the penalty. Under such circumstances, the Scheduling Coordinator shall use reasonable efforts to obtain payment of the penalty from the responsible party(ies) and to remit such payment to the ISO in the ordinary course of the settlement process. In the event that the responsible party(ies) wish to dispute the penalty, or the Scheduling Coordinator otherwise is unable to obtain payment from the responsible parties, the Scheduling Coordinator shall notify the ISO and dispute the Preliminary Settlement Statement. The ISO promptly shall notify FERC. **If the ISO finds that a Market Participant separate from the Scheduling Coordinator that is unable to obtain payment from the responsible party(ies) is solely responsible for a violation, the Scheduling Coordinator that is unable to obtain payment may net its payment of its Invoice amount by the amount of the penalty in question.** The ISO may refuse to offer further service to any responsible party that fails to pay a penalty, unless excused under the terms of the Tariff or this Enforcement Protocol, by providing notice of such refusal to the Scheduling Coordinator. Following such notice, the Scheduling Coordinator shall be liable for any subsequent penalties assessed on account of such responsible party.

37.9.3.4 Dispute of FERC Sanctions.

The right that a Market Participant may otherwise have under the Tariff or this Enforcement Protocol to dispute a penalty that has been determined by FERC shall be limited to a claim that the ISO failed properly to implement the penalty or other Sanction ordered by FERC, except as provided by Section 37.2.5 and Section 37.4.4.

37.9.4 Disposition of Proceeds.

The ISO shall collect penalties assessed pursuant to this Section 37.9 and deposit such amounts in an interest bearing trust account. After the end of each calendar year, the ISO shall distribute the penalty amounts together with interest earned through payments to Scheduling Coordinators as provided herein. For the purpose of this Section 37.9.4, "eligible Market Participants" shall be those Market Participants that were not assessed a financial penalty pursuant to this Section 37 during the calendar year.

Each Scheduling Coordinator that paid GMC during the calendar year will identify, in a manner to be specified by the ISO, the amount of GMC paid by each Market Participant for whom that Scheduling Coordinator provided service during that calendar year. The total amount assigned to all Market Participants served by that Scheduling Coordinator in such calendar year (including the Scheduling Coordinator itself for services provided on its own behalf), shall equal the total GMC paid by that Scheduling Coordinator.

The ISO will calculate the payment due each Scheduling Coordinator based on the lesser of the GMC actually paid by all eligible Market Participants represented by that Scheduling Coordinator, or the product of a) the amount in the trust account, including interest, and b) the ratio of the GMC paid by each Scheduling Coordinator on behalf of eligible Market Participants, to the total of such amounts paid by all Scheduling Coordinators. Each Scheduling Coordinator is responsible for distributing payments to the eligible Market Participants it represented in proportion to GMC collected from each eligible Market Participant.

Prior to allocating the penalty proceeds, the ISO will obtain FERC's approval of its determination of eligible Market Participants and their respective shares of the trust account proceeds. If the total amount

in the trust account to be so allocated exceeds the total GMC obligation of all eligible Market Participants, then such excess shall be treated in accordance with Section 11.8.5.3(b).

37.10 Miscellaneous.

37.10.1 Time Limitation.

An investigation of events potentially subject to Sanction under this Section 37 must be commenced within 90 days of discovery of the events. Sanctions may be assessed under this Section 37 up to one year after discovery of the events constituting the violation, but no later than three years after the date of the violation. Nothing in this section shall limit the rights or liabilities of any party under any other provision of applicable laws, regulations or tariff provisions.

37.10.2 No Limitation on Other Rights.

Nothing contained in this Section 37 shall limit the ability of the ISO to collect information from Market Participants or to establish new provisions pursuant to Section 15 of the ISO Tariff.

37.11 Method for Calculating Penalties.

1. Method for Calculating Inaccurate Meter Data Penalty.

There is no Sanction for the submission of inaccurate meter data used for Preliminary Settlement Statements. However, an error in submitted meter data that is discovered after issuance of Final Settlement Statements constitutes a Rule of Conduct violation. The level of the Sanction depends on whether the Scheduling Coordinator or the ISO discovered the error. An increased penalty will apply for errors that are discovered by the ISO.

Table A1 below shows how the level of the Sanction depends on the following factors: whether or not the Scheduling Coordinator finds the error; whether or not the Scheduling Coordinator owes the market, and whether or not the ISO reruns settlement of the market. If the ISO reruns the market, then settlement to all Scheduling Coordinators is recalculated, and the impact of such reruns on charges assessed will be considered. A charge equal to 30% of the estimated value of the Energy error will apply if the Scheduling Coordinator discovers the error, or 75% of the estimated value of the Energy error if the ISO discovers

the error. Penalty assessment and disposition of penalty proceeds will be administered as described in Section 37.9.1 and Section 37.9.4 respectively. A Sanction will not be imposed unless such Sanction is more than \$1,000 for at least one Trading Day during the period for which there was incomplete or inaccurate meter data.

Table A1 – Calculation of Inaccurate Meter Data Penalty When There Is A Market Rerun

Case	Does SC Owe Market?	
Case 1: SC Identifies Inaccurate Meter Data	Yes	Charge = (MWh x Hourly Ex Post Price ¹) x 0.30
Case 1: SC Identifies Inaccurate Meter Data	No	Charge = (MWh x Hourly Ex Post Price ¹) x 0.30
Case 2: ISO Identifies Inaccurate Meter Data	Yes	Charge = (MWh x Hourly Ex Post Price ¹) x 0.75
Case 2: ISO Identifies Inaccurate Meter Data	No	Charge = (MWh x Hourly Ex Post Price ¹) x 0.75

Note to Table A1:

The applicable price will be the greater of the Hourly Ex Post Price or \$10/MWh. The Hourly Ex Post Price used will be the value posted under the ISO Home Page for each Trading Hour of the applicable Trading Day.

2. Method for Calculating Inaccurate Meter Data Penalty When The Market Is Not Re-Run.

If the Market is not re-run, for cases of inaccurate meter data, Table A2 will be used to determine and allocate the penalty proceeds. This method approximates the financial impact on the market; however, it does not completely reflect all the settlement consequences of inaccurately submitted meter data. This

will be considered a market adjustment. The approximated value of the inaccurate meter data in question will be calculated and returned to the Market based on the average of the pro rata share of Unaccounted For Energy (UFE) charged in the UDC territory during the period of the inaccurate meter data event. The 30% or 75% penalty will be distributed as discussed in Section 37.9.4. For cases where the market is not re-run and the Scheduling Coordinator does not owe the market, then no market adjustment will be performed.

TABLE A2- Calculation Of Inaccurate Meter Data Penalty When There Is No Market Re-Run

Case	Does SC Owe Market?	ISO does not perform a market settlement re-run
Case 1: SC Identifies Inaccurate Meter Data	Yes	Market Adjustment = (MWh x Hourly Ex Post Price ¹) Penalty = (MWh x Hourly Ex Post Price ¹) x 0.30
Case 1: SC Identifies Inaccurate Meter Data	No	No Market Adjustment will be made Penalty = (MWh x Hourly Ex Post Price ¹) x 0.30
Case 2: ISO Identifies Inaccurate Meter Data	Yes	Market Adjustment = (MWh x Hourly Ex Post Price ¹) Penalty = (MWh x Hourly Ex Post Price ¹) x 0.75
Case 2: ISO Identifies Inaccurate Meter Data	No	No Market Adjustment will be made Penalty = (MWh x Hourly Ex Post Price ¹) x 0.75

Notes to Table A2:

The applicable price will be the greater of the Hourly Ex Post Price or \$10/MWh. The Hourly Ex Post Price used will be the value posted under the ISO Home Page for each Trading Hour of the applicable Trading Day.

A Sanction will be imposed only if the Sanction is more than \$1,000 for at least one Trading Day during the period for which there was incomplete or inaccurate meter data.

If the error is to the detriment of the responsible Scheduling Coordinator (e.g., under-reported generation

or over-reported load), and the ISO does not rerun the market, then no correction will be made, representing an implicit penalty of 100% of the value of the Energy. If the market is rerun after the error is corrected, then the Scheduling Coordinator will be given credit for the additional Energy through the normal Settlement process. If the Scheduling Coordinator is paid for an error due to a market rerun, then a Sanction will be assessed to assure that market reruns do not diminish the incentive to correct such errors. This Sanction would be 30% of the Energy value of the error if the Scheduling Coordinator discovers the error, or 75% estimated value of the error if the ISO discovers the error.

If the error is to the detriment of the market, then a charge equal to 30% or 75% of the estimated value of the error, as appropriate, will be added to the charge for the Energy. If there is no market rerun, then the cost of Energy supplied by the ISO (and inappropriately charged to the market as Unaccounted for Energy) must be recovered as well, and the charge will be equal to 130% or 175% of the estimated value of the error, as appropriate.

ARTICLE IV – MARKET MONITORING AND MARKET POWER MITIGATION

38 MARKET MONITORING.

38.1 Objectives and Scope.

This Section sets forth the workplan and, where applicable, the rules under which the ISO Department of Market Analysis and ISO Market Surveillance Committee will monitor the ISO Markets to identify abuses of market power, to ensure to the extent possible the efficient working of the ISO Markets immediately upon commencement of their operation, and to provide for their protection from abuses of market power in both the short term and the long term, and from other abuses that have the potential to undermine their effective functioning or overall efficiency in accordance with Section 38.1.1 of the ISO Tariff. Such monitoring activities will be carried out by, among other ISO departments, the ISO Department of Market Analysis and the ISO Market Surveillance Committee to be established and to operate under the terms of this Protocol, as set forth below. These protocols provide a general framework for the operation of the Department of Market Analysis and the Market Surveillance Committee and are not intended to limit the activities or remedies available to these entities or to the ISO as a whole elsewhere in the ISO Tariff or otherwise under law.

38.1.1 Market Surveillance: Changes to Operating Rules and Protocols.

The ISO shall keep the operation of the markets that it administers under review to determine whether changes in its operating rules or ISO Protocols would improve the efficiency of those markets or prevent the exercise of market power by any Market Participant; and it shall institute necessary changes in accordance with this Section 38. The details of the ISO Market Monitoring and Information Protocol are set forth in Appendix P.

38.1.2 Reporting Requirements.

This Section of the ISO Tariff sets forth the information dissemination, publication and reporting activities and other means of providing information that the ISO generally undertakes to meet its reporting requirements to regulatory agencies, Market Participants and others. The goal of the reporting provisions is to adequately inform regulatory agencies, law enforcement agencies, policymakers, Market Participants and others of the state of the ISO Markets, especially their competitiveness and efficiency. This function is designed to facilitate efficient corrective actions to be taken by the appropriate body or bodies when required.

38.2 Practices Subject to Scrutiny – General.

The Department of Market Analysis shall monitor the activities of Market Participants that affect the operation of the ISO Markets and that provide indications of the phenomena set forth below in this Section 38.2. Where appropriate, it will take such further action as it considers necessary under Section 38.4.

38.2.1 Abuse of Reliability Must-Run Unit Status.

Where Generating Units are determined by the ISO to be Reliability Must-Run Units, circumstances that indicate that such Generating Units are being operated in a manner that will adversely affect the competitive nature and efficient workings of the ISO Markets.

38.2.2 ISO and Other Market Design Flaws.

Design flaws and inefficiencies in the ISO Tariff, ISO Protocols and operational rules and procedures of

the ISO, including the potential for problems between the ISO and other independent power markets or exchanges insofar as they affect the ISO Markets.

38.2.3 Market Structure Flaws.

With respect to flaws in the overall structure of the California energy markets that may reveal undue concentrations of market power in Generation or other structural flaws, the Department of Market Analysis shall provide such information or evidence of such flaws and such analysis as it may conduct to the ISO CEO and/or to the ISO Governing Board, subject to due protections of confidential or commercially sensitive information. After due internal consultation, if instructed by any of such ISO institutions or persons, the Department of Market Analysis shall also provide such information or evidence to the Market Surveillance Committee, the appropriate regulatory and antitrust enforcement agency or agencies, subject to due protections of confidential or commercially sensitive information. The Department of Market Analysis shall, at the direction of the ISO CEO and/or the ISO Governing Board, or their designee, provide such other evidence, views, analyses or testimony as may be appropriate or required and as it is reasonably capable of providing to assist the investigations of such agencies.

38.3 Scrutiny of Participant Changes Potentially Affecting Market Structure.

The Department of Market Analysis may undertake the following measures to monitor the special circumstances that may affect the operation of the ISO Markets due to corporate reorganizations including bankruptcies or changes in Affiliate relationships and may recommend corrective actions as provided in Section 38.4.

38.3.1 Exercises of Horizontal Market Power.

The Department of Market Analysis may analyze the impact of changes in market structure on the ability of Market Participants to exercise short-term horizontal market power.

38.4 Response Action by ISO.

38.4.1 Corrective Actions.

Where the monitoring activities or any consequent investigations carried out by the Department of Market Analysis pursuant to Section 38.2 and Appendix P.1 reveal a significant possibility of the presence of or

potential for exercises of market power that would adversely affect the operation of the ISO Markets, or other markets interconnected or interdependent on the ISO Markets, the Department of Market Analysis shall take the appropriate measures under this section and under Appendix P to institute the corrective action most effective and appropriate for the situation or, in the case of markets interconnected to or interdependent on the ISO Markets, the Department of Market Analysis may recommend corrective actions to the appropriate regulatory agencies.

