

ALSTON & BIRD LLP

The Atlantic Building
950 F Street, NW
Washington, DC 20004-1404

202-756-3300
Fax: 202-756-3333

Michael E. Ward

Direct Dial: 202-756-3076

Email: michael.ward@alston.com

March 5, 2008

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

**Re: Compliance Filing
California Independent System Operator Corporation, Docket
Nos. ER06-615, ER02-1656, ER07-1257, and EL08-20; and
Independent Energy Producers Association v. California
Independent System Operator Corporation, Docket No. EL05-
146. (Not Consolidated.)**

Dear Secretary Bose:

The California Independent System Operator ("CAISO")¹ hereby submits an original and five copies of the instant filing in compliance with the Commission's "Order on Clarification," 122 FERC ¶ 61,091, issued on February 4, 2008 ("Clarification Order"). ("December 20 Order").

I. Background

On August 26, 2005, the Independent Energy Producers filed a complaint in Docket No. EL05-146 to replace the existing must-offer obligation with a tariff-based procurement mechanism entitled the "Reliability Capacity Services Tariff," *i.e.*, the RCST. Following extensive settlement discussions, on March 31, 2006, the Independent Energy Producers Association ("IEP"), the CAISO, the California Public Utilities Commission, Pacific Gas and Electric Company, San Diego Gas &

¹ Capitalized terms not otherwise defined herein have the meanings set forth in the Master Definitions Supplement, Appendix A to the CAISO Tariff.

Electric Company, and Southern California Edison Company submitted an Offer of Settlement ("RCST Settlement") in order to resolve all issues in that proceeding. Under the RCST Settlement, all provisions of the CAISO Tariff added by the RCST Settlement were to terminate on December 31, 2007.

In a June 2006 Order, the Commission found that "under the current market design, the must-offer obligation does not adequately compensate generators for the reliability services they provide."² It concluded that compensation under the must-offer obligation was not just and reasonable.³ Because it could not resolve all of the issues raised by the proposed RCST Settlement, the Commission directed a paper hearing.⁴

After a paper hearing, in an Order issued on February 13, 2007, the Commission approved the RCST Settlement with minor modifications.⁵ On March 15, 2007, the CAISO submitted a compliance filing containing tariff provisions implementing the RCST Settlement. By its terms, the RCST was to expire on December 31, 2007.⁶ On June 11, 2007, the Commission issued an "Order on Rehearing and Compliance" in which it, *inter alia*, accepted the CAISO's March 1, 2007 compliance filing.

On October 12, 2007, IEP filed a Motion for Reconsideration or Clarification in which it asked the Commission to reconsider its September 25, 2007, Notice of Extension of Time granting the CAISO an extension of time, until January 18, 2008, to comply with a requirement in the Commission's June 25, 2007 MRTU Order that the CAISO work with stakeholders to explore potential opportunities for load serving entities to cure a collective shortfall in local capacity area deficiencies. Instead, IEP requested that the Commission require the CAISO to file its Interim Capacity Procurement Mechanism ("ICPM"), which is intended to be effective on the effective date of MRTU implementation, to be effective January 1, 2008, *i.e.*, prior to implementation of MRTU. To the extent the Commission declined to reconsider its order granting the CAISO an extension, IEP asked the Commission to confirm that the RCST terminates on December 31, 2008, and that generators cannot be required to provide reliability backstop service pursuant to the must-offer obligation without just and reasonable and non-discriminatory compensation."

On October 29, 2007, the CAISO filed an Answer to IEP's motion. The CAISO objected to IEP's request to require the CAISO to file the ICPM with an effective date of January 1, 2008. The CAISO stated that, in the event the CAISO determines that MRTU will be delayed beyond March 31, 2008, the

² *Indep. Energy Producers Ass'n v. Cal. Indep. Sys. Operator Corp.*, 116 FERC ¶ 61,069 at P 35 (2006).

³ *Id.* at P 38.

⁴ *Id.*

⁵ *Indep. Energy Producers Ass'n v. Cal. Indep. Sys. Operator Corp.*, 118 FERC ¶ 61,096 (2007) ("Settlement Order").

⁶ *Id.*

CAISO would notify the Commission of such decision by January 31, 2008, *i.e.*, following a CAISO Board meeting which is scheduled for the end of January. The CAISO also stated that if it was necessary to delay MRTU implementation until after the summer of 2008, it would then be appropriate for the CAISO to commence a stakeholder process to consider development of an alternative backstop capacity program/Must Offer pricing scheme to be effective before the high-demand summer season. Specifically, the CAISO indicated that it would work with stakeholders to develop and file a proposal under Section 205 of the Federal Power Act in time to allow for such amendments to be effective in time for the summer of 2008. The CAISO suggested, however, that if the Commission believed that it was necessary to provide additional compensation to Must Offer generators effective January 1, 2008, it should exercise its rights under Section 206 of the Federal Power Act and extend the daily Must Offer Capacity payment that is currently in effect until implementation of MRTU.

On December 20, 2007, in an Order Instituting a Section 206 Investigation and Denying Motion for Reconsideration and Clarification, the Commission denied IEP's Motion for Reconsideration or Clarification, but initiated a section 206 proceeding⁷ in Docket No. EL08-20-000 to investigate the justness and reasonableness of extending the RCST for a short period of time, until the earlier of the implementation of either MRTU or an alternative backstop capacity procurement mechanism.⁸ The Commission noted that, when the RCST expires on December 31, 2007, the must-offer obligation will continue until the implementation of MRTU. The Commission also noted that it had previously found the must-offer obligation to be unjust and unreasonable without appropriate compensation to generators for the capacity and reliability services they provide. The Commission stated that, having recently found that the RCST compensation mechanism to be just and reasonable through December 31, 2007, it found that parties have not provided sufficient reasons to justify a determination that this mechanism would become unjust and unreasonable on January 1, 2008. Accordingly, the Commission preliminarily concluded that the most efficient solution is simply to extend the RCST for a relatively brief period of time so that all generators are compensated for the reliability and capacity that they provide through compliance with the must-offer obligation.⁹ The Commission extended the termination date of the RCST until the earlier of implementation of MRTU or of an alternative backstop procurement mechanism.¹⁰ The Commission also acknowledged the CAISO's commitment to commence a new stakeholder process to modify MRTU in the event MRTU implementation is delayed beyond the summer of 2008.

⁷ 16 U.S.C. § 824e.

