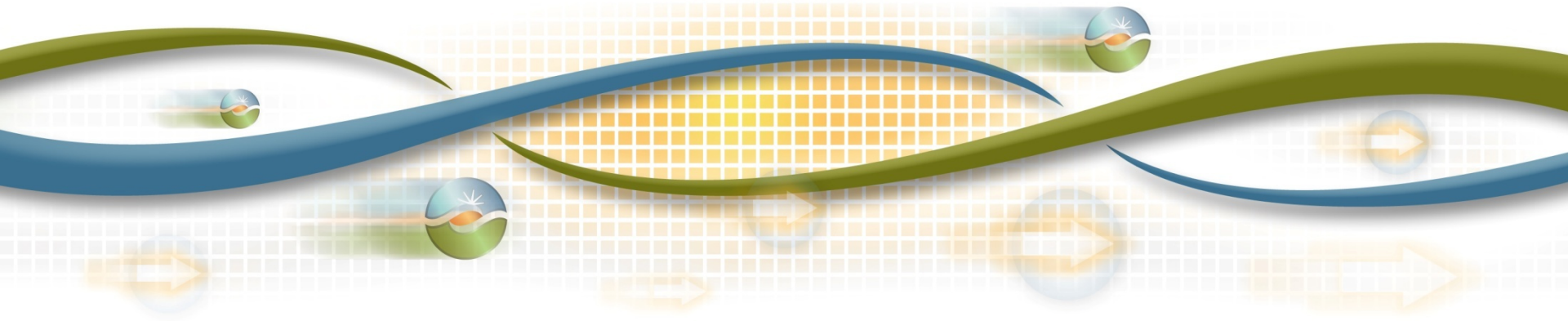


Decision on Conditional Approval to Extend Existing Reliability Must-Run Contracts for 2012

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Reliability must-run contracts ensure local reliability requirements are met and/or that required services not covered by the resource adequacy contracts are retained.

	Contract between	Capacity	Energy	Dual Fuel	Black Start
Resource Adequacy	Load Serving Entity and Generator	✓	Maybe	-	-
Reliability Must-Run	ISO and Generator	✓	✓	✓	✓

Resource adequacy contracts provide for bulk of local reliability needs-
The total number of reliability must-run contracts continues to decrease each year.

Reliability must-run designations are conditionally extended because:

- Resource adequacy capacity from one specific unit may not be contracted by a load serving entity and there is a reliability need in the local area as determined by ISO studies.
- Resource adequacy capacity is contracted, however ISO determines that:
 - It needs certain reliability services not provided by the resource adequacy contract
 - A unit may exercise market power for energy
 - Existing contractual arrangements may preclude the availability of that unit without a reliability must-run contract

The resource adequacy process follows a pre-determined timeline:

- September 16, CPUC jurisdictional load serving entities make preliminary resource adequacy showings
- Management makes 2012 reliability must-run recommendations from units currently under contract
- Historically, the Board has authorized Management to conditionally extend reliability must-run contracts
 - Provided resource adequacy showing is insufficient to meet local area needs
 - Special local area reliability needs exist
- October 1 letters for reliability must-run extensions or terminations are sent to resource owners