38.4.2 Further Actions.

Where the monitoring activities of or any consequent investigations carried out by the Department of Market Analysis pursuant to Sections 38.2 and 38.3 reveal that activities or behavior of Market Participants in the ISO Markets have the effect of, or potential for, undermining the efficiency, workability or reliability of the ISO Markets to give or to serve such Market Participants an unfair competitive advantage over other Market Participants, the Department of Market Analysis shall fully investigate and analyze the effect of such activities or behavior and make recommendations to the ISO CEO and the ISO Governing Board for further action by the ISO or, where necessary, by other entities. The Department of Market Analysis may, where appropriate, make specific recommendations to the ISO CEO and to the ISO Governing Board for amendment to rules and protocols under its control, or for changes to the structure of the ISO Markets, and the Department of Market Analysis may recommend actions, including fines or suspensions, against specific entities in order to deter such activities or behavior.

38.4.3 Adverse Effects of Transition Mechanisms.

Should the monitoring and analysis conducted under Appendix P reveal significant adverse effects of transition mechanisms on competition in or the efficient operation of the ISO Markets, the Department of Market Analysis shall examine and fully assess the efficacy of all possible measures that may be taken by the ISO, in order to prevent or to mitigate such adverse effects. The Department of Market Analysis shall make such recommendations to the CEO of the ISO and to the ISO Governing Board as it considers appropriate for action by the ISO and/or for referral to regulatory or law enforcement agencies. Such proposed measures may include, but shall not be limited to the following:

38.4.3.1 the use of direct bid caps as a mechanism to prevent or mitigate artificially high Market Clearing Prices caused by abuses of market power;

38.4.3.2 the use of contracts for differences for eliminating the incentive for Generators to bid ISO prices to artificially high levels enabled by the presence of market power;

38.4.3.3 calling upon Reliability Must-Run Units to operate; and to modify Reliability Must-Run Contracts;

38.4.3.4 bid floors to prevent or mitigate the possible exercise of below-cost bidding or predatory pricing.

In the event that the ISO Governing Board adopts, and where necessary obtains regulatory approval for, any measure proposed pursuant to Section 38.4.3, the Department of Market Analysis shall monitor the implementation and effect of such measure on the state of the ISO Markets and shall periodically report on them to the CEO and the ISO Governing Board.

39 RULES LIMITING CERTAIN ENERGY AND ANCILLARY SERVICE BIDS.

39.1 Damage Control Bid Cap.

Notwithstanding any other provision of this ISO Tariff, Damage Control Bid Cap provisions of Sections 39.2 and 39.3 shall apply to the ISO's Energy and Ancillary Service capacity markets.

39.2 Maximum Bid Level.

The maximum bid level in the ISO's Energy markets shall be \$400/MWh. Market Participants may submit bids in the ISO's Energy markets above \$400/MWh, however, any accepted bids above this cap are not eligible to set the Market Clearing Price and are subject to cost-justification and refund.

The maximum bid level applicable to Adjustment Bids used in the ISO's Congestion Management markets shall be \$400/MWh, and the ISO shall not accept Adjustment Bids in excess of that bid level.

The maximum bid level in the ISO's Ancillary Service capacity markets shall be \$400/MWh. Market Participants may submit bids in the ISO's Ancillary Service capacity markets above \$400/MWh, however, any accepted bids above this cap are not eligible to set the Market Clearing Price and are subject to cost-

justification and refund.

39.3 Negative Decremental Energy Bids.

Negative decremental Energy bids into the ISO Markets less than -\$30/MWh (minus thirty dollars per MWh) shall not be eligible to set any Market Clearing Price and, if Dispatched, shall be paid as bid. If the ISO Dispatches a bid below -\$30/MWh, the supplier must submit a detailed breakdown of the component costs justifying the bid to the ISO and to the Federal Energy Regulatory Commission no later than seven (7) days after the end of the month in which the bid was submitted. The ISO will treat such information as confidential and will apply the procedures in Section 20.4 of this ISO Tariff with regard to requests for disclosure of such information. The ISO shall pay suppliers for amounts in excess of -\$30/MWh after those amounts have been justified.

ARTICLE V – RESOURCE ADEQUACY

40 RESOURCE ADEQUACY.

40.1 Applicability.

This Section 40 applies to all Scheduling Coordinators representing Load Serving Entities serving retail Load within the ISO Control Area. For purposes of this Section 40 of the ISO Tariff, Load Serving Entity

is defined as: (1) any entity serving retail Load under the jurisdiction of the California Public Utilities Commission (hereinafter "CPUC"), including an Electrical corporation under section 218 of the California Public Utilities Code (hereinafter "PUC"), an Electric service provider under section 218.3 of the PUC, and a Community choice aggregator under section 331.1 of the PUC (hereinafter collectively "CPUC Load Serving Entities"); and (2) all entities serving retail Load in the ISO Control Area not within the jurisdiction of the CPUC including: (i) a local publicly owned electric utility under section 9604 of the PUC; (ii) the State Water Resources Development System commonly known as the State Water Project; and (iii) any Federal entities, including but not limited to Federal Power Marketing Authorities, that serve retail Load (hereinafter collectively "non-CPUC Load Serving Entities"). Load Serving Entity shall not include customer generation located on the customer's site or providing electric service through arrangements authorized by Section 218 of the PUC, if the customer generation, or the Load it serves, meets one of the following criteria: (i) it takes standby service from the electrical corporation on a commission-approved rate schedule that provides for adequate backup planning and operating reserves for the standby customer class; (ii) it is not physically interconnected to the electric transmission or distribution grid, so that if the customer generation fails, backup electricity is not supplied from the electricity grid; or (iii) there is physical assurance that the Load served by the customer generation will be curtailed concurrently and commensurately with an outage of the customer generation.

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.

The monthly 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 monthly 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 for Load Serving Entities with an MSS Agreement, shall be submitted no later than on the last business day of the second month prior to the compliance month (e.g., March 31 for May) and in the form set forth on the ISO's 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 monthly Resource Adequacy Plan must identify the Resource Adequacy Resources that will be relied upon to satisfy the Planning Reserve Margin under Section 40.4 for the relevant reporting month and must apply the Net Qualifying Capacity requirements of Section 40.5.2.

40.2.3 Resource Adequacy Plan Compliance.

The ISO will evaluate whether each monthly Resource Adequacy Plan submitted by a Scheduling Coordinator on behalf of a Load Serving Entity serving Load within the ISO Control Area satisfies the Load Serving Entity's obligation to procure sufficient Net Qualifying Capacity to comply with its Planning Reserve Margin under Section 40.4. If a Scheduling Coordinator for a Load Serving Entity submits a Resource Adequacy Plan that the ISO identifies as not demonstrating compliance with Resource Adequacy rules adopted by the CPUC or other Local Regulatory Authority, as applicable, the ISO will, within 10 business days, first notify the relevant Scheduling Coordinator, or in the case of a mismatch between Resource Adequacy Plan(s) and Supply Plan(s), the relevant Scheduling Coordinators in an attempt to resolve the issue. If this process does not resolve the ISO's concern, the ISO will notify the CPUC or other appropriate Local Regulatory Authority of the potential deficiency. To the extent that the CPUC or other appropriate Local Regulatory Authority allows Load Serving Entities under its jurisdiction to cure the identified deficiency or determines that no deficiency exists, the Scheduling Coordinator shall inform the ISO at least 10 days before the effective month. If the deficiency is not resolved prior to the 10th day before the effective month, the ISO will use the information contained in the Supply Plan to set

Resource Adequacy Resources' obligations under this section of the ISO Tariff for the applicable reporting month.

40.2.4 Reporting of Enforcement Actions.

To the extent that the CPUC or other Local Regulatory Authority has not adopted rules allowing public access to records or information regarding action taken for violations of its Resource Adequacy policies and rules, the Scheduling Coordinator for each Load Serving Entity serving Load in the ISO Control Area notified of a potential failure to comply by the ISO and not resolved under 40.2.3 must report to the ISO within thirty (30) days of any action taken by the appropriate Local Regulatory Authority in response to the deficiency notification.

40.2.5 Compliance with Submission Obligation.

Scheduling Coordinators representing Load Serving Entities Serving Load in the ISO Control Area that fail to provide the ISO with annual or monthly Resource Adequacy Plans as set forth in this ISO Tariff shall be subject to Section 37.6.1 of the ISO Tariff.

40.3 Demand Forecasts.

The annual and monthly Resource Adequacy Plan must include a Demand Forecast as follows:

- a. For CPUC Load Serving Entities, the Demand Forecast shall be the Demand Forecast required by the CPUC. To the extent the ISO has not received a CPUC Load Serving Entity's load forecast through the CPUC's Resource Adequacy process, the Scheduling Coordinators for the CPUC Load Serving Entities must provide to the ISO a copy of the Demand Forecast that they provided to the CPUC and CEC, subject to the confidentiality terms established by the CPUC in its proceeding.
- b. For non-CPUC Load Serving Entities, the Demand Forecast shall be the Demand Forecast required by the applicable Local Regulatory Authority. Scheduling Coordinators for non-CPUC Load Serving Entities must provide data and/or supporting information, as requested by the ISO, for the Demand Forecasts required by this Section for each represented non-CPUC Load Serving Entity.
- c. If the CPUC or other Local Regulatory Authority has not established a requirement to prepare a Demand Forecast, the Scheduling Coordinator for the Load Serving Entity shall prepare and provide the ISO with a Demand Forecast that shall be the Load Serving Entity's monthly non-coincident peak Demand Forecast for its Service Area, for its MSS area, or in each Service Area of an Original Participating TO in which the Load Serving Entity serves Load, unless the Load Serving Entity agrees to utilize a coincident peak determination provided by the California Energy Commission for such Load Serving Entity. Scheduling Coordinators for Load Serving Entities covered by this subsection must provide data and/or supporting information, as requested by the ISO, for the Demand Forecasts required by this Section for each represented Load Serving Entity.

For Load Serving Entities that are local publicly owned electric utilities as defined in Section 9604 of the PUC, the Demand Forecasts required by this Section 40.3 should be consistent with Section 9620(a) of the PUC, as it may be amended from time to time, requiring that such Load Serving Entities meet their

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 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.

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. However, should the CPUC modify by decision its compliance period from January to December of the calendar year to May through April of the calendar year, the CAISO shall extend the effectiveness of the assignment for 2009 Compliance Year through April 2010.

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 2009 by July 1, 2008, 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 2009 by July 9, 2008 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 holders, 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, 2008 for RA Compliance Year 2009 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, 2008 for RA Compliance Year 2009 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,

2008 for RA Compliance Year 2009 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-parties, (2) the MW quantity, (3) term of transfer, and (4) price on a per MW basis. The CAISO will post to its website by August 8, 2008 for RA Compliance Year 2009 and for subsequent RA Compliance Years in accordance with the schedule set forth in the Business Practice Manual the information on transfers of Remaining Import Capability Received under this Step 8.

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

Group: At any time up to and including July 19, 2008 for RA Compliance Year 2009 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, 2008 for RA Compliance Year 2009 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, 2008 for RA Compliance Year 2009 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, 2008 for RA Compliance Year 2009 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 acceptance of the request for unassigned import capability. If the request is not honored because the branch group requested was fully assigned, the request will be deemed rejected and the Scheduling Coordinator, if it still seeks to obtain unassigned Available Import Capability, will be required to submit a new request for unassigned import capability on a different branch group. For RA Compliance Year 2009, 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 Remaining Import Capability under Step 8 of Section 40.5.2.2.1 or Section 40.5.2.2.2 or Existing Contract Import Capability, and Pre-RA Import Commitment Capability under 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, beginning in July 2007, 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 each 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;
- d. The term of the transfer;
- e. Price on a per MW basis; and
- f. Whether the import capability assignment being transferred is Existing Contract Import Capability, Per-RA Import Commitment Capability, or Remaining Import Capability.

The ISO will promptly post to its website the information on transfers of received under the Section except for the information received pursuant to subpart f of this section. On a quarterly basis, the ISO shall also report to FERC the transfer information received under this Section and Step 8 of Section 40.5.2.2.1.

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.

40.5.2.2.2.3 Other Import Capability Information Postings

For RA Compliance Year 2008, beginning in September 2007, the ISO will post to its website on a monthly basis 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, for each branch group, the holder and that holder's quantity in MW of import capability assigned on the particular branch group as of the reporting date.

The ISO will also post to its website following submission of the annual Resource Adequacy Plans under Sections 40.2.1.1, 40.2.2.4, 40.2.3.4, and 40.2.4, for each branch group, by a "yes" or "no" designation, whether each holder of import capability assigned on the particular branch group has fully included the assigned import capability in the holder's annual Resource Adequacy Plans.

40.6 Submission of Supply Plans.

Scheduling Coordinators representing Resource Adequacy Resources supplying Resource Adequacy Capacity shall provide the ISO with annual and monthly Supply Plans; however, Scheduling Coordinators for resources listed on schedule 14 of an MSS Agreement need not submit a Supply Plan, unless any capacity from such Schedule 14 resources has been sold to any Load Serving Entity other than the MSS Operator that owns or controls the resource. The annual Supply Plan shall be provided by September 30th of each year. The monthly Supply Plan shall be provided on the last business day of the second month prior to the compliance month (e.g., March 31 for May). Both the annual and monthly Supply Plans shall be provided in the form set forth on the ISO's Website, listing their commitments to provide Resource Adequacy Capacity to any Load Serving Entity or Entities for the reporting period.

40.6.1 Compliance with Supply Plan Obligation.

Scheduling Coordinators representing Resource Adequacy Resources supplying Resource Adequacy Capacity that fail to provide the ISO with annual or monthly Supply Plans as set forth in this ISO Tariff shall be subject to Section 37.6.1 of the ISO Tariff.