⁸ *Indep. Energy Producers Ass'n v. Cal. Indep. Sys. Operator Corp.*, 121 FERC ¶ 61,281 (2007) (Extension Order).

⁹ *Id.* at P 34.

¹⁰ *Id.* at PP 34-35.

On December 28, 2007, the CAISO filed tariff amendments in compliance with the Commission's December 20, 2007, Order. Simultaneously, the CAISO filed a Motion for Expedited Clarification. The CAISO sought clarification regarding various issues that were not readily addressed by simply extending the effective date of the RCST as the Commission directed the CAISO to do in the December 20 Order. The CAISO noted that certain provisions of the RCST were specific to 2006 and 2007. The CAISO stated that these tariff provisions are not applicable to, or workable for, 2008 designations unless they are modified to incorporate new processes, timelines and criteria that would apply for 2008. Further, the CAISO pointed out that the terms of the designations under these sections are not compatible with an extension only until MRTU or an alternative backstop procurement mechanism, because they would extend beyond the implementation of such programs.

The CAISO requested that the Commission clarify that the CAISO could use the 2008 Local Capacity Technical Study and the provisions of Section 40.7 of Appendix CC of the CAISO Tariff for purposes determining whether Local and Significant Event RCST designations are appropriate in 2008. The CAISO also asked that the Commission clarify that RCST designations will terminate with the earlier of the implementation of MRTU or of an alternative backstop capacity procurement mechanism. In addition, the CAISO sought confirmation that it had properly modified Section 43.3 and 43.4 (relating to System RCST designations) to make them applicable to 2008.

In the Order on Clarification, the Commission provided the clarification that the CAISO requested. First, the Commission found that the CAISO, in amending sections 43.3 and 43.4 of the CAISO Tariff in its December 28 compliance filing, had correctly implemented the RCST Extension Order.¹¹ Because it agreed that it would be inefficient and impractical for the CAISO to rely on stale data, the Commission stated that the CAISO should use the 2008 Local Capacity Technical Study and the compliance provisions of section 40.7 of Appendix CC to determine whether Local and Significant Event RCST designations are appropriate in 2008.¹² The Commission also recognized that tariff provisions regarding use of the 2008 Local Capacity Technical Study needed to be modified to incorporate new processes, timelines, and criteria that would apply for 2008. It therefore directed the CAISO to file complying tariff sheets reflecting the clarification within 30 days of the date of its order.¹³ Lastly, the Commission clarified that the RCST designations will terminate with the earlier of the implementation of MRTU or an alternative backstop capacity procurement mechanism.¹⁴

¹¹ Order on Clarification, 122 FERC ¶ 61,091 at P 9.

¹² *Id.*

¹³ *Id.*

¹⁴ *Id.* at P 10.

II. Tariff Revisions

The attached tariff revisions include the following changes in order to comply with the Clarification Order.

First, the revisions delete Sections 43.2.1, 43.2.1.1, and 43.2.1.2. These sections dealt with determining 2007 Local Resource Adequacy Requirements. Because, under the Order on Clarification, Local Resource Adequacy Requirements are to be made under the procedures of Section 40.7 of Appendix CC of the CAISO Tariff, these sections are surplusage and could be confusing.

Section 43.2.1.3, formerly "2007 Local RCST Designations for Deficiencies," is revised to be applicable to 2008. The provisions required that the designations will occur after (1) consultation with the CPUC and Local Regulatory Authorities, (2) an opportunity to make up for deficiencies, and (3) an evaluation of all Resource Adequacy Plans. The evaluation under Section 40.7 of Appendix CC incorporates these three requirements. The provisions are therefore replaced by a single requirement that the process set forth in Section 40.7 of Appendix CC be completed. Section 43.2.1.3 is also revised to specify that Local RCST Designations will terminate at the earlier of the effectiveness of the MRTU Tariff or of a successor backstop mechanism to the RCST.

Section 43.2.2 addresses selection of Eligible Capacity designated for local reliability. The CASIO has modified the Section to use the term 2008 Local Capacity Area rather than 2007 Local Area to update the term for 2008 and to reflect the proper term used in the 2008 Local Capacity Technical Study, *i.e.*, Local Capacity Area.

Section 43.3.1 addresses annual System RCST designations. The CAISO has revised the Section to specify that the CAISO is authorized to make annual System RSCT designations after review of the 2008 annual Resource Adequacy Plans submitted under Section 42.1 and under Sections 42.2.1.1, 40.2.2.4, 40.2.3.4, and 40.2.4 of Appendix C. Section 42.1, which remains in effect until it is superseded by MRTU provisions, specifies that Scheduling Coordinators for Load Serving Entities that are subject to Resource Adequacy requirements must submit annual Resource Adequacy Plans that "identify the Resource Adequacy Resources that will be relied upon to satisfy the Planning Reserve Margin under Section 40.4, or portion thereof as established by the CPUC or applicable Local Regulatory Authority." It is included in Section 43.3.1 because an identification of resources to meet annual Reserve Margin requirements is not a mandatory part of the annual Resource Adequacy Plans submitted under the Appendix CC provisions. The CAISO has also modified this section to provide that any designation under this section cannot extend beyond the midnight on the earlier of the day before the MRTU Tariff goes into effect or the day preceding the effective date of any successor backstop capacity procurement mechanism to the RCST.

Section 43.3.2 addresses monthly System RCST designations. The CAISO has revised this section to specify that the review of monthly Resource Adequacy Plans for the purpose of monthly System RCST designations occurs following the review under Section 40.7. This requirement is inherent in the definition of "Month-Ahead System Resource Deficiency," but is included here to provide clarity about the sequence of events.

Section 43.4 provides for RCST designations for Significant Events. Formerly, the Section authorized a Significant Event designation if the designation was to remedy a resulting difference in ISO Controlled Grid Operations relative to the assumptions reflected in the LARN Report for 2006 or, for 2007, the assumptions underlying the CPUC's and, if applicable, a Local Regulatory Authority's development of Local Resource Adequacy requirements. The revision eliminates the reference to 2007 as superfluous and, in accordance with the Clarification Order, provides that 2008 Significant Event Designations are permissible if the Significant Event results in a material difference in CAISO Grid Operations relative to the assumptions in the 2008 Local Capacity Technical Analysis. The amendment also preserves the 2006 criterion because the CAISO intends to make a designation for 2006 consistent with the Commission's December 20, 2007, Order on Rehearing and Clarification.¹⁵

Section 43.5.2 addresses a Generating Unit's ability to substitute capacity under certain circumstances. It is amended to replace the 2006 and 2007 terms – Local Reliability Area and 2007 Local Reliability Area – with the analogous currently defined term from Appendix CC, "Local Capacity Area."

