

Memorandum

To: ISO Board of Governors
From: Keith Casey, Vice President of Market & Infrastructure Development
Date: August 18, 2011
Re: **Decision on Conditional Approval to Extend Existing RMR Contracts for 2012**

This memorandum requires Board action.

EXECUTIVE SUMMARY

In each of the past several years, the number of generating facilities under a reliability must-run contract has declined. This has been due to the increase in the number of generating facilities under resource adequacy contracts, as well as the completion of several new transmission facilities and new generation resources displacing the need to designate resources under a reliability must-run contract. Nevertheless, some reliability must run contracts may be necessary. This year, the California Independent System Operator Corporation requests that the Board of Governors grant Management the authority to extend, through calendar year 2012, the reliability must-run contract for the Dynegy Oakland, LLC generating units 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 2012 *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 reliability must-run contract to:
 1. Obtain from the unit a reliability service, such as black start or dual fuel capability; or
 2. Mitigate local market power; or
 3. Protect availability of a given resource that could be jeopardized or reduced without a reliability must-run contract.

Where a reliability must-run contract augments a resource adequacy contract, Management will ensure that any fixed cost recovery will compensate the unit owner only for the incremental costs of providing reliability must-run services. This will guarantee the 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 reliability must-run units listed on Attachment 1, consistent with the criteria described in the memorandum dated August 18, 2011.

DISCUSSION AND ANALYSIS

Management requests authority to extend only the existing reliability must-run contracts (up to 165 MW of capacity) listed in *Attachment 1*. The attachment also identifies resources that currently have black start (1655 MW of capacity) and dual fuel (163 MW of capacity) agreements at zero capacity cost¹, which the ISO may also extend for the 2012 contract year. Later, if Management determines that more resources, not identified on *Attachment 1*, are needed for reliability must-run service, we will seek further Board approval to enter into additional reliability must-run contracts to ensure all local capacity requirements are met.

Under long-established provisions of the existing *pro forma* reliability must-run contract, each October 1, the ISO must notify a reliability must-run unit owner that the ISO wishes to extend the existing contract from January 1 through December 31 of the following year. If the contract is not extended by this date, the reliability must-run 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 contract expiration; or
- The unit is selected through a competitive process in which the unit owner participated.

Because the California Public Utilities Commission aims to coordinate and reduce the number of ISO reliability must-run designations, it requires by September 16, 2011, its jurisdictional load serving entities to provide a *preliminary resource adequacy* showing to the ISO for any contract with the Oakland power plant potentially avoiding an unnecessary reliability must-run designation. These showings are preliminary because the CPUC jurisdictional load serving entities have until October 31 to submit their final year-ahead resource adequacy showings. These final showings must demonstrate compliance with all CPUC imposed year-ahead procurement targets (100% local capacity area resources and 90% of the load serving entities demand forecast and reserve margin for the months May through September).

CONCLUSION

Due to the timing required for renewal of the reliability must-run contracts, Management requests Board authorization to extend the term of the contracts for an additional year and to delegate to Management the discretion to do so based on review of the preliminary resource adequacy showings. Management will brief the Board as to the results of reliability must-run contract extension at the October Board meeting.

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

Attachment 1: 2012 Reliability Must-Run, Black Start and Dual Fuel Contract Status

RMR Units Extension Status				
Any Extended RMR Contracts will be effective January 1, 2012 thru December 31, 2012				
Any Released RMR Contracts will terminated effective Midnight on December 31, 2011				
Owner	RMR Contract	Unit	MW ²	Status
Dynergy Oakland, LLC	Oakland	Oakland, Unit 1	55	TBD
		Oakland, Unit 2	55	
		Oakland, Unit 3	55	
Black Start Units Extension Status				
Any Extended Black Start Contracts will be effective January 1, 2012 thru December 31, 2012				
Any Released Black Start Contracts will be terminated effective Midnight on December 31, 2011				
Owner	Contract	Unit	MW ³	Status
Pacific Gas and Electric Company	Humboldt Bay Station	Humboldt Bay, Unit 3	48.8	TBD
	Kings River WS	Kings River Watershed II Units	298.6	TBD
	San Joaquin WS	San Joaquin Watershed Units	140.0	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 Units Extension Status				
Any Extended Dual Fuel Contracts will be effective January 1, 2012 thru December 31, 2012				
Any Released Dual Fuel Contracts will be terminated effective Midnight on December 31, 2011				
Owner	Contract	Unit	MW	Status
Pacific Gas and Electric Company	Humboldt Bay	Humboldt Bay, Unit 1	48.8	TBD
		Humboldt Bay, Unit 2	48.8	
		Humboldt Bay, Unit 3	65.1	

² Capacity values shown indicate the summer maximum net dependable capacity values for the combustion turbines.

³ Capacity values shown indicate the summer maximum net dependable capacity values for the combustion turbines with both summer and winter maximum net dependable capacity values specified in the Cabrillo I and Cabrillo II contracts.