

Memorandum

To: ISO Board of Governors

From: Keith Casey, Vice President of Market & Infrastructure Development

Date: September 5, 2013

Re: Decision on conditional approval to extend existing reliability must-run contracts for 2014

This memorandum requires Board action.

EXECUTIVE SUMMARY

Although total capacity and the number of resources under reliability must-run contracts with the California Independent System Operator Corporation has been significantly reduced since the implementation of the state's resource adequacy program and the addition of new grid facilities, reliability must-run contracts remain an important back stop instrument to ensure reliability when other alternatives are not viable. This year, the ISO requests that the Board of Governors grant Management the authority to extend, through calendar year 2014, the reliability must-run contracts for the Dynegy Oakland, LLC generating units as well as AES Huntington Beach, LLC synchronous condensers listed in *Attachment 1*.

Management will exercise this authority to extend a reliability must-run contract or designate a resource as needed for reliability must-run service under any of the following conditions.

- A load serving entity does not purchase the capacity needed to satisfy local reliability criteria in the ISO 2014 *Local Capacity Technical Analysis* through a resource adequacy contract;
- A load serving entity does purchase the capacity under a resource adequacy contract, but Management needs a reliability must-run contract to:
 1. Obtain from the unit a reliability service, such as voltage support, 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.

- A resource is otherwise needed to meet local reliability service including voltage support, black start or dual fuel capability and is not under a resource adequacy 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 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 September 5, 2013.

DISCUSSION AND ANALYSIS

Management requests authority to extend the existing reliability must-run contracts (up to 165 MW of capacity) listed in *Attachment 1*. If it determines additional resources are needed for reliability must-run service, Management will seek further Board approval to enter into additional reliability must-run contracts to ensure all local capacity and reliability requirements are met. For the Board's further information, the attachment also identifies resources that currently have black start (1463 MW of capacity) and dual fuel (163 MW of capacity) agreements at zero capacity cost¹, which the ISO may also extend for the 2014 contract year.

Under long-established provisions of the existing *pro forma* reliability must-run contract, by October 1 of any year, 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.

The California Public Utilities Commission requires its jurisdictional load serving entities to provide a *preliminary resource adequacy* showing to the ISO by September 17, 2013. This information will allow the ISO to potentially avoid an unnecessary extension of reliability must-run contract. 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

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

resources and 90% of the load serving entities demand forecast and reserve margin for the months May through September).

Consistent with longstanding practice 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 November Board meeting.

Attachment 1: 2014 Reliability Must-Run, Black Start and Dual Fuel Contract Status

RMR Units Extension Status				
<i>Any Extended RMR Contracts will be effective January 1, 2014 thru December 31, 2014</i>				
<i>Any Released RMR Contracts will be terminated effective Midnight on December 31, 2013</i>				
Owner	RMR Contract	Unit	MW²	Status
AES Huntington Beach, LLC	Huntington Beach	Huntington Beach, Unit 3	0	TBD
		Huntington Beach, Unit 4	0	
Dynergy Oakland, LLC	Oakland	Oakland, Unit 1	55	TBD
		Oakland, Unit 2	55	
		Oakland, Unit 3	55	
Black Start Units Extension Status				
<i>Any Extended Black Start Contracts will be effective January 1, 2014 thru December 31, 2014</i>				
<i>Any Released Black Start Contracts will be terminated effective Midnight on December 31, 2013</i>				
Owner	Contract	Unit	MW	Status
Pacific Gas and Electric Company		Pit River Watershed Units	249.1	TBD
		Kings River Watershed II Units	250.6	TBD
		Feather River Watershed Units	180	TBD
Southern California Edison		Big Creek Physical Scheduling Plant	354	TBD
		McGrath Peaker	47	
		Barre Peaker	47	
		Center Peaker	47	
		Grapeland Peaker	46	
San Diego Gas & Electric		Miramar Energy Facility Unit 1	47.6	TBD
		Miramar Energy Facility Unit 2	48.6	TBD
Orange Grove Energy, L.P.		Orange Grove Unit 1	49.85	TBD
		Orange Grove Unit 2	49.85	TBD
Dual Fuel Agreement Units Extension Status				
<i>Any Extended Dual Fuel Contracts will be effective January 1, 2014 thru December 31, 2014</i>				
<i>Any Released Dual Fuel Contracts will be terminated effective Midnight on December 31, 2013</i>				
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.