40.6A Availability of Resource Adequacy Resources.

40.6A.1 Applicability.

The requirements of Section 40.6A shall apply to all Resource Adequacy Resources identified on the Resource Adequacy Plans submitted by Scheduling Coordinators for Load Serving Entities serving Load in the ISO Control Area other than Resource Adequacy Resources identified exclusively on the Resource Adequacy Plans of (i) Load Serving Entities that have entered into a Metered Subsystem Agreement with the ISO and (ii) the State Water Project.

40.6A.2 Available Generation.

For the purposes of Section 40.6A, a Resource Adequacy Resources' "Available Generation" shall be: (a) the Resource Adequacy Capacity of a Generating Unit, other than a Hydroelectric facility or a QF that is still under a power purchase agreement with a host utility, System Unit that has contracted to supply Resource Adequacy Capacity to a non-MSS Load Serving Entity serving Load with the ISO Control Area, adjusted for any outages or reductions in capacity reported to the ISO in accordance with this ISO Tariff, (b) minus the unit's scheduled operating level as identified in the ISO's Final Hour-Ahead Schedule, (c) minus the unit's capacity committed to provide Ancillary Services to the ISO either through the ISO's Ancillary Services market or through self-provision by a Scheduling Coordinator, and (d) minus the capacity of the unit committed to deliver Energy or provide Operating Reserve to the Resource Adequacy Resources' Generator's Native Load.

In the case where the Resource Adequacy Resource is a System Resource, and to the extent the CPUC or other Local Regulatory Authority has imposed an obligation that System Resources relied upon by Load Serving Entities within their jurisdiction to meet Resource Adequacy requirements must be available to the ISO, the Available Generation of the System Resource shall be the Resource Adequacy Capacity of the System Resource adjusted for any outages or reductions in capacity reported to the ISO in accordance with this ISO Tariff, (b) minus the total amount of the System Resource's actual energy scheduled on the specific intertie of the import Resource Adequacy Capacity as identified in the ISO's Final Hour-Ahead Schedules, and (c) minus the amount of the System Resource's commitments on the

specific intertie of the import Resource Adequacy Capacity to provide Ancillary Services to the ISO either through the ISO's Ancillary Services market or through self-provision by a Scheduling Coordinator. The Available Generation of the System Resource shall never be less than zero.

40.6A.3 Reporting Requirements for Non-Participating Generators.

So that the ISO may determine the Available Generation of Resource Adequacy Resources, Resource Adequacy Resources, other than non-resource specific System Resources and Qualifying Facilities ("QFs") with effective contracts under the Public Utilities Regulatory Policies Act, that are not Participating Generators shall be required to file with the ISO: (i) the Generating Unit's minimum operating level; (ii) the Generating Unit's maximum operating level; and (iii) the Generating Unit's ramp rates at all operating levels; and (iv) such other information the ISO determines is necessary to determine available generation and to dispatch Resource Adequacy Resources In addition, Resource Adequacy Resources that are not Participating Generators must, consistent with the notification obligations of Participating Generators and in order to comply with the intent of this Section 40.6A, notify the ISO, as soon as practicable, of any Planned Maintenance Outages, Forced Outages (per the requirements set forth in Section 9.3.10.2), Uncontrollable Force event Outages or any other reductions in their maximum operating levels or Resource Adequacy Capacity during the relevant month.

40.6A.4 Obligation to Offer Available Capacity.

Except as set forth in Sections 40.6A.5 and 40.6A.6, all Resource Adequacy Resources shall offer to sell in the ISO's Real Time Market for Imbalance Energy, in all hours, all their Available Generation as defined in Section 40.6A.2 and any other Available Generation beyond its Resource Adequacy Capacity shall be subject to the FERC must-offer obligation as set forth in Section 40.7. The Resource Adequacy Resource shall make available to the ISO Real Time Market all Resource Adequacy Capacity that is not subject to an outage or is otherwise participating in the ISO Market or included on a self-schedule. Notwithstanding the foregoing, a Resource Adequacy Resource that is a Participating Intermittent Resource satisfies its obligation to offer Available Generation under this Section by scheduling in accordance with Appendix Q of the ISO Tariff.

40.6A.5 Submission of Bids and Applicability of the Proxy Price.

For each Operating Hour, the Scheduling Coordinator for the Resource Adequacy Resource shall submit Supplemental Energy bids for all of their Available Generation to the ISO in accordance with Section 34.2. In addition, the ISO shall calculate for each gas-fired Resource Adequacy Resource (other than gas-fired Resource Adequacy Resources which are also System Resources), in accordance with Section 40.10.1, a Proxy Price for Energy.

If a Scheduling Coordinator for the Resource Adequacy Resource fails to submit a Supplemental Energy bid for any portion of its Available Generation for any Dispatch Interval, the un-bid quantity of the Resource Adequacy Resource's Available Generation will be deemed by the ISO to be bid at the Resource Adequacy Resource's Proxy Price if (i) the Resource Adequacy Resource is a gas-fired Generating Unit and (ii) the Resource Adequacy Resource has provided the ISO with adequate data in compliance with Section 40.6A.3 for the applicable Generating Unit. For all other Resource Adequacy Resources that are Generating Units, the un-bid quantity of the Resource Adequacy Resources' Available Generation will be deemed by the ISO to be bid and settled in accordance with Section 11.2. In order to dispatch resources providing Imbalance Energy in proper merit order the ISO will insert this un-bid quantity into the Resource Adequacy Resource's Supplemental Energy bid curve above any lower-priced segments of the bid curve and below any higher-priced segments of the bid curve as necessary to maintain a non-decreasing bid curve over the entire range of the Resource Adequacy Resources' Available Generation.

40.6A.6 Resource Adequacy Resource Obligation Process.

Resource Adequacy Resources may seek a waiver of the obligation to offer all Available Generation, as set forth in Section 40.6A.4 of this ISO Tariff, for one or more of their units. All Resource Adequacy Resources obligated under their respective Resource Adequacy Plans that have not submitted Day-Ahead Energy Schedules will be deemed to have requested a waiver, either implicitly or explicitly, of the obligation to offer all Available Generation. If conditions permit, the ISO may, at its sole discretion, grant waivers and allow a Resource Adequacy Resource to remove one or more Generating Units from service and, in doing so, the ISO will first grant waivers to FERC Must-Offer Generators, on a non-discriminatory basis, that are not also Resource Adequacy Resources or resources designated under the TCPM, and then, if permissible, the ISO may grant waivers to Resource Adequacy Resources or resources designated as TCPM on a non-discriminatory basis.

The hours for which waivers are not granted shall constitute Waiver Denial Periods. A Waiver Denial Period shall be extended as necessary to accommodate the unit minimum up and down times. Units shall be on-line in real time during Waiver Denial Periods, or they will be in violation of the availability. Exceptions shall be allowed for verified forced outages or as otherwise set forth in Section 40.6A.5. The ISO may revoke waivers as necessary due to outages, changes in Load forecasts, or changes in system conditions. The ISO shall determine which waiver(s) will be revoked, and shall notify the relevant Scheduling Coordinator(s). To the extent conditions permit, the ISO will revoke the waivers of Resource Adequacy Resources and TCPM resources prior to revoking the waivers of FERC Must-Offer Generators. The ISO shall inform a Resource Adequacy Resource that its Waiver request has been approved, disapproved or revoked, and shall provide the Resource Adequacy Resource with the reason(s) for the decision, which reasons shall be non-discriminatory apart from the status of whether the unit is a Resource Adequacy Resource. The ISO will: (1) notify Resource Adequacy Resources of the ISO decisions on pending Waiver requests received no later than 10:00 a.m. (beginning of Hour Ending 11) no later than 11:30 a.m. (middle of Hour Ending 12) on the day before the operating day for which the Waivers are requested; (2) at any time but no later than 11:30 a.m. on the following day, notify Resource

Adequacy Resources of the ISO decisions on Waiver requests that were submitted to the ISO after 10:00 a.m. (beginning of Hour Ending 11) on the day before; (3) end Waiver Denial Periods at any time; (4) revoke Waivers at any time, while making best attempts to revoke a Waiver at least 90 minutes prior to the time a unit would be required to be on-line generating at its Pmin; and (5) revoke a waiver denial for a Short-Start Resource Adequacy Resource at any time and such revocation will be communicated via a ISO real-time dispatch or unit commitment instruction.

40.6A.7 Penalties for Non-Compliance.

In addition to any other penalty or settlement consequence of a failure of a unit to operate in accordance with a ISO operating order, the failure of a Scheduling Coordinator for a Resource Adequacy Resource to make the Resource Adequacy Resource available to the ISO in accordance with the requirements of Section 40 of this ISO Tariff or to operate the Resource Adequacy Resource by placing it online or in a manner consistent with a submitted Supplemental Energy bid or Proxy Price Energy Bid shall result in that Scheduling Coordinator being subject to the sanctions set forth in Section 37.2 of the ISO Tariff.

40.6B Recovery of Minimum Load Costs By Resource Adequacy Resources.

40.6B.1 Eligibility.

Except as set forth below, Resource Adequacy Resources that are Generating Units and System Units for which the MSS Operator has contracted to supply Resource Adequacy Capacity to another entity shall be eligible to recover Un-Recovered Minimum Load Costs during Waiver Denial Periods. Units from Resource Adequacy Resources that incur Minimum Load Costs during hours for which the ISO has granted to them a waiver shall not be eligible to recover such costs for such hours. When a Resource Adequacy Resource has a Final Hour-Ahead Energy Schedule, the Resource Adequacy Resource shall not be eligible to recover Minimum Load Costs for any such hours within a Waiver Denial Period. When, on a 10-minute Settlement Interval basis, a Resource Adequacy Resource generating at minimum load in compliance with the supply obligation, produces a quantity of Energy that varies from its minimum operating level by more than the Tolerance Band, the Resource Adequacy Resource shall not be eligible to recover Minimum Load Costs for any such Settlement Intervals during hours within a Waiver Denial Period. When, on a Settlement Interval basis, a Resource Adequacy Resource produces a quantity of

Energy above minimum load due to an ISO Dispatch Instruction, the Resource Adequacy Resource shall recover its Un-Recovered Minimum Load Costs as set forth in this Section and its bid costs, as set forth in Section 11.2.4.1.1.1, for any such Settlement Intervals during hours within a Waiver Denial Period, irrespective of deviations outside of its Tolerance Band. Subject to the foregoing eligibility restrictions set forth in this section, the ISO shall guarantee recovery of the Minimum Load Costs of an otherwise eligible Resource Adequacy Resource for each Settlement Interval during hours within a Waiver Denial Period as follows: (1) First, ISO will pre-dispatch for real time the minimum load Energy from Resource Adequacy Resources that have been denied waivers for each hour within a Waiver Denial Period; (2) This minimum load Energy will be accounted as Instructed Imbalance Energy for each Settlement Interval within the relevant hour and be settled at the Resource-Specific Settlement Interval Ex Post Price; (3) To the extent the Instructed Imbalance Energy payments are not sufficient to cover the generator's Minimum Load Cost as defined in Section 40.6B.3 of this ISO Tariff, the generator will also receive an uplift payment for its Un-Recovered Minimum Load Cost compensation for the relevant eligible Settlement Intervals of hours during the Waiver Denial Period that the unit runs at minimum load in compliance with the Resource Adequacy offer obligation; and (4) To the extent the Generator is dispatched for real time Imbalance Energy above its minimum load for any Dispatch Interval within an hour during the Waiver Denial Period, the Generator will be eligible for Bid Cost Recovery, as set forth in Section 11.2.4.1.1.1.

**40.6B.2 Payments for Imbalance Energy above the Minimum Operating Level for
 Generating Units Eligible to Be Paid Minimum Load Costs.**

When, on a Settlement Interval basis, a Resource Adequacy Resource's Generating Unit or System Units for which the MSS Operator has contracted to supply Resource Adequacy Capacity to another entity produces a quantity of Energy above the unit's minimum operating level due to an ISO Dispatch Instruction, the Resource Adequacy Resource shall recover Un-Recovered Minimum Load Costs as set forth in Section 40.6B.1 and its bid costs, based on the ISO's instruction, as set forth in Section 11.2.4.1.1.1, for any such Settlement Intervals during hours within a Waiver Denial Period, irrespective of deviations outside of its Tolerance Band.

40.6B.3 Payments for Imbalance Energy for the Minimum Operating Level for Generating Units Eligible to Be Paid Minimum Load Costs.

Resource Adequacy Resources operating at or near its operating level during a Waiver Denial Period either: (1) without a forward Schedule for its minimum operating level Energy or (2) with a Schedule to a special-purpose Demand ID for the sole purpose of Scheduling the minimum operating level Energy shall be paid its Un-Recovered Minimum Load Costs subject to eligibility as set forth in Section 40.6B.1 and not be paid an additional amount by the ISO for Energy actually delivered.

40.6B.4 Un-Recovered Minimum Load Costs.