Section 43.6 addresses the CAISO's obligations to publish monthly reports regarding RCST designations. It too is amended to replace the 2006 and 2007 terms – Local Reliability Area and 2007 Local Reliability Area – with the analogous currently defined term from Appendix CC, "Local Capacity Area."

Section 43.8 provides the allocation of RCST costs. Paragraph (3) previously allocated the costs of 2007 Local RCST Designations based on the ratio of a Scheduling Coordinator's Local Resource Adequacy Requirement Deficiency to the aggregate Local Resource Adequacy Requirement Deficiency

¹⁵ *Indep. Energy Producers Ass'n v. Cal. Indep. Sys. Operator Corp.*, 121 FERC ¶ 61,276 at P 44 (2007) ("RCST Rehearing Order"). In its RCST Summary Report posted on July 19, 2007, the CAISO indicated that it would designate Pittsburg 7 as an RCST resource for the period June 1 – August 31, 2006. However, the CAISO noted that it would not actually make the RCST designation or payment to Pittsburg 7 until the Commission acted on rehearing and clarified the scope and effectiveness of the designation provisions of the RCST Settlement. In its RCST Rehearing Order, the Commission ruled that the designation provisions of the RCST Settlement became effective June 1, 2006. Accordingly, the CAISO intends to designate and make payment to Pittsburg 7 as an RCST resource consistent with the RCST Summary Report.

in the 2007 Local Reliability Area. Section 40.7 of Appendix C, which the Commission directed the CAISO to use for evaluating Resource Adequacy Plans, evaluates the adequacy of Local Capacity Area Resources against allocated responsibility under Section 40.3.2 of Appendix CC. Section 40.3.2 of Appendix CC, however, allocates responsibility based on overall deficiencies in the TAC Area, not the Local Capacity Resource Area. Accordingly, Paragraph (3) is revised to allocate the costs of any 2008 Local RCST Designations based on the ratio of a Scheduling Coordinators Local Resource Adequacy Requirement Deficiency to the sum of Local Resource Adequacy Requirement Deficiency in the TAC Area. The CAISO has also revised this Section to use the term 2008 Local Capacity Area which, as discussed above, is the appropriate term for 2008.

The CAISO has retained Section 43.8 (4) which contains the allocation methodology for Significant Event RCST designations for 2006. As indicated above, the CAISO will make a Significant Event designation dating back to 2006.

Paragraph (5) of Section 43.8 has already been revised to address allocation of costs for Significant Event designations for 2008; the filing deletes superfluous references to 2007. Like other sections, Section 43.8 is amended to replace the 2006 and 2007 terms – Local Reliability Area and 2007 Local Reliability Area – with the analogous currently defined term from Appendix CC, “Local Capacity Area.”

The filing also makes a number of revisions to Appendix A of the CAISO Tariff – Definitions. It deletes the definitions of Local Resource Adequacy Demonstration and Local Resource Adequacy Requirement. These terms are not used in the evaluation of Resource Adequacy Plans under Section 40.7.

The definition of Local Resource Adequacy Requirement Deficiency is updated to refer to the evaluation process under Section 40.7. In order to reflect the bases on which the Section 40.7 evaluation is made, Local Resource Adequacy Requirement Deficiency is defined as the difference in megawatts between a Scheduling Coordinator’s allocated responsibility for Local Capacity Areas Resources and the Net Qualifying Capacity of such resources that are identified in the Scheduling Coordinator’s Annual Resource Adequacy Plan.

The definitions of Month-Ahead System Resource Deficiency and Year-Ahead System Resource Deficiency are revised to state that these deficiencies are determined under Section 40.7 of Appendix CC, as directed by the Commission, rather than by the CPUC and applicable Local Regulatory Authorities.

The definition of Significant Event is revised to provide that, for 2008, Significant Events will be determined relative to the CAISO’s 2008 Local Capacity Technical Study, as directed by the Commission. The 2006 definition is

retained because the CAISO is making a Significant Event Designation for an event that occurred in 2006.

Schedule 6 of Appendix F of the CAISO sets forth, *inter alia*, the calculation of the Monthly Peak Energy Rent for the purposes of RCST compensation. It provides that variable operations and maintenance costs shall be based on the Energy Information Administration AEO Electricity Market Module Assumptions. Previously Schedule 6 provided that the current assumption was \$3.16/MWh. The compliance filing updates that figure to \$3.36/MWh.

The filing also makes necessary revisions to Appendix CC of the CAISO Tariff. Section 40.7 of Appendix CC provides the process for the CAISO's evaluation of Resource Adequacy Plans. The Commission authorized its use for the evaluation of the need for 2008 RCST designations. Two minor changes are required for this purpose. Section 40.7 of Appendix CC currently refers to annual and monthly Resource Adequacy Plans submitted under "this appendix." As noted above, sections 40.2.1.1, 40.2.2.4, 40.2.3.4 and 40.2.4 of Appendix CC, which address annual Resource Adequacy plans, do not require a demonstration of sufficient capacity to meet Demand and Reserve requirements. Section 40.7 is therefore amended to provide that for 2008 the CAISO will take into account plans submitted under Section 40.2.1 of the CAISO Tariff (the predecessor section, which remains in effect). Section 40.2.1 includes a requirement for a demonstration regarding annual Resource Adequacy requirements. In addition, monthly Resource Adequacy Plans meeting the requirements of Sections 40.2.2.4, 40.2.3.4 of Appendix CC are not mandated until 30 days after the CAISO certifies the readiness of MRTU. Those sections provide that, until that time, "monthly Resource Adequacy Plans must continue to be submitted in accordance with Section 40.2.2 of the ISO Tariff." To clarify that the review under Section 40.7 of Appendix CC will include such pre-MRTU reports, Section 40.7 is amended to specify that, for 2008, the term "monthly Resource Adequacy Plan[s] . . . submitted under this Appendix" includes plans submitted under Section 40.2.2.

