

# Memorandum

**To:** ISO Board of Governors  
**From:** Keith Casey, Vice President of Market & Infrastructure Development  
**Date:** October 26, 2010  
**Re:** **Briefing on Results of Reliability Must-Run Contract Extensions for 2011**

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*This memorandum does not require Board action.*

At its September 9 meeting, the ISO Board of Governors authorized Management to extend the existing reliability must-run (RMR) contracts through calendar year 2011 if needed after Management's review of load serving entities' September 20, 2010 preliminary resource adequacy showings. Management has reviewed these submittals and determined to extend certain RMR contracts identified in *Attachment 1*. As discussed in detail below, Management decided to extend the RMR contract with Mirant for the Potrero units and, after noticing the extension of the RMR contract with Dynegy for the South Bay units, decided to rescind it after evaluating new load data for the San Diego area and determining that the South Bay units were no longer needed for RMR service beyond December 31, 2010. Management has also determined to extend certain contracts that provide for black start and dual fuel capability for the 2011 contract year as set forth in *Attachment 2*.

Since inception of the resource adequacy program in 2006, the ISO has been able to release more than 9,517 MW of capacity from RMR contracts.

## **South Bay Power Plant**

As noted above, Management has concluded that the South Bay Power Plant is not needed for RMR service beyond December 31, 2010. This conclusion is based on the ISO's analysis of San Diego's recent all-time record peak demand of 4,684 MW on September 27, 2010 and review of additional load forecast information recently received by the ISO that projected significantly lower demand for the San Diego area over the next two years. The September 27 record peak was approximately 300 MW below the California Energy Commission 2009 1-in-10 load forecast for 2011, which was used in the ISO's 2011 Local Capacity Technical Analysis for 2011 and 2012 that established the need to maintain the reliability must-run status of the South Bay Power Plant. Based on our analysis of peak demand on September 27, 2010, which included normalizing for weather conditions and comparing these results to other information received, we have determined that the reliability must-run requirement for the facility can be eliminated as of December 31, 2010.

While this new information shows the South Bay Power Plant is no longer needed to meet the local reliability criteria used for RMR designation, loss of this power plant from the system will have adverse reliability implications. The South Bay Power Plant has served a vital role not only for local reliability, but to meet peak load during high demand conditions and to service load during other emergency conditions. Historically, the San Diego region has been prone to outages of major transmission and generation facilities due to, or coincidental with, major wildfires. During such times, the South Bay Power Plant has been a critical resource for avoiding involuntary load curtailments. Without this resource, future extreme events will be more challenging to manage. Moreover, loss of a major dispatchable resource like the South Bay Power Plant will ultimately make operationally integrating renewable generation more challenging. Given the intermittent output of renewable energy generation resources, the state will need highly dispatchable resources like the South Bay Power Plant to keep the system balanced and reliable. It is also important to recognize that the lower load forecasts for 2011-2012 are primarily driven by the economic impact of the on-going recession. As the economy in California improves, the load for regions like San Diego could bounce back significantly, which underscores the importance of making sure the Sunrise Power Link stays on track for 2012. In addition to providing a long-term reliability benefit to the San Diego region, the Sunrise Power Link will also enable the delivery of a significant amount of renewable energy (solar and geothermal) in the Imperial Valley area.

### **Potrero Power Plant**

As previously explained at the September 9, 2010 Board of Governors meeting, the ISO has consistently maintained the following criteria for releasing the Potrero Power Plant from its RMR designation:

1. Having the Trans Bay Cable Project completed and proven operationally reliable; and
2. Completion of the two Martin-Bayshore-Potrero 230 kV recabing projects with the new cables energized and in service and proven operationally reliable.

Since both of these conditions have not yet been met, Management extended the RMR agreement for the Potrero Power Plant for 2011 but agreed to work with the plant owner, Mirant, in negotiating early termination provisions to be triggered when the two criteria above are met.

In the meantime, Management is closely monitoring the on-going testing of the Trans Bay Cable Project as well as progress in completing the recabing projects and will provide the Board with an update on November 2.

## Attachment 1: 2011 RMR Contract Status

<b>RMR Unit Extension Status</b>				
<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>				
<b>Owner</b>	<b>RMR Contract</b>	<b>Unit</b>	<b>MW<sup>1</sup></b>	<b>Status</b>
Gilroy Energy Center, LLC (Calpine)	Gilroy EC	Feather River EC Unit	45	Released
		Gilroy EC, Unit 1	45	
		Gilroy EC, Unit 2	45	
		Yuba City EC Unit	45	
Mirant Potrero, LLC	Potrero	Potrero, Unit 3	206	Extended
		Potrero, Unit 4	52	
		Potrero, Unit 5	52	
		Potrero, Unit 6	52	
Dynergy Oakland, LLC	Oakland	Oakland, Unit 1	55	Extended
		Oakland, Unit 2	55	
		Oakland, Unit 3	55	
Dynergy South Bay, LLC	South Bay	South Bay, Unit 1	145	Extension rescinded
		South Bay, Unit 2	149	
		South Bay, CT	13	

<sup>1</sup> 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, Cabrillo II, and South Bay RMR contracts.

## Attachment 2: 2011 Black Start and Dual Fuel Contract Status

<b>Black Start Units Extension Status</b>				
<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>				
Pacific Gas and Electric Company	Humboldt Bay	Humboldt Bay, MEPP 2 <sup>2</sup>	15	Extended
		Humboldt Bay, MEPP 3 <sup>3</sup>	15	
	Kings River WS	Kings River Watershed II Units	335.8	Extended
	San Joaquin WS	San Joaquin Watershed Units	214.7	Extended
Southern California Edison	Hoover		525	Extended
	Big Creek Physical Scheduling Plant		368.9	
	Barre Peaker		47	
	Center Peaker		47	
	Grapeland Peaker		46	
Cabrillo Power I, LLC	Cabrillo I	Mira Loma Peaker	46	Extended
		Encina CT	14	
Cabrillo Power II, LLC	Cabrillo II	Kearney 2A CT	14	Extended
		Kearney 2C CT	14	
		Kearney 3A CT	15	
		Kearney 3C CT	14	
		Miramar 1A	17	
<b>Dual Fuel Agreement Unit Extension Status</b>				
<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>				
Pacific Gas and Electric Company	Humboldt Bay	Humboldt Bay, Unit 1 <sup>3</sup>	52	Extended
		Humboldt Bay, Unit 2 <sup>3</sup>	53	

<sup>2</sup> The dual fuel and black start contracts for the historical Humboldt Bay units has been amended to substitute new Humboldt Bay units all to allow retirement of the existing old thermal units at this power plant.