The Un-Recovered Minimum Load Costs for each hour of Waiver Denial Period shall be calculated as the difference between: (1) a resource's Minimum Load Costs as calculated in this Section for the same Settlement Interval and (2) the Imbalance Energy payment for a resource's minimum load energy in the Settlement Interval. If the Imbalance Energy payment for minimum load energy exceeds the Minimum Load Costs, then there are no Un-Recovered Minimum Load Costs. The Minimum Load Costs shall be calculated as the sum, for all eligible hours in the Waiver Denial Period and Settlement Periods in which the unit generated in response to an ISO Dispatch Instruction, of: (1) the product of the unit's average heat rate (as determined by the ISO from the data provided in accordance with Section 40.10) at the unit's relevant minimum operating level or Dispatchable minimum operating level as set forth in the ISO Master File or as amended through notification to the ISO via SLIC and the gas price determined by Equation C1-8 (Gas) of the Schedules to the Reliability Must-Run Contract for the relevant Service Area (San Diego Gas & Electric Company, Southern California Gas Company, or Pacific Gas and Electric Company), or, if the Resource Adequacy Resource is not served from one of those three Service Areas; and (2) the product of the unit's relevant minimum operating level or Dispatchable minimum operating level as set forth in the ISO Master File or as amended through notification to the ISO via SLIC; and \$6.00/MWh.

40.6B.5 Allocation of Un-Recovered Minimum Load Costs.

For each Settlement Interval, the ISO shall determine **whether** the Un-Recovered Minimum Load Costs for

Resource Adequacy Resources, as applicable, for each unit operating during a Waiver Denial Period are due to (1) local reliability requirements, (2) zonal reliability requirements, or (3) ISO Control Area-wide reliability requirements pursuant to Section 40.6B.5.1. On a monthly basis, the ISO shall sum the Un-Recovered Minimum Load Costs and shall allocate those costs as follows:

- (1) if the Generating Unit or System Unit for which the MSS Operator has contracted to supply Resource Adequacy Capacity to another entity was operating to meet local reliability requirements, the cost shall be allocated to the Participating TO in whose PTO Service Territory the unit is located, or, where the unit is located outside the PTO Service Territory of any Participating TO, to the Participating TO or Participating TOs whose PTO Service Territory or Territories are contiguous to the Service Area in which the Generating Unit or System Unit is located, in proportion to the benefits that each such Participating TO receives, as determined by the ISO. Where the costs allocated under this section are allocated to two or more Participating TOs, the ISO shall file the allocation under Section 205 of the Federal Power Act. Costs allocated under this part (1) shall be considered Reliability Services Costs.
- (2) if the Generating Unit or System Unit for which the MSS Operator has contracted to supply Resource Adequacy Capacity to another entity was operating to meet zonal reliability requirements, the Un-Recovered Minimum Load Costs shall be allocated on a monthly basis to each Scheduling Coordinator in the constrained Zone based on the ratio of that Scheduling Coordinator's monthly Demand to the sum of all Scheduling Coordinators' monthly Demand in that Zone;

(3) if the Generating Unit or System Unit for which the MSS Operator has contracted to supply Resource Adequacy Capacity to another entity was operating to **meet** ISO Control Area-wide **reliability requirements**, the ISO shall allocate the Un-Recovered Minimum Load Costs in the following way:

- a. first, to the monthly absolute total of all Net Negative Uninstructed Deviation (determined for each Settlement Interval based on Final Hour-Ahead Schedules) at a per-MWh rate that shall not exceed a figure that is determined by dividing the total Un-Recovered Minimum Load Cost in that month by the sum of the minimum loads for Generating Units operating under Waiver Denial Periods in that month;
- b. finally, all remaining costs not allocated per (a) shall be allocated to each Scheduling Coordinator in proportion to the sum of that Scheduling Coordinator's monthly Control Area Gross Load and Demand within California outside the ISO Control Area that is served by exports to the monthly sum of the ISO Control Area Gross Load and the projected Demand within California outside the ISO Control Area that is served by exports from the ISO Control Area of all Scheduling Coordinators, **except that Demand outside the ISO Control Area that is served by exports that are scheduled as part of a Wheeling Through transaction shall be excluded from the calculation of such allocations.**

40.6B.5.1 Criteria for Allocation of Un-Recovered Minimum Load Costs

The ISO shall use the following criteria for determining whether a Generating Unit or System Unit for which the MSS Operator has contracted to supply Resource Adequacy Capacity to another entity falls within the local reliability, zonal reliability, or ISO Control Area-wide reliability categories for allocation of Un-Recovered Minimum Load Costs.

40.6B.5.1.1 Local Reliability Requirements

The ISO shall classify a Generating Unit or System Unit for which the MSS Operator has contracted to supply Resource Adequacy Capacity to another entity as committed or operated for local reliability requirements when it is committed or operating to:

- (1) maintain power flows on a transmission component that is not part of a transmission path between Congestion Zones;
- (2) maintain acceptable voltage levels at a network location that is not part of a transmission path between Congestion Zones; or
- (3) accommodate the forced or scheduled outage of a network component that is not part of a transmission path between Congestion Zones.

40.6B.5.1.2 Zonal Reliability Requirements

The ISO shall classify a Generating Unit or System Unit for which the MSS Operator has contracted to supply Resource Adequacy Capacity to another entity as committed or operated for zonal reliability requirements when it is committed or operating to:

- (1) maintain operations within the requirements of any nomogram that governs the operations of an Inter-Zonal Interface;
- (2) maintain power flows on a transmission line that is part of a transmission path between Congestion Zones or an Inter-Zonal Interface;
- (3) maintain acceptable voltage levels at a location that is part of a transmission path between Congestion Zones or an Inter-Zonal Interface; or
- (4) accommodate the forced or scheduled outage of a network component that is part of a transmission path between Congestion Zones or an Inter-Zonal Interface.
- (5) ensure there is sufficient capacity available to meet Operating Reserve requirements within a particular Zone, if the ISO is procuring Operating Reserve on a zonal basis.

40.6B.5.1.3 ISO Control Area-wide Reliability Requirements

The ISO shall classify a Generating Unit or System Unit for which the MSS Operator has contracted to supply Resource Adequacy Capacity to another entity as committed or operated for ISO Control Area-wide reliability requirements when it is committed or operating to meet forecast Control Area Demand or committed to ensure sufficient capacity is available to meet Operating Reserve requirements, when the ISO is not procuring Operating Reserve on a zonal basis.

40.6B.5.1.4 Incremental Cost of Local

Beginning October 1, 2004, when a Generating Unit or System Unit for which the MSS Operator has contracted to supply Resource Adequacy Capacity to another entity is committed for local reliability requirements, and that unit also meets an overall ISO Control Area-wide need, the ISO shall allocate only the incremental cost of committing that unit above the cost of committing the least-cost unit that would have been committed to resolve the ISO Control Area-wide reliability need absent the local reliability need, to the Participating TO.

40.6B.6 Payment of Available Capacity under the Resource Adequacy Obligation.

Available Generation of Resource Adequacy Resources that is required to be offered to the Real Time Market, if dispatched by the ISO, shall be settled as follows: the actual amount of the dispatched Energy shall be settled at the applicable Instructed Imbalance Energy Market Clearing Price. Un-Recovered Minimum Load Cost compensation shall be paid for all otherwise eligible hours within the Waiver Denial Period that the unit generated above minimum load in compliance with ISO Dispatch Instructions.

40.7 FERC Must-Offer Obligations.

40.7.1 Applicability.

The requirements of Section 40.7 shall apply to (a) all Participating Generators, and (b) all persons,

regardless of whether the person is a “public utility” as defined in Section 201 of the Federal Power Act, that own or control one or more non-hydroelectric Generating Units or System Units or System Resources located in California from which energy or capacity is either: (i) sold through any market operated by the ISO, or (ii) transmitted over the ISO Controlled Grid. Each person described in this Section 40.7.1 is referred to in the ISO Tariff as a “FERC Must-Offer Generator”, provided that such person with Eligible Capacity designated as TCPM Capacity shall not be considered a FERC Must-Offer Generator to the extent, and for the term, of the TCPM Capacity designation. The requirements of this Section 40.7 shall apply to all non-hydroelectric Generating Units located in California that are owned or controlled by a FERC Must-Offer Generator.

40.7.2 Available Generation.

For the purposes of Section 40.7, a FERC Must-Offer Generator’s “Available Generation” from a non-hydroelectric Generating Unit shall be: (a) the Generating Unit’s maximum operating level adjusted for any outages or reductions in capacity reported to the ISO in accordance with Section 9.3.9 or 40.7.3 and for any limitations on the Generating Unit’s operation under applicable law, including contractual obligations, which shall be reported to the ISO, (b) minus the Generating Unit’s scheduled operating level as identified in the ISO’s Final Hour-Ahead Schedule, (c) minus the Generating Unit’s or System Unit’s capacity committed to provide Ancillary Services to the ISO either through the ISO’s Ancillary Services market or through self-provision by a Scheduling Coordinator, and (d) minus the capacity of the Generating Unit committed to deliver Energy or provide Operating Reserve to the FERC Must-Offer Generator’s Native Load.

40.7.3 Reporting Requirements for Non-Participating Generators.

So that the ISO may determine the Available Generation of all FERC Must-Offer Generators, FERC Must-Offer Generators that are not Participating Generators shall be required to file with the ISO, for each non-hydroelectric Generating Unit located in California they own or control: (i) the Generating Unit’s minimum operating level; (ii) the Generating Unit’s maximum operating level; and (iii) the Generating Unit’s ramp rates at all operating levels; and (iv) such other information the ISO determines is necessary to determine

available generation and to dispatch FERC Must-Offer Generators. In addition, FERC Must-Offer Generators that are not Participating Generators must, consistent with the notification obligations of Participating Generators and in order to comply with the intent of this Section 40.7, notify the ISO, as soon as practicable, of any Planned Maintenance Outages, Forced Outages, Force Majeure Event outages or any other reductions in their maximum operating

levels or Resource Adequacy Capacity during the relevant month.

40.7.4 Obligation To Offer Available Generation.

Except as set forth in Sections 40.7.5 and 40.7.6, all FERC Must-Offer Generators shall offer to sell in the ISO's Real Time Market for Imbalance Energy, in all hours, all their Available Generation as defined in Section 40.7.2.

40.7.5 Submission of Bids and Applicability of the Proxy Price.

For each Operating Hour, FERC Must-Offer Generators shall submit Supplemental Energy bids for all of their Available Generation to the ISO in accordance with Section 34.2. In addition, the ISO shall calculate for each gas-fired FERC Must-Offer Generator, in accordance with Section 40.10.1, a Proxy Price for Energy.

If a FERC Must-Offer Generator fails to submit a Supplemental Energy bid for any portion of its Available Generation for any Dispatch Interval, the unbid quantity of the FERC Must-Offer Generator's Available Generation will be deemed by the ISO to be bid at the FERC Must-Offer Generator's Proxy Price for that hour if: (i) the applicable Generating Unit is a gas-fired unit and (ii) the FERC Must-Offer Generator has provided the ISO with adequate data in compliance with Sections 40.7.7 and 40.7.3 for the applicable Generating Unit. For all other Generating Units owned or controlled by a FERC Must-Offer Generator, the unbid quantity of the FERC Must-Offer Generator's Available Generation will be deemed by the ISO to be bid and settled in accordance with Section 11.2. In order to dispatch resources providing Imbalance Energy in proper merit order, the ISO will insert this unbid quantity into the FERC Must-Offer Generator's Supplemental Energy bid curve above any lower-priced segments of the bid curve and below any higher-priced segments of the bid curve as necessary to maintain a non-decreasing bid curve over the entire range of the FERC Must-Offer Generator's Available Generation.

40.7.6 FERC Must-Offer Obligation Process.

FERC Must-Offer Generators may seek a waiver of the obligation to offer all available capacity, as set forth in Section 40.7.4 of this ISO Tariff, for one or more of their Generating Units or System Units.

All FERC Must-Offer Generators obligated under the must-offer obligation that have not submitted Day-

Ahead Energy Schedules will be deemed to have requested a waiver, either implicitly or explicitly, of the obligation to offer all Available Generation. If conditions permit, the ISO may, at its sole

discretion, grant waivers and allow a FERC Must-Offer Generator to remove one or more Generating Units or System Units from service. In doing so, the ISO will first grant waivers to FERC Must-Offer Generators, on a non-discriminatory basis, that are not also Resource Adequacy Resources or resources designated under the TCPM and then, if permissible, the ISO may grant waivers to Resource Adequacy Resources or resources designated as TCPM on a non-discriminatory basis.

The hours for which waivers are not granted shall constitute Waiver Denial Periods. A Waiver Denial Period shall be extended as necessary to accommodate Generating Unit minimum up and down times. Generating Units shall be on-line in real time during Waiver Denial Periods, or they will be in violation of the must-offer obligation. Exceptions shall be allowed for verified forced outages. The ISO may revoke waivers as necessary due to outages, changes in Load forecasts, or changes in system conditions. The ISO shall determine which waiver(s) will be revoked, and shall notify the relevant Scheduling Coordinator(s). To the extent conditions permit, the ISO will revoke the waivers of Resource Adequacy Resources and TCPM resources prior to revoking the waivers of other FERC Must-Offer Generators. The ISO shall inform a FERC Must-Offer Generator that its Waiver request has been approved, disapproved or revoked, and shall provide the FERC Must-Offer Generator with the reason(s) for the decision, which reasons shall be non-discriminatory. The ISO will: (1) notify FERC Must-Offer Generators of the ISO decisions on pending Waiver requests received no later than 10:00 a.m. (beginning of Hour Ending 11) no later than 11:30 a.m. (middle of Hour Ending 12) on the day before the operating day for which the Waivers are requested; (2) at any time but no later than 11:30 a.m. on the following day, notify FERC Must-Offer Generators of the ISO decisions on Waiver requests that were submitted to the ISO after 10:00 a.m. (beginning of Hour Ending 11) on the day before; (3) end Waiver Denial Periods at any time; and (4) revoke Waivers at any time, while making best attempts to revoke a Waiver at least 90 minutes prior to the time a unit would be required to be on-line generating at its Pmin.