Finally, the filing adds definitions of Local Capacity Area and Local Capacity Area Resource to Part B of Appendix CC. As the Commission is aware, Appendix CC comprises certain provisions of the CAISO's MRTU Tariff that are related to Resource Adequacy and that were made effective December 17, 2007. They are included in Appendix CC of the current CAISO Tariff because the annual cycle for resource adequacy under MRTU starts at the beginning of the year. Absent the information and evaluations required by these provisions, the CAISO would not be able to implement the Resource Adequacy requirements of the MRTU Tariff on a mid-year MRTU effective date. When the CAISO filed Appendix CC, however, it inadvertently omitted the definitions of Local Capacity Area and Local Capacity Area Resource. These terms are used

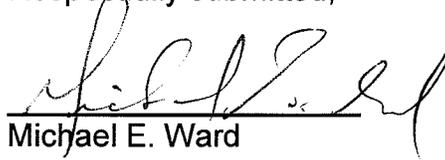
The Honorable Kimberly D. Bose
March 4, 2008
Page 9

in Section 40.7. Inasmuch as the Commission directed the use of Section 40.7 for the evaluation of RCST needs, it is necessary to include these definitions.

III. Materials Provided in the Instant Compliance Filing

In addition to this transmittal letter, the instant compliance filing includes Attachments A and B. Attachment A contains clean CAISO Tariff sheets reflecting the modifications to the CAISO Tariff described in Section II, above. Attachment B shows these modifications in blackline format.

Respectfully submitted,



Michael E. Ward

Anthony J. Ivancovich
Assistant General Counsel - Regulatory
The California Independent System
Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630
Tel: (916) 351-4400
Fax: (916) 351-4436

Sean A. Atkins
Michael E. Ward
Alston & Bird LLP
The Atlantic Building
950 F Street, N.W.
Washington, DC 20004-1404
Tel: (202) 756-3300
Fax: (202) 756-3333

Counsel for the California Independent
System Operator Corporation

Attachment A – Clean Sheets
RCST Extension Compliance Filing
Currently Effective Tariff
March 5, 2008

43.2.1 [NOT USED]

43.2.1.1 [NOT USED]

43.2.1.2 [NOT USED]

43.2.1.3 2008 Local RCST Designations for Deficiencies

Following the ISO's identification of any Local Resource Adequacy Requirement Deficiency, the ISO may designate Eligible Capacity to provide services under the RCST consistent with the criteria set forth in Section 43.2.2. The ISO may designate Eligible Capacity to provide service under this Section 43.2.1 to the extent necessary to satisfy any remaining Local Resource Adequacy Deficiency only after: (i) RMR Units have been designated in the local area reliability study process for 2008, and (ii) completion of the evaluation process set forth in Section 40.7 of Appendix CC. Designations

of Eligible Capacity to provide services under the RCST made pursuant to this section shall have a term that commences upon the day after the ISO provides notice to the Generator providing the Eligible Capacity, and expires at midnight on the earlier of the day before the MRTU Tariff goes into effect or the day preceding the effective date of any successor backstop capacity procurement mechanism to the RCST.

43.2.2 Selection of Eligible Capacity Designated for Local Reliability

The ISO will make designations of Eligible Capacity under Section 43.2 based on the lowest overall cost for each 2008 Local Capacity Area considering the following factors: the effectiveness of the Eligible Capacity, the quantity of Eligible Capacity of the resource relative to the remaining amount of capacity that is needed; and the Start-Up and Minimum Load Costs associated with the Eligible Capacity. The ISO shall have reasonable allowance to designate under the RCST an amount of Eligible Capacity from a Generating Unit that is slightly more or slightly less than a deficiency due to the quantity of Eligible Capacity from such Generating Unit that is available and suitable to meet the deficiency, consistent with the criteria in this section.

43.3 System RCST Designations

The ISO may designate Eligible Capacity for calendar year 2008 to the extent provided in this Section 43.3.

43.3.1 Annual System Reliability Capacity Services Designations

Following the ISO's review under Section 40.7 of Appendix CC of the annual 2008 Resource Adequacy Plans submitted pursuant to Section 40.2.1 of the ISO Tariff and Sections 40.2.1.1, 40.2.2.4, 40.2.3.4, or 40.2.4 of Appendix CC, and its review of any 2008 designation of Eligible Capacity pursuant to Section 43.2.1, the ISO may designate Eligible Capacity or System Resources to provide services under the RCST under this Section 43.3 to the extent necessary to cover the aggregate Year-Ahead System Resource Deficiency consistent with the criteria set forth in Section 43.3.3.

A designation of Eligible Capacity or System Resources to provide services under the RCST made pursuant to this Section 43.3.1 shall be for a minimum term of three months, provided that, at the discretion of the ISO, the designation term may be extended up to a maximum term of the five summer months of May through September, and provided further, that in no event shall the term of any RCST designation under this section extend beyond midnight on the earlier of the day before the MRTU Tariff goes into effect or the day preceding the effective date of any successor backstop capacity procurement mechanism to the RCST.

43.3.2 Monthly System Reliability Capacity Services Designations

Following its review under Section 40.7 of Appendix CC of the monthly Resource Adequacy Plans submitted by Scheduling Coordinators pursuant to Section 40.2.2, the ISO may designate Eligible Capacity or System Resources to provide services under the RCST under this Section 43.3 to the extent necessary to cover the aggregate Month-Ahead System Resource Deficiency consistent with the criteria set forth in Section 43.3.3.

Designations of Eligible Capacity or System Resources to provide services under the RCST made pursuant to this Section 43.3.2 shall be for the lesser of three months, the remainder of the calendar year or the period of time until the MRTU Tariff becomes effective or the period of time until a successor backstop capacity procurement mechanism to the RCST becomes effective.

43.3.3 Selection of Eligible Capacity Designated for System Reliability

The ISO will make designations of Eligible Capacity or System Resources under this Section 43.3 based on the following factors: the effectiveness of the Eligible Capacity in addressing local and/or zonal constraints in addition to meeting system needs; the quantity of Eligible Capacity of the resource; the Start-Up and Minimum Load Costs associated with the Eligible Capacity; and the effectiveness of the Eligible Capacity at reducing the Minimum Load Costs that might otherwise be incurred as a result of must-offer waiver denials. System Resources shall be subject to the ISO's established import limits as specified in accordance with Section 40.5.2.2. The ISO shall have reasonable allowance to designate under the RCST an amount of Eligible Capacity from a Generating Unit or System Resource that is slightly more or slightly less than a deficiency due to the quantity of Eligible Capacity from such Generating Unit or System Resource that is available and suitable to meet the deficiency, consistent with the criteria in this section.

