

Memorandum

To: ISO Board of Governors
From: Keith Casey, Vice President, Market & Infrastructure Development
Date: September 1, 2010
Re: **Decision on Conditional Approval to Extend Existing RMR Contracts for 2011**

This memorandum requires Board action.

EXECUTIVE SUMMARY

Management of the California Independent System Operator Corporation requests that the ISO Board of Governors grant it the authority to extend, through calendar year 2011, the existing reliability must-run (RMR) contracts listed in *Attachment 1*.

Management will exercise this authority under the following conditions.

- A load serving entity does not purchase the capacity needed to satisfy local reliability criteria in the ISO 2011 *Local Capacity Technical Analysis* through a resource adequacy contract; or
- The load serving entity does purchase the capacity under a resource adequacy contract, but Management needs to retain the RMR contract to:
 1. Obtain from the unit a reliability service, such as black start or dual fuel capability;
 2. Exercise local market power; or
 3. Protect availability of a given resource that could be jeopardized or reduced without an RMR contract.

Where an RMR contract augments a resource adequacy contract, Management will ensure that any fixed cost recovery will compensate the RMR owner only for the incremental costs of providing RMR services. This will guarantee the RMR owner is not paid twice for its capacity.

Moved, that the ISO Board of Governors authorizes Management to extend the reliability must-run contracts for any of the RMR units listed on Attachment 1, consistent with the criteria described in the memorandum dated September 1, 2010.

DISCUSSION AND ANALYSIS

Management requests authority to extend the existing RMR contracts (up to 1014 MW of capacity) listed in *Attachment 1*. *Attachment 2* identifies resources that currently have black start (1748 MW of capacity) and dual fuel (105 MW of capacity) agreements at zero capacity cost¹, which the ISO may also extend for the 2011 contract year. Due to the pending retirement of the existing units at the Humboldt Bay power plant, the black start and dual fuel contracts will be extended to the new replacement units at the same Humboldt Bay power plant site after they become operational. Later, if Management finds that more resources, not identified on *Attachment 1*, are needed for RMR service, Management will seek further Board approval to enter into RMR contracts to ensure all local capacity requirements are met.

Under long-established provisions of the RMR contract, by October 1, the ISO must notify an RMR resource owner that it is extending the existing RMR contract for the next contract year, *i.e.* from January 1 through December 31 of the following year. If the RMR contract is not extended by this date, the RMR unit may not be designated again for one full year unless:

- The unit is needed due to extended outage of another unit or a transmission element not known at the time of the RMR contract expiration; or
- The unit is selected through a competitive process in which the unit owner participated.

In order to coordinate the resource adequacy program with the ISO's consideration of RMR contract extensions, the California Public Utilities Commission (CPUC) requires its jurisdictional load serving entities to provide a *preliminary resource adequacy* showing to the ISO by September 20, 2010. This preliminary information may include any generating unit listed in *Attachment 1*, plus local capacity area resources, and any other resource adequacy resource procured as of September 20, 2010. (These showings are preliminary because load serving entities have until November 1 to submit their final year-ahead resource adequacy showings. These final showings must demonstrate compliance with all CPUC-imposed year-ahead procurement targets consisting of 100% local capacity area resources and 90% of the load serving entities demand forecast and reserve margin for the months May through September.)

The ISO also requires that all non-CPUC jurisdictional load serving entities provide the ISO with a year-ahead showing in September.

With the information provided to the ISO in September, management can then assess the aggregate portfolio of the CPUC preliminary showings and the non-CPUC showings. This information will be used to consider whether any resource on Attachment A is still required to be under an RMR contract. If resources are under a resource adequacy contract, it may be possible to terminate the RMR contract. In certain circumstances, however, it may be necessary to extend RMR contracts even to resources that are designated resource adequacy resources.

¹ Zero cost dual fuel and black start agreements do not require Board approval.

Attachment 1: 2011 RMR Contract Status

RMR Unit Extension Status				
<i>Any Extended RMR Contracts will be effective January 1, 2011 thru December 31, 2011</i>				
<i>Any Released RMR Contracts will be terminated effective Midnight on December 31, 2010</i>				
Owner	RMR Contract	Unit	MW²	2011 Status
Gilroy Energy Center, LLC (Calpine)	Gilroy EC	Feather River EC Unit	45	TBD
		Gilroy EC, Unit 1	45	
		Gilroy EC, Unit 2	45	
		Yuba City EC Unit	45	
Mirant Potrero, LLC	Potrero	Potrero, Unit 3	206	TBD
		Potrero, Unit 4	52	
		Potrero, Unit 5	52	
		Potrero, Unit 6	52	
Dynergy Oakland, LLC	Oakland	Oakland, Unit 1	55	TBD
		Oakland, Unit 2	55	
		Oakland, Unit 3	55	
Dynergy South Bay, LLC	South Bay	South Bay, Unit 1	145	TBD
		South Bay, Unit 2	149	
		South Bay, CT	13	

² Capacity values shown indicate the summer maximum net dependable capacity (MNDC) values for the combustion turbines with both summer and winter MNDC values specified in the South Bay RMR contract.

Attachment 2: 2011 Black Start and Dual Fuel Contract Status

Black Start Units Extension Status				
<i>Any Extended Black Start Contracts will be effective January 1, 2011 thru December 31, 2011</i>				
<i>Any Released Black Start Contracts will be terminated effective Midnight on December 31, 2010</i>				
Owner	Contract	Unit	MW³	2011 Status
Pacific Gas and Electric Company	Humboldt Bay	Humboldt Bay, MEPP 2	15	TBD
		Humboldt Bay, MEPP 3	15	
	Kings River WS	Kings River Watershed II Units	335.8	TBD
	San Joaquin WS	San Joaquin Watershed Units	214.7	TBD
Southern California Edison	Hoover		525	TBD
	Big Creek Physical Scheduling Plant		368.9	
	Barre Peaker		47	
	Center Peaker		47	
	Grapeland Peaker		46	
	Mira Loma Peaker		46	
Cabrillo Power I, LLC	Cabrillo I	Encina CT	14	TBD
Cabrillo Power II, LLC	Cabrillo II	Kearney 2A CT	14	TBD
		Kearney 2C CT	14	
		Kearney 3A CT	15	
		Kearney 3C CT	14	
		Miramar 1A	17	
Dual Fuel Agreement Unit Extension Status				
<i>Any Extended Dual Fuel Contracts will be effective January 1, 2011 thru December 31, 2011</i>				
<i>Any Released Dual Fuel Contracts will be terminated effective Midnight on December 31, 2010</i>				
Owner	Contract	Unit	MW	Status
Pacific Gas and Electric Company	Humboldt Bay	Humboldt Bay, Unit 1	52	TBD
		Humboldt Bay, Unit 2	53	

³ Capacity values shown indicate the summer maximum net dependable capacity (MNDC) values for the combustion turbines with both summer and winter MNDC values specified in the Cabrillo I and Cabrillo II RMR contract. s.