40.8 **[NOT USED]**

40.8.1 **[NOT USED]**

[NOT USED]

40.8.2 **[NOT USED]**

40.8.3 **[NOT USED]**

40.8.4 **[NOT USED]**

40.8.5 **[Not Used]**

40.8.6 [NOT USED]

[NOT USED]

[NOT USED]

40.8.7 **[NOT USED]**

40.9 Criteria for Issuing Must-Offer Waivers.

The ISO shall grant waivers so as to: (1) provide sufficient on-line generating capacity to meet operating reserve requirements; and (2) account for other physical operating constraints, including Generating Unit or System Unit minimum up and down times. Subject to the exceptions for Short Start Resource Adequacy Resources as identified in this ISO Tariff, the ISO shall grant, deny or revoke waivers using a security-constrained unit commitment software application to minimize start-up and Minimum Load Costs.

40.10 Requirement of FERC Must-Offer Generators to File Heat Rate and Emissions Rate Data.

Resource Adequacy Resources and FERC Must-Offer Generators, as defined in this ISO Tariff, that own or control gas-fired Generating Units or System Units must file with the ISO and the FERC, on a confidential basis, the heat rates and emissions rates for each gas-fired Generating Unit or System Unit that they own or control. Heat rate and emissions rate data shall be provided in the format specified by the ISO as posted on the ISO Website. Heat rate data provided to comply with this requirement shall not include start-up or minimum load fuel costs. Resource Adequacy Resources and FERC Must-Offer Generators must also file periodic updates of this data upon the direction of either FERC or the ISO. The ISO will treat the information provided to the ISO in accordance with this section as confidential and will apply the procedures in Section 20.4 of this ISO Tariff with regard to requests for disclosure of such information.

40.10.1 Calculation of the Proxy Price.

The ISO shall calculate each day separate Proxy Prices for each gas-fired Generating Unit or System Unit owned or controlled by a Resource Adequacy Resource or FERC Must-Offer Generator by applying the filed heat rates for those Generating Units or System Units to a daily proxy figure for natural gas costs with an additional \$6.00/MWh allowed for operations and maintenance expenses. The proxy figures for natural gas costs shall be based on the most recent data available and shall be posted on the ISO Website by 8:00 AM on the day prior to which the figures will be used for calculation of the Proxy Price.

40.11 Emissions Costs.

40.11.1 Obligation to Pay Emissions Cost Charges.

Each Scheduling Coordinator shall be obligated to pay a charge which will be used to pay the verified Emissions Costs incurred by a Resource Adequacy Resource or FERC Must-Offer Generator as a direct result of an ISO Dispatch Instruction, in accordance with this Section 40. The ISO shall levy this administrative charge (the "Emissions Cost Charge") each month, in two parts: 1) All Emission Costs

attributed to minimum load Energy will be allocated to Scheduling Coordinators in proportion to and in a similar manner as each Scheduling Coordinator's Minimum Load Cost obligation per Section 40.8.6.1 or Un-Recovered Minimum Load Cost obligation under Section 40.6B.5.1. The amount of Emissions Costs attributed to minimum load Energy will be determined by dividing the total megawatt hours eligible for Minimum Load Cost compensation for the month by the total megawatt hours of Instructed Imbalance Energy for the month. The resulting percentage is then multiplied by the Emissions Cost Charges for the month to determine the Emission Costs attributed to minimum load Energy. The proportion of Emissions Costs to Minimum Load Costs will be determined by dividing the total Emissions Costs attributed to minimum load Energy for the month by the total Minimum Load Costs for the month. 2) All Emission Costs resulting from an ISO dispatch but not attributable to minimum load Energy will be allocated to all Scheduling Coordinators based upon each Scheduling Coordinator's Control Area Gross Load and Demand within California

outside of the ISO Control Area that is served by exports from the ISO Control Area. Scheduling Coordinators shall make payment for all Emissions Cost Charges in accordance with the ISO Payments Calendar.

40.11.2 Emissions Cost Trust Account.

All Emissions Cost Charges received by the ISO shall be deposited in the Emissions Cost Trust Account. The Emissions Cost Trust Account shall be an interest-bearing account separate from all other accounts maintained by the ISO, and no other funds shall be commingled in it at any time.

40.11.3 Emissions Cost Charge.

The amount the ISO will assess for the Emissions Cost Charge shall be the projected annual total of all Emissions Costs incurred by Resource Adequacy Resources and FERC Must-Offer Generators as a direct result of ISO Dispatch Instruction, adjusted for interest projected to be earned on the monies in the Emissions Cost Trust Account, divided by twelve (12) months. The initial amount for the Emissions Cost Charge, and all subsequent amounts for the Emissions Cost Charge, shall be posted on the ISO Website.

40.11.4 Adjustment of the Emissions Cost Charge.

The ISO may adjust the amount the ISO will assess for the Emissions Cost Charge on a monthly basis, as necessary, to reflect the net effect of the following:

- (a) the difference, if any, between actual Emissions Cost Demand and projected Emissions Cost Demand;
- (b) the difference, if any, between the projections of the Emissions Costs incurred by Resource Adequacy Resources or FERC Must-Offer Generators as a direct result of ISO Dispatch Instructions and the actual Emissions Costs incurred by Resource Adequacy Resources or FERC Must-Offer Generators as a direct result of ISO Dispatch Instructions as invoiced to the ISO and verified in accordance with this Section 40.11; and
- (c) the difference, if any, between actual and projected interest earned on funds in the Emissions Cost Trust Account.

The adjusted amount the ISO will assess for the Emissions Cost Charge shall take effect on a prospective basis on the first day of the next calendar month. The ISO shall publish all data and

calculations used by the ISO as a basis for such an adjustment on the ISO Website at least five (5) days in advance of the date on which the new amount shall be assessed.

40.11.5 Credits and Debits of Emissions Cost Charges Collected from Scheduling Coordinators.

In addition to the surcharges or credits permitted under Section 11.6.3.3 of this ISO Tariff, the ISO may credit or debit, as appropriate, the account of a Scheduling Coordinator for any over- or under-assessment of Emissions Cost Charges that the ISO determines occurred due to the error, omission, or miscalculation by the ISO or the Scheduling Coordinator.

40.11.6 Submission of Emissions Cost Invoices.

Scheduling Coordinators for Resource Adequacy Resources or FERC Must-Offer Generators that incur Emissions Costs as a direct result of an ISO Dispatch Instruction may submit to the ISO an invoice in the form specified on the ISO Website (the "Emissions Cost Invoice") for the recovery of such Emissions Costs. Emissions Cost Invoices shall not include any Emissions Costs specified in an RMR Contract for a unit owned or controlled by a FERC Must-Offer Generator. All Emissions Cost Invoices must include a copy of all final invoice statements from air quality districts demonstrating the Emissions Costs incurred by the applicable Generating Unit or System Unit, and such other information as the ISO may reasonably require to verify the Emissions Costs incurred as a direct result of an ISO Dispatch Instruction.

40.11.7 Payment of Emissions Cost Invoices.

The ISO shall pay Scheduling Coordinators for all Emissions Costs submitted in an Emissions Cost Invoice and demonstrated to be a direct result of an ISO Dispatch Instruction. If the Emissions Costs indicated in the applicable air quality districts' final invoice statements include emissions produced by operation not resulting from ISO Dispatch Instructions, the ISO shall pay an amount equal to Emissions Costs multiplied by the ratio of the MWh associated with ISO Dispatch Instruction to the total MWh associated with such Emissions Costs. The ISO shall pay Emissions Cost Invoices each month in accordance with the ISO Payments Calendar from the funds available in the Emissions Cost Trust Account. To the extent there are insufficient funds available in Emissions Cost Trust Account in any

month to pay all Emissions Costs submitted in an Emissions Cost Invoice and demonstrated to be a direct result of an ISO Dispatch Instruction, the ISO shall make pro rata payment of such Emissions Costs and shall adjust the rate at which the ISO will assess the Emissions Cost Charge in accordance with Section 40.11.4. Any outstanding Emissions Costs owed from previous months will be paid in the order of the month in which such costs were invoiced to the ISO. The ISO's obligation to pay Emissions Costs is limited to the obligation to pay Emissions Cost Charges received. All disputes concerning payment of Emissions Cost Invoices shall be subject to ISO ADR Procedures, in accordance with Section 13 of this ISO Tariff.

40.12 Start-Up Costs.

40.12.1 Obligation to Pay Start-Up Cost Charges.

Each Scheduling Coordinator shall be obligated to pay a charge which will be used to pay the verified Start-Up Costs incurred by a Resource Adequacy Resource or FERC Must-Offer Generator as a direct result of an ISO Dispatch Instruction, in accordance with this Section 40.12. Such Start-Up Costs shall include (1) fuel and (2) auxiliary power. The ISO shall levy this charge (the "Start-Up Cost Charge"), each month, against all Scheduling Coordinators in proportion to and in a similar manner as each Scheduling Coordinator's Minimum Load Cost obligation under Section 40.8.6.1 or Un-Recovered Minimum Load Cost obligation under Section 40.6B.5.1. The proportion of Start-Up Costs to Minimum Load Costs will be determined by dividing the total Start-Up Cost Charge for the month by the total Minimum Load Costs for the month. The proportion of Start-Up Costs then will be multiplied by the individual Scheduling Coordinator's Minimum Load Costs for the month to determine the Scheduling Coordinator's Start-Up Cost Charge. Scheduling Coordinators shall make payment for all Start-Up Cost Charges in accordance with the ISO Payments Calendar.

40.12.2 Start-Up Cost Trust Account.

All Start-Up Cost Charges received by the ISO shall be deposited in the Start-Up Cost Trust Account. The Start-Up Cost Trust Account shall be an interest-bearing account separate from all other accounts maintained by the ISO, and no other funds shall be commingled in it at any time.

40.12.3 Start-Up Cost Charge.

The amount the ISO will assess for the Start-Up Cost Charge shall be the projected annual total of all Start-Up Costs incurred by Resource Adequacy Resources or FERC Must-Offer Generators as a direct result of ISO Dispatch Instruction, adjusted for interest projected to be earned on the monies in the Start-Up Cost Trust Account, divided by twelve (12) months.

The initial amount for the Start-Up Cost Charge, and all subsequent amounts for the Start-Up Cost Charge, shall be posted on the ISO Website.

40.12.4 Adjustment of the Start-Up Cost Charge.

The ISO may adjust the amount the ISO will assess for the Start-Up Cost Charge on a monthly basis, as necessary, to reflect the net effect of the following:

- (a) the difference, if any, between the projections of the Start-Up Costs incurred by Resource Adequacy Resources or FERC Must-Offer Generators as a direct result of ISO Dispatch Instructions and the actual Start-Up Costs incurred by Resource Adequacy Resources or FERC Must-Offer Generators as a direct result of ISO Dispatch Instructions as invoiced to the ISO and verified in accordance with this Section 40.12; and
- (b) the difference, if any, between actual and projected interest earned on funds in the Start-Up Cost Trust Account.

The adjusted amount the ISO will assess for the Start-Up Cost Charge shall take effect on a prospective basis on the first day of the next calendar month. The ISO shall publish all data and calculations used by the ISO as a basis for such an adjustment on the ISO Website at least five (5) days in advance of the date on which the new amount shall be assessed.

40.12.5 Credits and Debits of Start-Up Cost Charges Collected from Scheduling Coordinators.

In addition to the surcharges or credits permitted under Section 11.6.3.3 of this ISO Tariff, the ISO may credit or debit, as appropriate, the account of a Scheduling Coordinator for any over- or under-assessment of Start-Up Cost Charges that the ISO determines occurred due to the error, omission, or miscalculation by the ISO or the Scheduling Coordinator.

40.12.6 Submission of Start-Up Cost Invoices.

Scheduling Coordinators for Resource Adequacy Resources or FERC Must-Offer Generators that incur Start-Up Costs as a direct result of an ISO Dispatch Instruction or if the ISO revokes a waiver from compliance with the FERC must-offer obligation while the unit is off-line in accordance with Section 40.6A.6 or 40.7.6 of this ISO Tariff, and Scheduling Coordinators for Generating Units or System Units operating under Condition 2 of the relevant RMR Contract which are called out-of-market in accordance with Section 11.2.4.2 of this ISO Tariff may submit to the ISO an invoice in the form specified on the ISO Website (the "Start-Up Cost Invoice") for the recovery of such Start-Up Costs. Such Start-Up Costs shall not exceed the costs which would be incurred within the start-up time for a unit specified in Schedule 1 of the Participating Generator Agreement. Start-Up Cost Invoices shall use the applicable proxy figure for natural gas costs as determined by Equation C1-8 (Gas) of the Schedules to the Reliability Must-Run Contract for the relevant Service Area (San Diego Gas & Electric Company, Southern California Gas Company, or Pacific Gas and Electric Company), or, if the Resource Adequacy Resource or FERC Must-Offer Generator is not served from one of those three Service Areas, from the nearest of those three Service Areas. Start-Up Cost Invoices shall specify the amount of auxiliary power used during the start-up and the actual price paid for that power. Start-Up Cost Invoices shall not include any Start-Up Costs specified in an RMR Contract for a unit owned or controlled by a FERC Must-Offer Generator.