43.4 RCST Designations For Significant Events

The ISO may designate Eligible Capacity or System Resources to provide service under this Section 43.4 following a Significant Event, and taking into account the expected duration of the Significant Event, if such an RCST designation is necessary to remedy any resulting material difference in ISO Controlled Grid operations for 2008 relative to the assumptions reflected in the 2008 Local Capacity Technical Analysis or, for 2006, relative to the assumptions reflected in the LARN Report for 2006. An RCST designation due to a Significant Event shall have a minimum term of three months and a maximum term up to the period of time which the ISO determines the Significant Event will remain in effect, provided that in no event shall the term of such RCST designation extend beyond midnight on the earlier of the day before the MRTU Tariff goes into effect or the day preceding the effective date of any successor backstop capacity procurement mechanism to the RCST. Any RCST designations under this section shall be in accordance with the criteria set forth in Section 43.3.3.

43.5 Obligations of a Resource Designated under the RCST

43.5.1 Must-Offer Obligations

Generating Units designated under the RCST shall be subject to all of the availability, must-offer, dispatch, testing, reporting, and verification obligations applicable to Resource Adequacy Resources identified in Resource Adequacy Plans under Section 40.6A of the ISO Tariff. Generating Units designated under the RCST must offer available capacity into the Ancillary Services markets to the extent capable.

43.5.2 Replacement Option

If a Generating Unit designated under the RCST is unavailable when issued a must-offer waiver denial by the ISO pursuant to Section 40.7.6 of the ISO Tariff, the Scheduling Coordinator for the resource may, within 2 hours for a must-offer waiver denial issued prior to the Hour-Ahead market and within 30 minutes for a must-offer waiver denial issued in Real-Time, substitute capacity from such Generating Unit with Eligible Capacity that: (i) is located at the same bus, or (ii) if not located at the same bus, is located in the same Local Capacity Area, and which meets the ISO's effectiveness and operational needs, including size of resource, as determined by the ISO in its reasonable discretion. If the Scheduling Coordinator substitutes such Eligible Capacity, the Scheduling Coordinator must pay all additional Minimum Load Costs, Start-Up Costs, Emissions Costs (above the corresponding costs of the Generating Unit that is being substituted), and any bilateral contract costs incurred by the Scheduling Coordinator, as a result of the substitution. The actual Availability of the substitute resource will be used for the purposes of the calculations in Appendix F, Schedule 6.

43.5.3 Termination of Obligations

If a Participating Generator's Eligible Capacity is designated by the CAISO under the terms of the RCST, and the Participating Generator has not filed a notice to withdraw from the Participating Generator Agreement ("PGA"), then the Participating Generator shall be obligated to perform in

accordance with the RCST for the term of the RCST designation. If a Participating Generator's Eligible Capacity is designated under the terms of the RCST after the Participating Generator has filed a notice to withdraw from its PGA, then the Participating Generator shall be obligated to perform in accordance with the RCST until the date that its PGA effectively terminates, but the Participating Generator shall be under no obligation to so perform after the effective date of the PGA termination. If a Participating Generator's Eligible Capacity is designated under the RCST after the Participating Generator has filed notice to withdraw from its PGA, and the Participating Generator agrees to provide service under the RCST, then the Participating Generator will enter into a PGA for the designated generating unit and invoice the ISO for any actual applicable restoration costs as provided in the RMR Service Agreement.

43.6 RCST Report

The ISO shall publish a monthly report on the ISO Website which shall show the resources designated under RCST, the megawatts of each RCST capacity designation, the duration of RCST designations, the reason for the RCST designation, and all payments, excluding costs covered in the Minimum Load Cost Report described in Section 43.11.2 herein, in dollars, itemized for system purposes as well as for each 2008 Local Capacity Area. The ISO will provide a market notice of the availability of this report.

43.7 Payments to Resources Designated Under the RCST

43.7.1 RCST Capacity Payment

Scheduling Coordinators representing resources designated under this Section 43 will receive a RCST Capacity Payment equal to the product of the Net Qualifying Capacity, the relevant Availability Factor as determined in accordance with Appendix F, Schedule 6, and the difference between the monthly RCST charge and 95% of the Peak Energy Rent, *i.e.*, Net Qualifying Capacity x Availability Factor x (Monthly RCST Charge (Monthly Peak Energy Rent x .95)). The ISO shall determine the Availability Factor, Monthly RCST Charge and Monthly Peak Energy Rent in accordance with Appendix F, Schedule 6 of the Tariff. For purposes of this section 43.7.1, the term Net Qualifying Capacity shall mean the Megawatt

RCST designations (for the full term of those RCST designations) pro rata to each SC-RA Entity based on its portion of the aggregate Month-Ahead System Deficiency.

- (3) Local RCST Designations for 2008. If the ISO makes local RCST designations for 2008, then the ISO will allocate the total costs of RCST Capacity Payments for such RCST designations (for the full term of those RCST designations) pro rata to each Scheduling Coordinator for an RA Entity based on the ratio of its Local Resource Adequacy Requirement Deficiency to the sum of the Local Resource Adequacy Requirement Deficiencies within a TAC Area. To the extent there is a Local Resource Adequacy Requirement Deficiency in two or more 2008 Local Capacity Areas that can be satisfied by designating a single unit under the RCST, the ISO shall allocate the total costs of RCST Capacity Payments for such RCST designation (for the full term of the designation) pro rata to each Scheduling Coordinator for an RA Entity that has a Local Resource Adequacy Requirement Deficiency in such 2008 Local Capacity Areas based on the ratio of its Local Resource Adequacy Requirement Deficiency to the aggregate Local Resource Adequacy Requirement Deficiency in those 2008 Local Capacity Areas.
- (4) Significant Event RCST Designations for 2006: If the ISO makes any Significant Event RCST designations under Section 43.4 during 2006, the ISO will allocate the costs of such designations to all SC-RA Entities in the TAC Area(s) in which the Significant Event caused or threatened to cause a failure to meet Applicable Reliability Criteria based on Scheduling Coordinators' RA Entity Load Share Percentage(s) in such TAC Area(s).
- (5) Significant Event Designations for 2008. If the ISO makes any Significant Event RCST designations under Section 43.4 during 2008, the ISO will allocate the costs of such designations to all SC-RA Entities in the TAC Area(s) in which the Significant Event caused or threatened to cause a failure to meet Reliability Criteria based on Scheduling Coordinators' 2008 RA Entity Load Share Percentage(s) in such TAC Area(s).

the control of the ISO.

Local Reliability Criteria

Reliability Criteria established at the ISO Operations Date, unique to the transmission systems of each of the Participating TOs.

Local Resource Adequacy Requirement Deficiency

The difference in MWs, as determined under Section 40.7 of Appendix CC following the opportunity to resolve deficiencies that is provided under Section 40.7 of Appendix CC, between (1) the allocated responsibility for Local Capacity Area Resources under Section 40.3.2 of Appendix CC of a Scheduling Coordinator for an RA Entity and (2) the Net Qualifying Capacity of the Local Capacity Area Resources identified in the annual Resource Adequacy Plan submitted by that Scheduling Coordinator pursuant to Sections 40.2.1.1, 40.2.2.4, 40.2.3.4, or 40.2.4 of Appendix CC.

Location Code

The code assigned by the ISO to Generation input points, and Demand Take-Out Points from the ISO Controlled Grid, and transaction points from trades between Scheduling Coordinators. This will be the information used by the ISO Controlled Grid, and transaction points for trades between Scheduling Coordinators. This will be the information used by the ISO to determine the location of the input, output, and trade points of Energy Schedules. Each Generation input and Demand Take-Out Point will have a designated Location Code identification for use in submitting Energy and Ancillary Service bids and Schedules.

Location Constrained Resource Interconnection Facility (LCRIF)

A High Voltage Transmission Facility that has been determined by the CAISO to satisfy all of the requirements of Section 24.1.3.

<u>Month-Ahead System</u>	The monthly deficiency in meeting the Month-Ahead System
<u>Resource Deficiency</u>	Resource Adequacy Requirements as determined under Section 40.7 of Appendix CC following the opportunity to resolve deficiencies that is provided under Section 40.7 of Appendix CC.
<u>Monthly Peak Load</u>	The maximum hourly Demand on a Participating TO's transmission system for a calendar month, multiplied by the Operating Reserve Multiplier.
<u>Monthly RCST Charge</u>	The monthly charge determined in accordance with Appendix F, Schedule 6.
<u>MRTU Tariff</u>	The ISO Tariff that will implement the ISO's Market Redesign and Technology Upgrade ("MRTU").

reasonable uneconomic portion of costs associated with Generation-related assets and obligations, nuclear decommissioning, and capitalized Energy efficiency investment programs approved prior to August 15, 1996 and as defined in the California Assembly Bill No. 1890 approved by the Governor on September 23, 1996.

Short Start

Generating Units that that have a cycle time less than five hours (Start-Up Time plus Minimum Run Time is less than five hours) have a Start Up Time less than two hours, and that can be fully optimized with respect to this cycle time.

Site Control

Documentation reasonably demonstrating: (1) ownership of, a leasehold interest in, or a right to develop a site for the purpose of constructing the Generating Facility; (2) an option to purchase or acquire a leasehold site for such purpose; or (3) an exclusivity or other business relationship between Interconnection Customer and the entity having the right to sell, lease or grant Interconnection Customer the right to possess or occupy a site for such purpose.

Scheduling and Logging system for the ISO of California (SLIC)

A logging application that allows Market Participants to notify the ISO when a unit's properties change due to physical problems. Users can modify the maximum and minimum output of a unit, as well as the ramping capability of the unit.

Significant Event

For 2006, a "Significant Event" is an event that results in a material difference in ISO Controlled Grid operations relative to what was assumed in developing the LARN Report for 2006 that causes, or threatens to cause, a failure to meet Applicable Reliability Criteria. For 2008, a "Significant Event" is an event that results in a material difference in ISO Controlled Grid operations relative to the 2008 Local Capacity Technical Study that causes, or threatens to cause, a failure to meet Applicable Reliability Criteria.

Small Generating Facility

A Generating Facility that has a Generating Facility Capacity of no more than 20 MW.

<u>Agreement</u>	Agreement dated June 18, 1999 among the WSCC and certain of its Member transmission operators, as such may be amended from time to time.
<u>Year-Ahead System Resource Adequacy Requirements</u>	The amount of Qualifying Capacity that a RA Entity must reflect in its year-ahead Resource Adequacy Plan submitted pursuant to Section 40.2.1 in compliance with Resource Adequacy Rules adopted by the CPUC or a Local Regulatory Authority, as applicable.
<u>Year-Ahead System Resource Deficiency</u>	The monthly deficiency in meeting Year-Ahead System Resource Adequacy Requirements as determined under Section 40.7 of Appendix CC following the opportunity to resolve deficiencies that is provided under Section 40.7 of Appendix CC.
<u>Zone</u>	A portion of the ISO Controlled Grid within which Congestion is expected to be small in magnitude or to occur infrequently. "Zonal" shall be construed accordingly.
<u>Zonal Settlement Interval Ex Post Price</u>	The Zonal Settlement Interval Ex Post Price in a Settlement Interval in each Zone will equal the absolute-value Energy-weighted average of the Dispatch Interval Ex Post Prices in each Zone, where the weights are the system total Instructed Imbalance Energy, except Regulation Energy, for the Dispatch Interval.
<u>2007 Local Reliability Area</u>	An area for which the CPUC or applicable Local Regulatory Authority has established a Local Resource Adequacy Requirement for 2007 for RA Entities subject to their jurisdiction.
<u>2007 RA Entity Load Share Percentage</u>	An RA Entity's proportionate share of load in a TAC Area for purposes of 2007 Significant Event RCST designations. The 2007 RA Entity Load Share Percentage shall be calculated for each RA Entity by dividing the RA Entity's actual coincident peak Load in each TAC Area for 2006 by the total coincident peak Load of all RA Entities in the TAC Area in 2006.

have been dispatched (based on Reference Resource characteristics) to provide either energy or non-spinning reserves and will calculate, on a per kW-Month basis, the total dollar amount of rent (earnings in excess of proxy unit variable costs calculated using Reference Resource unit characteristics) that would have been earned by the Reference Resource. The Reference Resource will be assumed to have been dispatched for energy in any hour in which the hourly energy price described below is greater than the Reference Resource variable cost; the ISO shall use its day ahead Non-spinning Reserve price to calculate the rent for all hours in which the Reference Resource is not assumed dispatched to provide energy (i.e., any hour where the hourly price is less than the Reference Resource variable costs).