40.12.7 Payment of Start-Up Cost Invoices.

The ISO shall pay Scheduling Coordinators for all Start-Up Costs submitted in a Start-Up Cost Invoice and demonstrated to be a direct result of an ISO Dispatch Instruction. The ISO shall pay such Start-Up Cost Invoices each month in accordance with the ISO Payments Calendar from the funds available in the Start-Up Cost Trust Account. To the extent there are insufficient funds available in the Start-Up Cost Trust Account in any month to pay all Start-Up Costs submitted in a Start-Up Cost Invoice and demonstrated to be a direct result of an ISO Dispatch Instruction, the ISO shall make pro rata payment of such Start-Up Costs and shall adjust the rate at which the ISO will assess the Start-Up Cost Charge in accordance with Section 40.12.4. Any outstanding Start-Up Costs owed from previous months will be paid in the order of the month in which such costs were invoiced to the ISO. The ISO's obligation to pay

Start-Up Costs is limited to the obligation to pay Start-Up Cost Charges received. All disputes concerning

payment of Start-Up Cost Invoices shall be subject to ISO ADR Procedures, in accordance with Section 13 of this ISO Tariff.

40.13 ISO Default Qualifying Capacity Criteria.

40.13.1 Applicability.

The criteria in Section 40.13 shall apply only where a Local Regulatory Authority does not establish criteria to determine the types of resources that may be eligible to provide Qualifying Capacity and for calculating Qualifying Capacity for such eligible resource types.

40.13.2 Nuclear and Thermal.

Nuclear and thermal units, other than Qualifying Facilities ("QFs") with effective contracts under the Public Utility Regulatory Policies Act addressed in Section 40.13.8 below, must be a Participating Generator or a System Unit. The Qualifying Capacity of nuclear and thermal units, other than Qualifying Facilities addressed in Section 40.13.8, will be based on net dependable capacity defined by North American Electric Reliability Council ("NERC") Generating Availability Data System ("GADS") information.

40.13.3 Hydro.

Hydro units, other than QFs with contracts under the Public Utility Regulatory Policies Act, must be either Participating Generators or System Units. The Qualifying Capacity of a pond or pumped storage hydro unit, other than a QF, will be determined based on net dependable capacity defined by NERC GADS minus variable head de-rate based on an average dry year reservoir level. The Qualifying Capacity of a pond or pumped storage hydro unit that is a QF will be determined based on historic performance during the Standard Offer 1 peak hours of noon to 6:00 p.m., using a three-year rolling average.

The Qualifying Capacity of all run-of-river hydro units, including QFs, will be based on net dependable capacity defined by NERC GADS minus an average dry year conveyance flow, stream flow, or canal head de-rate. As used in this section, average dry year reflects a one-in-five year dry hydro scenario (for example, using the 4th driest year from the last 20 years on record).

40.13.4 Unit-Specific Contracts.

Unit-specific contracts with Participating Generators or System Units will qualify as Resource Adequacy capacity subject to the verification that the total MW quantity of all contracts from a specific unit do not exceed the total Net Qualifying Capacity (MW) consistent with the Net Qualifying Capacity determination for that unit.

40.13.5 Contracts with Liquidated Damage Provisions.

Firm energy contracts with liquidated damages provisions, as generally reflected in Service Schedule C of the Western Systems Power Pool Agreement or the Firm LD product of the Edison Electric Institute pro forma agreement, or any other similar firm energy contract that does not require the seller to source the energy from a particular unit, and specifies a delivery point internal to the ISO Control Area entered into before October 27, 2005 shall be eligible to count as Qualifying Capacity until the end of 2008. A Scheduling Coordinator, however, cannot have more than 75% of its portfolio of Qualifying Capacity met by contracts with liquidated damage provisions for 2006. This percentage will be reduced to 50% for 2007 and 25% for 2008.

40.13.6 Wind and Solar.

As used in this Section, wind units are those wind Generating Units without backup sources of generation and solar units are those solar Generating Units without backup sources of generation. Wind and Solar units, other than QFs with effective contracts under the Public Utility Regulatory Policies Act, must be participants in the ISO's Participating Intermittent Resource Program ("PIRP").

The Qualifying Capacity of all wind or solar units, including QFs, will be based on their monthly historic performance during the Standard Offer 1 peak hours of noon to 6:00 p.m., using a three-year rolling average. New wind and solar generators which do not have three years of historic performance data will be assigned a default Qualifying Capacity for each year of the missing historical performance as follows: the Qualifying Capacity of another solar or wind generator with historic data located in the same weather regime with similar technology adjusted for the nameplate capacity ratio of the new generator and the similarly situated proxy generator. The supporting data and the sample Qualifying Capacity calculation will be submitted to the ISO for approval as part of the facilities PIRP program application.

The default Qualifying Capacity values will be replaced on a year by year basis with actual performance data as the data becomes available to form a three year rolling average.

40.13.7 Geothermal.

Geothermal units, other than QFs addressed in Section 40.13.8, must be Participating Generators or System Units. The Qualifying Capacity of geothermal units, other than QFs addressed in Section 40.13.8, will be based on NERC GAD net dependable capacity minus a de-rate for steam field degradation.

40.13.8 Treatment of Qualifying Capacity for QFs.

QFs must be Participating Generators (signed a Participating Generator or QF Participating Generator Agreement) or System Units, unless they have a PURPA contract. Except for hydro, wind, and solar QFs addressed pursuant to Sections 40.13.3 and 40.13.6 above, the Qualifying Capacity of QFs under PURPA contracts, will be based on historic monthly generation output during Standard Offer 1 peak hours of noon to 6:00 p.m. (net behind the meter loads) during a three-year rolling average.

40.13.9 Participating Load Resources.

The Qualifying Capacity of Participating Load shall be the average reduction in demand for over a three-year period on a per dispatch basis or, if the Participating Load does not have three years of performance history, based on comparable evaluation data using similar programs. Participating Load resources must be available at least 48 hours and if the Participating Load can only be dispatched for a maximum of two hours per event, than only 0.89% of a Scheduling Coordinator's portfolio may be made up of such Participating Load.

40.13.10 Jointly-Owned Facilities.

A jointly-owned facility must be either a Participating Generator or a System Unit. The Qualifying Capacity for the entire facility will be determined based on the type of resource as described elsewhere in this Section. In addition, the Scheduling Coordinator must provide the ISO with a demonstration of its entitlement to the output of the jointly-owned facility's Qualified Capacity and an explanation of how that entitlement may change if the facility's output is restricted.

40.13.11 Facilities Under Construction.

The Qualifying Capacity for facilities under construction will be determined based on the type of resource as described elsewhere in this Section. In addition, the facility must have been in commercial operation for no less than one month to be eligible to be included as a Resource Adequacy Resource in a Scheduling Coordinator's monthly plan.

40.13.12 System Resources.

40.13.12.1 Dynamically Scheduled System Resources.

Dynamically Scheduled System Resources shall be treated similar to resources within the ISO Control Area, except with respect to the deliverability screen under Section 40.5.2.1. However, eligibility as a Resource Adequacy Resource is contingent upon a showing by the Scheduling Coordinator that the Dynamically Scheduled System Resource has secured transmission through any intervening Control Areas for the operating hours that cannot be curtailed for economic reasons or bumped by higher priority transmission and that the Load Serving Entity upon which the Scheduling Coordinator is scheduling Demand has an allocation of import capacity at the import Scheduling Point under Section 40.5.2.2 of the ISO Tariff that is not less than the Resource Adequacy Capacity provided by the Dynamically Scheduled System Resource.

40.13.12.2 Non-Dynamically Scheduled System Resources.

For Non-Dynamically Scheduled System Resources, the Scheduling Coordinator must demonstrate that the Load Serving Entity upon which the Scheduling Coordinator is scheduling Demand has an allocation of import allocation at the import Scheduling Point under Section 40.5.2.2 of the ISO Tariff that is not less than the Resource Adequacy Capacity from the Non-Dynamically Scheduled System Resource. Eligibility as Resource Adequacy Capacity would be contingent upon a showing by the Scheduling Coordinator of the System Resource that it has secured transmission through any intervening Control Areas for the operating hours that cannot be curtailed for economic reasons or bumped by higher priority transmission. With respect to Non-Dynamically Scheduled System Resources, any inter-temporal constraints such as multi-hour run blocks, must be explicitly identified in the monthly Resource Adequacy Plan, and no

constraints may be imposed beyond those explicitly stated in the plan.

40.14 **[NOT USED]**

40.14.1 **[NOT USED]**

40.15 Un-Recovered Minimum Load Costs Reporting Requirements

Sections 40.15 through 40.15.2 shall expire at midnight on the day before the MRTU Tariff goes into effect.

40.15.1 Daily Un-Recovered Minimum Load Costs Report

On a daily basis, thirty (30) days after the Trading Day, the ISO will publish on OASIS the allocation of Un-Recovered Minimum Load Costs for TCPM and Resource Adequacy Resources.

40.15.2 Monthly Un-Recovered Minimum Load Costs Report

On a monthly basis, thirty (30) days after the Trading Day, the ISO will publish on the CAISO Website, the monthly allocation of Un-Recovered Minimum Load Costs for TCPM and Resource Adequacy Resources.

40.15.3 [NOT USED]

40.15.4 [NOT USED]

41 Procurement of RMR.

**42 Assurance of Adequate Generation and Transmission to meet Applicable
Operating and Planning Reserve.**

42.1 Generation Planning Reserve Criteria.

Generation planning reserve criteria shall be met as follows:

42.1.1 On an annual basis, the ISO shall prepare a forecast of weekly Generation capacity and weekly peak Demand on the ISO Controlled Grid. This forecast shall cover a period of twelve months and be posted on the WEnet and the ISO may make the forecast available in other forms at the ISO's

option.

42.1.2 If the forecast shows that the **Applicable Reliability Criteria** can be met during peak Demand periods, then the ISO shall take no further action.

42.1.3 If the forecast shows that the **Applicable Reliability Criteria** cannot be met during peak Demand periods, then the ISO shall facilitate the development of market mechanisms to bring the ISO Controlled Grid during peak periods into compliance with the Applicable Reliability Criteria (or such more stringent criteria as the ISO may impose pursuant to Section 7.2.2.2). The ISO shall solicit bids for Replacement Reserve in the form of Ancillary Services, short-term Generation supply contracts of up to one (1) year with Generators, and Load curtailment contracts giving the ISO the right to reduce the Demands of those parties that win the contracts when there is insufficient Generation capacity to satisfy those Demands in addition to all other Demands. The curtailment contracts shall provide that the ISO's curtailment rights can only be exercised after all available Generation capacity has been fully utilized unless the exercise of such rights would allow the ISO to satisfy the Applicable Reliability Criteria at lower cost, and the curtailment rights shall not be exercised to stabilize or otherwise influence prices for power in the Energy markets.

42.1.4 If Replacement Reserve, short-term Generation supply contracts or curtailment contracts are required to meet Applicable Reliability Criteria, the ISO shall select the bids that permit the satisfaction of those Applicable Reliability Criteria at the lowest cost.

42.1.5 Notwithstanding the foregoing, if the ISO concludes that it may be unable to comply with the Applicable Reliability Criteria, the ISO shall, acting in accordance with Good Utility Practice, take such steps as it considers to be necessary to ensure compliance, including the negotiation of contracts through processes other than competitive solicitations. The steps can include the negotiation of contracts for Ancillary Services on a real time basis. If the ISO is unable to obtain such Ancillary Services from within the ISO Controlled Grid, the ISO may solicit Ancillary Services from other Control Areas on a real-time basis.

42.1.6 The ISO may, in addition to the required annual forecast, publish a forecast of the peak Demands and Generation resources for two or more additional years. This forecast would be for information purposes to allow Market Participants to take appropriate steps to satisfy the Applicable Reliability Criteria, and would not be used by the ISO to determine whether additional resources are necessary.

42.1.7 In fulfilling its requirement to ensure that the applicable Generation planning reserve criteria are satisfied, the ISO shall rely to the maximum extent possible on market forces.

42.1.8 Except where and to the extent that such costs are recovered from Scheduling Coordinators pursuant to Section 8, and except as provided in Section 42.1.9, all costs incurred by the ISO in any hour pursuant to any contract entered into under this Section 42.1 shall be charged to each Scheduling Coordinator pro rata based upon the same proportion as the Scheduling Coordinator's metered hourly Demand (including exports) bears to the total metered hourly Demand (including exports) served in that hour.

42.1.9 Costs incurred by the ISO pursuant to any contract entered into under this Section 42.1 for resources to meet any portion of the anticipated difference between forward schedules and the real-time deviations from those schedules shall be charged to each Scheduling Coordinator pro rata based upon the same proportion as the Scheduling Coordinator's obligation for deviation Replacement

Reserve in the hour, determined in accordance with Section 8.12.3A bears to the total deviation Replacement Reserve in that hour.

43 Transitional Capacity Procurement Mechanism

This section 43 of the ISO Tariff shall be referred to as the Transitional Capacity Procurement Mechanism (TCPM). The provisions of the TCPM supersede the provisions of the Reliability Capacity Services Tariff, except with respect to the provisions concerning payment and cost allocation to the extent necessary to determine any final payments and charges for service conducted under the Reliability Capacity Services Tariff. The TCPM shall expire at midnight on the day before the MRTU Tariff goes into effect except that the provisions concerning compensation, cost allocation and settlement shall remain in effect until such time as TCPM resources have been finally compensated for their services rendered under the TCPM prior to the termination of the TCPM, and the ISO has finally allocated and recovered the costs associated with such TCPM compensation.

43.1 Designation

The ISO shall have the authority provided in this Section 43 to designate Eligible Capacity or System Resources to provide services under the TCPM as set forth in this Section 43.