Hourly price profiles will be determined using the shaping factors for SP-15 and NP15/ZP-26 that appear below. Hourly energy prices shall be the weighted average of: (1) the applicable zonal on/off peak day-ahead index prices set forth in Platts Megawatt Daily, shaped to hourly profiles using the factors set forth below, and (2) the applicable zonal ISO hourly average real-time energy prices. For 2006, the index/ex post weighting will be 50/50, respectively. For 2007, the index/ex post weighting will be 75/25, respectively.

The assumed heat rate of the Reference Resource will be 10,500 BTU/kWh. Variable operations and maintenance costs shall be based on the Energy Information Administration AEO Electricity Market Module Assumptions, which are currently \$3.36/MWh. An emissions allowance of \$0.71/MWh shall be used to estimate variable costs. Gas prices for the Reference Resource will be based on a daily gas price based on Equation C1-8 (Gas) of the Schedules to the Reliability Must Run Contract for the relevant Service Area (San Diego Gas & Electric Company, Southern California Gas Company or Pacific Gas and Electric Company) or, if the resource is served from one of those three Service Areas then from the nearest of those Service Areas.

NP-15

	Mon-Fri	Mon-Fri	Mon-Fri	Sat	Sat	Sat	Sun	Sun	Sun
	JAN-MAY	JUN-SEPT	OCT-DEC	JAN-MAY	JUN-SEPT	OCT-DEC	JAN-MAY	JUN-SEPT	OCT-DEC
N1	1.05454758	1.00584021	0.99435526	1.43649	1.120844	1.073148	0.755403	0.759704	0.783346
N2	0.85716711	0.86062114	0.91898795	1.032749	1.092377	0.978957	0.600188	0.683139	0.701588
N3	0.75399836	0.79068297	0.92144851	0.758585	0.91744	0.921009	0.458319	0.636187	0.68291
N4	0.71058351	0.79900018	0.89479611	0.680278	0.892744	0.911836	0.444573	0.616409	0.662295
N5	0.78267681	0.8161591	0.94516384	0.630256	0.909543	0.926083	0.362844	0.5641	0.662342
N6	1.02256586	0.86829359	1.10962719	0.623168	0.709153	0.947344	0.293086	0.335463	0.707489
N7	0.75351629	0.46629678	0.84979936	0.459933	0.363102	0.835985	0.324748	0.244038	0.795325
N8	0.88610975	0.66277777	0.86218587	0.741872	0.587123	0.805198	0.576432	0.514076	0.804009
N9	0.93647065	0.72748598	0.87228518	0.967023	0.960062	0.891018	0.923411	0.756354	0.873764
N10	0.98013307	0.83355915	0.99306313	1.050452	0.998448	0.917894	1.087891	0.848836	0.970588
N11	1.05081328	0.91348904	0.97923559	1.079888	0.984474	1.02248	1.303241	0.94756	1.027355
N12	1.068781	0.96178966	0.98802244	1.086984	1.03194	0.961419	1.304385	1.158765	1.097895
N13	1.06644102	1.07695356	0.99576872	1.083005	1.00669	0.992817	1.283414	1.168292	1.059999
N14	1.09775977	1.22226563	1.06440722	1.072448	1.0038	1.04347	1.281892	1.283789	1.110655
N15	1.09364901	1.38229366	1.11766171	1.053707	1.124805	1.05608	1.263359	1.309879	1.150637
N16	1.0841716	1.44680734	1.14665908	1.048562	1.135933	1.056274	1.316946	1.317595	1.140864
N17	1.02358917	1.3710053	1.1033917	1.049893	1.362503	1.087482	1.311524	1.567664	1.232842
N18	0.9788975	1.21057642	0.95748393	1.049616	1.327635	1.081109	1.30229	1.71578	1.406331
N19	0.94570613	1.03868542	1.10717179	1.036387	1.126072	1.09328	1.321985	1.367096	1.419466
N20	0.96174495	0.91022871	1.13578926	1.048527	0.943973	1.193558	1.393578	1.139089	1.494944
N21	1.11577915	0.94038191	1.03355639	1.133815	1.001619	1.076201	1.778309	1.551657	1.39373
N22	0.95643767	0.8354037	0.79351865	1.037886	1.04182	0.885733	1.392837	1.473652	1.062792
N23	1.56132501	1.66415743	1.17445625	1.670367	1.287221	1.205472	1.150247	1.253671	0.972486
N24	1.25713576	1.19524538	1.04116487	1.168106	1.070678	1.036151	0.769097	0.787205	0.786348

40.6.4.2 Use Plan.

The Scheduling Coordinator shall provide for the 2008 Resource Adequacy Compliance Year a proposed annual use plan for each Use-Limited Resource that is a Resource Adequacy Resource. The proposed annual use plan will delineate on a month-by-month basis the total MWhs of Generation, total run hours, expected daily supply capability (if greater than four hours) and the daily Energy limit, operating constraints, and the timeframe for each constraint. The CAISO will have an opportunity to discuss the proposed annual use plan with the Scheduling Coordinator and suggest potential revisions to meet reliability needs of the system. The Scheduling Coordinator shall then submit its final annual use plan. Scheduling Coordinators for Use-Limited Resources must submit the proposed and final annual use plans in accordance with the schedule set forth in the Business Practice Manual. The Scheduling Coordinator will be able to update the projections made in the annual use plan in the monthly Resource Adequacy Plans. Hydroelectric Generating Units and Pumping Load will be able to update use plans intra-monthly as necessary to reflect evolving hydrological and meteorological conditions. The annual use plan must reflect the potential operation of the Use-Limited Resource at a level no less than the minimum criteria set forth by the Local Regulatory Authority for qualification of the resource.