43.2 Local TCPM Designations

The ISO may designate Eligible Capacity to provide services under the TCPM to meet local reliability needs to the extent provided in this Section 43.2.

43.2.1 [NOT USED]

43.2.1.1 [NOT USED]

43.2.1.2 [NOT USED]

43.2.1.3 Local TCPM Designations for Deficiencies

Following the ISO's identification of any Local Resource Adequacy Requirement Deficiency, the ISO may designate Eligible Capacity to provide services under the TCPM consistent with the criteria set forth in Section 43.2.2. The ISO may designate Eligible Capacity to provide service under this Section 43.2.1.3 to the extent necessary to satisfy any remaining Local Resource Adequacy Deficiency only after: (i) RMR Units have been designated in the local area reliability study process, and (ii) completion of the evaluation process set forth in Section 40.7 of Appendix CC. Designations

of Eligible Capacity to provide services under the TCPM made pursuant to this section shall have a minimum commitment term of one (1) month and a maximum commitment term of one (1) year, based on the period(s) of overall shortage as reflected in the annual Resource Adequacy Plans that have been submitted, provided that the term of the designation may not extend into a subsequent Resource Adequacy Compliance Year and no term shall go beyond midnight on the day before the MRTU Tariff goes into effect.

43.2.1.4 Collective Deficiency in Local Capacity Area Resources.

The ISO shall have the authority to designate Eligible Capacity where the Local Capacity Area Resources specified in the annual Resource Adequacy Plans of all applicable Scheduling Coordinators, after the opportunity to cure under Section 43.2.1.4.1 has been exhausted, fail to ensure compliance in one or more Local Capacity Areas with the Local Capacity Technical Study criteria provided in Section 40.3.1.1 of Appendix CC. The ISO shall have the authority under this Section 43.2.1.4, regardless of whether such resources satisfy, for the deficient Local Capacity Area, the minimum amount of Local Capacity Area Resources identified in the Local Capacity Technical Study, but only after assessing the effectiveness of Generating Units under RMR Contracts, if any, and all Resource Adequacy Resources reflected in all submitted annual Resource Adequacy Plans, whether or not such Generating Units under RMR Contracts and Resource Adequacy Resources are located in the applicable Local Capacity Area. The ISO may, pursuant to this Section 43.2.1.4, designate Eligible Capacity in an amount and location sufficient to ensure compliance with the Reliability Criteria applied in the Local Capacity Technical Study.

Eligible Capacity designated under this Section shall have a minimum commitment term of one (1) month and a maximum commitment term of one year, based on the period(s) of overall shortage as reflected in the annual Resource Adequacy Plans that have been submitted. The term of the designation may not extend into a subsequent Resource Adequacy Compliance Year. Moreover, no term shall go beyond midnight on the day preceding the implementation of the MRTU Tariff.

43.2.1.4.1 LSE Opportunity to Resolve Collective Deficiency in Local Capacity Area Resources.

Where the ISO determines that a need for Eligible Capacity exists under Section 43.2.1.4, but prior to any designation of Eligible Capacity, the ISO shall issue a market notice, no later than fifteen (15) days after the Scheduling Coordinator for an LSE is required to submit its annual Resource Adequacy Plans, identifying the deficient Local Capacity Area, the quantity of capacity that would permit the deficient Local Capacity Area to comply with the Local Capacity Technical Study criteria provided in Section 40.3.1.1 of Appendix CC and, where only specific resources are effective to resolve the Reliability Criteria deficiency, the ISO shall provide the identity of such resources. Any Scheduling Coordinator for an LSE may submit a revised annual Resource Adequacy Plan within thirty (30) days after the ISO issues the market notice herein, demonstrating procurement of additional Local Capacity Area Resources consistent with the market notice issued under this Section.

Any Scheduling Coordinator for an LSE that provides such additional Local Capacity Area Resources consistent with the market notice under this Section shall have its share of any TCPM procurement costs under Section 43.8 reduced on a proportionate basis. If the full quantity of capacity is not reported to the ISO under revised annual Resource Adequacy Plans in accordance with this Section, the ISO may designate Eligible Capacity sufficient to alleviate the deficiency.

43.2.2 Selection of Eligible Capacity Designated for Local Reliability

The ISO will make designations of Eligible Capacity under Section 43.2 based on the lowest overall cost for each Local Capacity Area considering the following factors: the effectiveness of the Eligible Capacity, the quantity of Eligible Capacity of the resource relative to the remaining amount of capacity that is needed; and the Start-Up and Minimum Load Costs associated with the Eligible Capacity. The ISO shall have reasonable allowance to designate under the TCPM an amount of Eligible Capacity from a Generating Unit that is slightly more or slightly less than a deficiency due to the quantity of Eligible Capacity from such Generating Unit that is available and suitable to meet the deficiency, consistent with the criteria in this section.

43.3 System TCPM Designations

The ISO may designate Eligible Capacity to the extent provided in this Section 43.3.

43.3.1 Annual System TCPM Designations

Following the ISO's review under Section 40.7 of Appendix CC of the annual Resource Adequacy Plans submitted pursuant to Section 40.2.1 of the ISO Tariff and Sections 40.2.1.1, 40.2.2.4, 40.2.3.4 or 40.2.4 of Appendix CC, and its review of any designation of Eligible Capacity pursuant to Section 43.2.1.3, the ISO may designate Eligible Capacity or System Resources to provide services under the TCPM under this Section 43.3 to the extent necessary to cover the aggregate Year-Ahead System Resource Deficiency consistent with the criteria set forth in Section 43.3.3.

A designation of Eligible Capacity or System Resources to provide services under the TCPM made pursuant to this Section 43.3.1 shall be for a minimum term of three months, provided that, at the discretion of the ISO, the designation term may be extended up to a maximum term of the five summer months of May through September, provided that the term of the designation may not extend into a subsequent Resource Adequacy Compliance Year, and provided further, that in no event shall the term of any TCPM designation under this section extend beyond midnight on the day before the MRTU Tariff goes into effect.

43.3.2 Monthly System TCPM Designations

Following its review under Section 40.7 of Appendix CC of the monthly Resource Adequacy Plans submitted by Scheduling Coordinators pursuant to Section 40.2.2, the ISO may designate Eligible Capacity or System Resources to provide services under the TCPM under this Section 43.3 to the extent necessary to cover the aggregate Month-Ahead System Resource Deficiency consistent with the criteria set forth in Section 43.3.3.

Designations of Eligible Capacity or System Resources to provide services under the TCPM made pursuant to this Section 43.3.2 shall be for the lesser of three months or the remainder of the calendar year, provided that the term of the designation may not extend into a subsequent Resource Adequacy Compliance Year, and provided further, that in no event shall the term of any TCPM designation under this section extend beyond midnight on the day before the MRTU Tariff goes into effect.

43.3.3 Selection of Eligible Capacity Designated for System Reliability

The ISO will make designations of Eligible Capacity or System Resources under this Section 43.3 based on the following factors: the effectiveness of the Eligible Capacity in addressing local and/or zonal constraints in addition to meeting system needs; the quantity of Eligible Capacity of the resource; the Start-Up and Minimum Load Costs associated with the Eligible Capacity; and the effectiveness of the Eligible Capacity at reducing the Minimum Load Costs that might otherwise be incurred as a result of must-offer waiver denials. System Resources shall be subject to the ISO's established import limits as specified in accordance with Section 40.5.2.2. The ISO shall have reasonable allowance to designate under the TCPM an amount of Eligible Capacity from a Generating Unit or System Resource that is slightly more or slightly less than a deficiency due to the quantity of Eligible Capacity from such Generating Unit or System Resource that is available and suitable to meet the deficiency, consistent with the criteria in this section.

43.4 TCPM Designations For Significant Events and Must-Offer Waiver Denials

43.4.1 TCPM Significant Events

The ISO may designate Eligible Capacity or System Resources to provide service on a prospective basis under this Section 43.4.1 following a TCPM Significant Event, to the extent necessary to maintain compliance with Reliability Criteria and taking into account the expected duration of the TCPM Significant Event. Capacity designated under Section 43.4.1 shall have an initial term of thirty (30) days. If the ISO determines that the TCPM Significant Event is likely to extend beyond the thirty (30) day period, the ISO shall extend the designation for another sixty (60) days. During this additional sixty (60) day period, the ISO will provide Market Participants with an opportunity to provide alternative solutions to meet the ISO's operational and reliability needs in response to the TCPM Significant Event, rather than rely on the ISO's designation of capacity under the TCPM. The ISO shall consider and implement, if acceptable to the ISO in accordance with Good Utility Practice, such alternative solutions provided by Market Participants in a timely manner. If Market Participants do not submit any alternatives to the designation of TCPM Capacity

that are fully effective in addressing the deficiencies in Reliability Criteria resulting from TCPM Significant Event, the ISO shall extend the term of the designation under Section 43.4.1 for the expected duration of the TCPM Significant Event. If there is a reasonable alternative solution that fully resolves the ISO's operational and reliability needs, the ISO will not extend the designation under Section 43.4.1. The term of the designation may not extend into a subsequent Resource Adequacy Compliance Year. Moreover, in no event shall the term of such TCPM designation extend beyond midnight on the day before the MRTU Tariff goes into effect. Any TCPM designations under this section shall be in accordance with the criteria set forth in Section 43.4.1.1.

43.4.1.1 Selection of Eligible Capacity for TCPM Significant Events

The ISO will make designations of Eligible Capacity under Section 43.4.1 based on the lowest overall cost for each TCPM Significant Event considering the following factors: the effectiveness of the Eligible Capacity, the quantity of Eligible Capacity of the resource relative to the remaining amount of capacity that is needed; and the Start-Up Costs and Minimum Load Costs associated with the Eligible Capacity. The ISO shall have reasonable allowance to designate under the TCPM an amount of Eligible Capacity from a Generating Unit that is slightly more or slightly less than the capacity necessary to remedy a TCPM Significant Event due to the quantity of Eligible Capacity of such Generating Unit that is available and suitable to meet the TCPM Significant Event, consistent with the criteria in this section.

43.4.2 TCPM Designations as a Result of Must-Offer Waiver Denials

If the ISO denies a must-offer waiver request for a FERC Must-Offer Generator in accordance with Section 40.7.6, then that FERC Must-Offer Generator shall receive a TCPM designation for a term of thirty (30) days, unless the FERC Must-Offer Generator is identified as a Resource Adequacy Resource in a Resource Adequacy Plan for a term starting before the end of the thirty (30) day period, in which case the FERC Must-Offer Generator shall receive a TCPM designation for the period from the effective date of the denial of the must-offer waiver request until the date it becomes a Resource Adequacy Resource. In determining whether any TCPM designation in accordance with this Section 43.4.2 should be extended beyond the initial thirty (30) day period, the ISO shall consider the additional designation period to be a TCPM Significant Event designation in accordance with Section 43.4.1 and shall utilize the process contained in Section 43.4.1 for extending designations beyond an initial thirty (30) day period.

43.5 Obligations of a Resource Designated under the TCPM

43.5.1 Must-Offer Obligations

Generating Units designated under the TCPM shall be subject to all of the availability, must-offer, dispatch, testing, reporting, and verification obligations applicable to Resource Adequacy Resources identified in Resource Adequacy Plans under Section 40.6A of the ISO Tariff. Generating Units designated under the TCPM must offer available capacity into the Ancillary Services markets to the extent capable.

43.5.2 Replacement Option

If a Generating Unit designated under the TCPM is unavailable when issued a must-offer waiver denial by the ISO pursuant to Section 40.7.6 of the ISO Tariff, the Scheduling Coordinator for the resource may, within 2 hours for a must-offer waiver denial issued prior to the Hour-Ahead market and within 30 minutes for a must-offer waiver denial issued in Real-Time, substitute capacity from such Generating Unit with Eligible Capacity that: (i) is located at the same bus, or (ii) if not located at the same bus, is located in the same Local Capacity Area, and which meets the ISO's effectiveness and operational needs, including size of resource, as determined by the ISO in its reasonable discretion. If the Scheduling Coordinator substitutes such Eligible Capacity, the Scheduling Coordinator must pay all additional Minimum Load Costs, Start-Up Costs, Emissions Costs (above the corresponding costs of the Generating Unit that is being substituted), and any bilateral contract costs incurred by the Scheduling Coordinator, as a result of the substitution. The actual Availability of the substitute resource will be used for the purposes of the calculations in Appendix F, Schedule 6.

43.5.3 Termination of Obligations

If a Participating Generator's Eligible Capacity is designated by the CAISO under the terms of the TCPM, and the Participating Generator has not filed a notice to withdraw from the Participating Generator Agreement ("PGA"), then the Participating Generator shall be obligated to perform in

accordance with the TCPM for the term of the TCPM designation. If a Participating Generator's Eligible Capacity is designated under the terms of the TCPM after the Participating Generator has filed a notice to withdraw from its PGA, then the Participating Generator shall be obligated to perform in accordance with the TCPM until the date that its PGA effectively terminates, but the Participating Generator shall be under no obligation to so perform after the effective date of the PGA termination. If a Participating Generator's Eligible Capacity is designated under the TCPM after the Participating Generator has filed notice to withdraw from its PGA, and the Participating Generator agrees to provide service under the TCPM, then the Participating Generator will enter into a PGA for the designated generating unit and invoice the ISO for any actual applicable restoration costs as provided in the RMR Service Agreement.

43.6 TCPM Report

43.6.1 TCPM Designation Market Notice

The ISO shall issue a market notice within two (2) Business Days of a TCPM designation. The market notice shall include a preliminary description of what caused the TCPM **procurement**, the name of the resource(s) procured, the preliminary expected duration of the **procurement**, the initial designation period, and an indication that a designation report is being prepared.

43.6.2 Designation of a Resource under the TCPM Tariff

The ISO shall post a designation report to the **CAISO** Website and provide a market notice of the availability of the report within the earlier of thirty (30) days of procuring a resource under the TCPM or ten (10) days after the end of the month. The designation report shall include the following information:

- (1) A description of the reason for the designation (LSE procurement shortfall, Local Capacity Area Resource effectiveness deficiency, **TCPM Significant Event**, or **denial of a must-offer waiver request for a FERC Must-Offer Generator**), and an explanation of why it was necessary for the ISO to utilize the TCPM authority);

- (2) The following information would be reported for all backstop designations:
 - (a) the resource name;
 - (b) the amount of TCPM Capacity designated (MW),
 - (c) an explanation of why that amount of TCPM Capacity was designated,
 - (d) the date TCPM Capacity was designated,
 - (e) the duration of the designation; and
 - (f) the price for the TCPM procurement; and
- (3) If the reason for the designation is a TCPM Significant Event, the ISO will also include:
 - (a) a discussion of the event or events that have occurred, why the ISO has procured TCPM Capacity, and how much has been procured;
 - (b) an assessment of the expected duration of the TCPM Significant Event;
 - (c) the duration of the initial designation (thirty (30) days); and
 - (d) a statement as to whether the initial designation has been extended (such that the backstop procurement is now for more than thirty (30) days), and, if it has been extended, the length of the extension.
- (4) If the reason for the designation is the denial of a must-offer waiver request, an explanation as to why the ISO denied the must-offer waiver request that triggered the TCPM designation and an assessment of whether any Resource Adequacy Resources, RMR Units, or resources designated to provide service under the TCPM were available and called upon by the ISO prior to its denial of the FERC Must-Offer Generator's must-offer waiver request. The ISO shall also explain why Non-Generation Solutions were insufficient to prevent the use of denials of must-offer waiver requests for local reasons.

43.7 Payments to Resources Designated Under the TCPM

43.7.1 TCPM Capacity Payment

Scheduling Coordinators representing resources designated under this Section 43 will receive a TCPM Capacity Payment equal to the product of the Net Qualifying Capacity, the relevant Availability Factor as determined in accordance with Appendix F, Schedule 6, and the difference between the Monthly TCPM Charge as determined in accordance with Appendix F, Schedule 6, which for partial month designations shall be pro-rated based on the number of days during the month that the resource was designated as a TCPM resource divided by 30, and 95% of the Monthly Peak Energy Rent, i.e., Net Qualifying Capacity x Availability Factor x (Monthly TCPM Charge - (Monthly Peak Energy Rent x .95)). The ISO shall determine the Availability Factor, Monthly TCPM Charge and Monthly Peak Energy Rent in accordance with Appendix F, Schedule 6 of the Tariff. Where the ISO designates capacity from a Resource Adequacy Resource in an amount above the resource's Resource Adequacy Capacity, Net Qualifying Capacity as used in this Section 43.7.1 shall be replaced with an amount equal to the difference between the resource's Net Qualifying Capacity and its Resource Adequacy Capacity. For purposes of this section 43.7.1, the term Net Qualifying Capacity shall mean the megawatt

value for a TCPM resource as reflected in the document entitled "Qualifying Capacity Megawatt Values for RA Planning Purposes" (or any successor document) as posted on the CAISO Website, provided that, to the extent a particular resource has a stated monthly value(s), the applicable Net Qualifying Capacity shall be the average of the stated values for the months in which the resource will have a TCPM designation. To the extent a resource does not have a megawatt value reflected in the foregoing document, the ISO shall determine Net Qualifying Capacity of the resource in accordance with the provisions of the ISO Tariff.

For purposes of the TCPM designation, except for TCPM Significant Events and designations under Section 43.4.2 for denials of must-offer waiver requests for FERC Must-Offer Generators, availability shall be calculated as the ratio of: (1) the sum of the Net Qualifying Capacity MW for each hour of the month across all hours of the month, where the actual capacity MW available to the ISO shall be substituted for Net Qualifying Capacity MW for each hour the resource is not on an authorized Outage, to (2) the product of Net Qualifying Capacity MW and the total hours in the month. For purposes of TCPM designations for TCPM Significant Events and designations under Section 43.4.2 for denials of must-offer waiver requests for FERC Must-Offer Generators, the Availability Factor shall be calculated as the ratio of: (1) the sum of the TCPM Capacity MW for each hour across all hours of the month or part of the month for which a unit is designated, whichever is applicable, where the actual capacity MW available to the ISO, if less than the TCPM Capacity MW, shall be substituted for TCPM Capacity MW for each hour the resource is not available and is not on an authorized Outage, to (2) the product of TCPM Capacity MW and the total hours in the month or part of the month for which a unit is designated, whichever is applicable.

For purposes of this Section 43.7.1, an authorized Outage shall be limited to the following: (a) an ISO-approved, planned Outage that exists at the time of TCPM designation and is scheduled to occur during the term of an TCPM designation provided that (i) such Outage is not the result of a prior Outage that was forced or not otherwise scheduled and approved by the ISO, and (ii) such Outage may be rescheduled by the ISO during the term of the TCPM designation period, provided that the term of the ISO-approved Outage and the capacity derate at time of the TCPM designation are not exceeded, or (b) an ISO-Approved Maintenance Outage that is scheduled during the TCPM designation period, provided such Outage is not the result of a prior Outage that was forced or not otherwise scheduled and approved by the ISO.

43.7.2 Minimum Load, Emissions and Start-Up Costs

43.7.2.1 Minimum Load Costs

Scheduling Coordinators representing resources designated under this Section 43 shall be eligible for recovery of Minimum Load Costs in the same manner that Scheduling Coordinators representing Resource Adequacy Resources included in Resource Adequacy Plans are eligible for the recovery of such costs under Sections 40.6B of the Tariff.

43.7.2.1.1 Allocation of Unrecovered Minimum Load Costs

Unrecovered Minimum Load Costs under Section 43.7.2.1 shall be allocated in accordance with Section 40.6B.5 of the ISO Tariff.

43.7.2.2 Emissions Costs

Scheduling Coordinators representing resources designated under this Section 43 shall be eligible for recovery of Emissions Costs in the same manner that Scheduling Coordinators representing Resource Adequacy Resources included in Resource Adequacy Plans are eligible for the recovery of such costs under Sections 40.11 of the ISO Tariff.

43.7.2.2.1 Recovery of Emissions Costs

The ISO will recover funds to pay Emissions Costs under Section 43.7.2.2 in accordance with Sections 40.11 of the ISO Tariff.

43.7.2.3 Start-Up Costs

Scheduling Coordinators representing resources designated under this Section 43 shall be eligible for recovery of Start-Up Costs in the same manner that Scheduling Coordinators representing Resource Adequacy Resources included in Resource Adequacy Plans are eligible for the recovery of such costs under Sections 40.12 of the ISO Tariff.

43.7.2.3.1 Recovery of Start-Up Costs

The ISO will recover funds to pay Start-Up Costs under Section 43.7.2.3 in accordance with Sections 40.12 of the ISO Tariff.

43.8 Allocation of TCPM Capacity Payment Costs

For each month, the ISO shall allocate the costs of TCPM Capacity Payments made pursuant to Section 43.7.1 as follows:

- (1) Annual System TCPM Designations: If the ISO makes TCPM designations under Section 43.3.1, then the ISO will allocate the total costs of TCPM Capacity Payments for such TCPM designations (for the full term of those TCPM designations) pro rata to each deficient SC-RA Entity based on its portion of the aggregate Year-Ahead System Resource Deficiency.
- (2) Monthly System TCPM Designations: If the ISO makes TCPM designations under Section 43.3.2, then the ISO will allocate the total costs of TCPM Capacity Payments for such

TCPM designations (for the full term of those TCPM designations) pro rata to each deficient SC-RA Entity based on its portion of the aggregate Month-Ahead System Resource Deficiency.

- (3) Local TCPM Designations. If the ISO makes local TCPM designations, then the ISO will allocate the total costs of TCPM Capacity Payments for such TCPM designations (for the full term of those TCPM designations) pro rata to each Scheduling Coordinator for a deficient RA Entity based on the ratio of its Local Resource Adequacy Requirement Deficiency to the sum of the Local Resource Adequacy Requirement Deficiencies within a TAC Area. To the extent there is a Local Resource Adequacy Requirement Deficiency in two or more Local Capacity Areas that can be satisfied by designating a single unit under the TCPM, the ISO shall allocate the total costs of TCPM Capacity Payments for such TCPM designation (for the full term of the designation) pro rata to each Scheduling Coordinator for an RA Entity that has a Local Resource Adequacy Requirement Deficiency in such Local Capacity Areas based on the ratio of its Local Resource Adequacy Requirement Deficiency to the aggregate Local Resource Adequacy Requirement Deficiency in those Local Capacity Areas.
- (4) Collective Local Capacity Shortfalls. If the ISO makes designations under Section 43.2.1.4 the ISO shall allocate the costs of such designations to all Scheduling Coordinators for LSEs in the TAC Area(s) in which the deficient Local Capacity Area was located. The allocation will be based on such Scheduling Coordinators' proportionate share of Load in such TAC Area(s) as determined in accordance with Section 40.3.2 of Appendix CC, excluding Scheduling Coordinators for LSEs that procured additional capacity in accordance with Section 43.2.1.4.1 on a proportionate basis, to the extent of their additional procurement.

- (5) TCPM Significant Event Designations. If the ISO makes any TCPM Significant Event designations under Section 43.4.1, the ISO shall allocate the costs of such designations to all Scheduling Coordinators for LSEs that serve Load in the TAC Area(s) in which the TCPM Significant Event caused or threatened to cause a failure to meet Reliability Criteria based on the percentage of actual MWh Load of each LSE represented by the Scheduling Coordinator in the TAC Area(s) to total MWh Load in the TAC Area(s) as recorded in the ISO Settlement system for the actual days during any Settlement month period over which the designation has occurred.
- (6) FERC Must-Offer Generator Waiver Denial Designations. If the ISO makes a TCPM designation under Section 43.4.2 as a result of a denial of a must-offer waiver request for a FERC Must-Offer Generator, the ISO shall determine, for each must-offer waiver denial period during the month or partial month that a resource was designated, whether the must-offer waiver denial issued to the TCPM resource was for (1) local reliability requirements, (2) zonal requirements, or (3) Control Area-wide requirements. For each month, the ISO shall sum the TCPM Capacity costs resulting from a designation in accordance with Section 43.4.2 and then shall separately classify such costs as either local reliability, zonal and/or Control-Area wide costs based on the number of hours that the resource operated under a must-offer waiver denial to meet local reliability requirements, zonal requirements, or Control-Area wide requirements, respectively during the month in which the resource was designated divided by the total number of hours the unit operated under a must-offer waiver denial during the month in which the resource was designated.
- (1) TCPM Capacity costs classified as local reliability costs shall be allocated in accordance with Section 40.6B.5(1).
- (2) TCPM Capacity costs classified as zonal costs shall be allocated in accordance with Section 40.6B.5(2).
- (3) TCPM Capacity costs classified as Control-Area wide costs shall be allocated in accordance with Section 40.6B(3).

43.9 Crediting of TCPM Capacity

The ISO shall credit TCPM designations to the resource adequacy obligations of Scheduling Coordinators for Load Serving Entities as follows:

- (a) To the extent the cost of TCPM designation under Section 43.2.1.3 is allocated to a Scheduling Coordinator on behalf of a LSE under Section 43.8.(3), the ISO shall provide the Scheduling Coordinator on behalf of the LSE, for the term of the designation, credit towards (1) the LSE's Local Capacity Area Resource obligation under Section 43.2.1.3 in an amount equal to the LSE's pro rata share of the TCPM Capacity designated under Section 43.2.1.3 and (2) the LSE's Demand and Reserve Margin requirements determined under Section 40 in an amount equal to the LSE's pro rata share of the TCPM Capacity designated under Section 43.2.1.3.
- (b) To the extent the cost of ISO designation under Section 43.2.1.4 is allocated to a Scheduling Coordinator on behalf of a LSE under Section 43.8 (4), the ISO shall provide the Scheduling Coordinator on behalf of the LSE, for the term of the designation, credit towards the LSE's Demand and Reserve Margin requirements determined under Section 40 in an amount equal to the LSE's pro rata share of the TCPM Capacity designated under Section 43.2.1.4.

- (c) To the extent the cost of TCPM designation under Section 43.3.1 is allocated to a Scheduling Coordinator on behalf of a LSE under Section 43.8.(1), and the designation is for greater than one month under Section 43.3.1, the ISO shall provide the Scheduling Coordinator on behalf of the LSE, for the term of the designation, credit towards the LSE's Demand and Reserve Margin requirements determined under Section 40 in an amount equal to the LSE's pro rata share of the TCPM Capacity designated under Section 43.3.1.
- (d) The credit provided in this Section shall be used for determining the need for the additional designation of TCPM Capacity under Section 43.1 and for allocation of TCPM costs under Section 43.8.
- (e) For each Scheduling Coordinator that is provided credit pursuant to this Section, the ISO shall provide information, including the quantity of capacity procured in MW, necessary to allow the CPUC, other Local Regulatory Authority, or federal agency with jurisdiction over the LSE on whose behalf the credit was provided to determine whether the LSE should receive credit toward its resource adequacy requirements adopted by such agencies or authorities.