40.7 Compliance.

The CAISO will evaluate whether each annual and monthly Resource Adequacy Plan submitted by a Scheduling Coordinator on behalf of a Load Serving Entity under this appendix (including for 2008 each monthly Resource Adequacy Plan submitted pursuant to Sections 40.2.2 of the CAISO Tariff) demonstrates Resource Adequacy Capacity sufficient to satisfy the Load Serving Entity's (i) allocated responsibility for Local Capacity Area Resources under Section 40.3.2 of this appendix and (ii) applicable Demand and Reserve Margin requirements. In the case of an annual Reserve Margin requirement for 2008, the CAISO will also evaluate the annual Resource Adequacy Plan submitted under Section 40.2.1. If the CAISO determines that a Resource Adequacy Plan does not demonstrate Local Capacity Area Resources sufficient to meet its allocated responsibility under Section 40.3.2 of this appendix, compliance with applicable Demand and Reserve Margin requirements, or compliance with any other resource adequacy requirement in this appendix or adopted by the CPUC, Local Regulatory

Local Capacity Area	Transmission constrained area as defined in the study referenced in Section 40.3.1 of Appendix CC.
Local Capacity Area Resources	Resource Adequacy Capacity from a Generating Unit listed in the technical study or Participating Load that is located within a Local Capacity Area capable of contributing toward the amount of capacity required in a particular Local Capacity Area.
Local Capacity Technical Study	The study performed by the CAISO pursuant to Section 40.3.
Modified Reserve Sharing LSE	A Load Serving Entity whose Scheduling Coordinator has informed the CAISO in accordance with Section 40.1 of its election to be a Modified Reserve Sharing LSE.
Non-CPUC Load Serving Entity	Any entity serving retail Demand in the CAISO Control Area not within the jurisdiction of the CPUC, including (i) a local publicly owned electric utility under section 9604 of the California Public Utilities Code and (ii) any federal entities, including but not limited to federal power marketing authorities, that serve retail Load.
Non-Dynamic Resource-Specific System Resource	A Non-Dynamic System Resource that is a specific generation resource outside the CAISO Control Area.
Pumped-Storage Hydro Unit	A hydroelectric dam with the capability to produce electricity and the ability to pump water between reservoirs at different elevations to store such water for the production of electricity.
Pumping Load	A hydro pumping resource that is capable of responding to Dispatch Instructions by ceasing to pump.
Reserve Margin	The amount of Resource Adequacy Capacity that a Scheduling Coordinator is required to maintain in accordance with Section 40.
Reserve Sharing LSE	A Load Serving Entity whose Scheduling Coordinator has informed the CAISO in accordance with Section 40.1 of its election to be a Reserve Sharing LSE.
Resource Adequacy Compliance Year	A calendar year from January 1 through December 31.
Resource-Specific System Resource	A Dynamic or Non-Dynamic Resource-Specific System Resource.
Use-Limited Resource	A resource that, due to design considerations, environmental restrictions on operations, cyclical requirements, such as the need to recharge or refill, or other non-economic reasons, is unable to operate continuously on a daily basis, but is able to operate for a minimum set of consecutive Trading Hours each Trading Day.

Attachment B – Blacklines
RCST Extension Compliance Filing
Currently Effective Tariff
March 5, 2008

* * *

43.2 Local RCST Designations

* * *

43.2.1 [NOT USED]2007 Local RCST Designations

~~43.2.1.1 For 2007, the CPUC and Local Regulatory Authorities may establish Local Resource Adequacy Requirements for the RA Entities subject to their respective jurisdictions. Each Scheduling Coordinator for an RA Entity for which a Local Regulatory Authority has elected to adopt a Local Resource Adequacy Requirement shall, within five (5) Business Days after FERC has issued an order approving the amendment to the ISO Tariff submitted on December 15, 2006, inform the ISO in writing of the adoption of the Local Resource Adequacy Requirement and shall state in writing what the Local Resource Adequacy Requirement is; however if the information has already been provided to the ISO it does not have to be provided again to the ISO. In addition, the State Water Resources Development System, commonly known as the State Water Project of the California Department of Water Resources, shall be required to develop, in conjunction with the ISO, a program that ensures that it will not unduly rely on the local resource procurement practices of other Load Serving Entities. Scheduling Coordinators for RA Entities, in accordance with any requirements of the CPUC or Local Regulatory Authorities, as applicable, shall submit to the ISO a Local Resource Adequacy Demonstration listing the Qualifying Capacity that they will make available to the ISO for purposes of satisfying any Local Resource Adequacy Requirement applicable to them in 2007. Such Qualifying Capacity must be made available to the ISO in accordance with Section 40.6A.~~

43.2.1.1 [NOT USED]2007 Local Resource Adequacy Demonstrations

~~All Scheduling Coordinators for RA Entities that are subject to a Local Resource Adequacy Requirement shall submit their Local Resource Adequacy Demonstrations to the ISO pursuant to this Section 43.2.1 within five (5) Business Days after FERC has issued an order approving the amendment to the ISO Tariff submitted on December 15, 2006, unless the RA Entity, through its Scheduling Coordinator or its Local Regulatory Authority, has previously identified the Qualifying Capacity that the RA Entity will make~~

available to the ISO for purposes of satisfying any Local Resource Adequacy Requirement applicable to them in 2007 in an Annual Resource Adequacy Plan submitted pursuant to Section 40.2.1.

43.2.1.2 [NOT USED]2007 Local Resource Adequacy Demonstration Evaluations

The ISO shall compare the submitted Local Resource Adequacy Demonstrations and Annual Resource Adequacy Plans submitted pursuant to Section 40.2.1 with any applicable Local Resource Adequacy Requirement to determine whether there is any Local Resource Adequacy Requirement Deficiency in any 2007 Local Reliability Area. Within fifteen (15) Business Days after FERC has issued an order approving the amendment to the ISO Tariff submitted on December 15, 2006, or sooner to the extent that the ISO has already received the information it requires with regard to a particular 2007 Local Reliability Area, and to the extent that a particular 2007 Local Reliability Area requirement has not been met, the ISO will issue to the Scheduling Coordinator for each RA Entity that the ISO identifies as deficient in meeting its Local Resource Adequacy Requirements, and to the applicable regulatory authority for such deficient RA Entity, the ISO's evaluation of the Local Resource Adequacy Demonstrations of such deficient RA Entity. The ISO's evaluation shall detail (1) the reasons why the ISO does not believe that the Local Resource Adequacy Demonstration and/or Annual Resource Adequacy Plan of such RA Entity satisfies a Local Resource Adequacy Requirement in any 2007 Local Reliability Area for such RA Entity, and (2) the amount of any aggregate Local Resource Adequacy Requirement Deficiency in a Local 2007 Local Reliability Area in which the deficient RA Entity has a Local Resource Adequacy Requirement. Within five (5) Business Days of issuance of the ISO's evaluation, a Scheduling Coordinator shall notify the ISO whether it wishes to discuss with the ISO the ISO's assessment that a particular RA Entity for which it is the Scheduling Coordinator is deficient in meeting its Local Resource Adequacy Requirements. If the Scheduling Coordinator provides such notification, within (5) business days of the notification, the Scheduling Coordinator shall meet with the ISO and the RA Entity's applicable regulatory authority, if the regulatory authority so desires, to discuss the issue of whether a deficiency exists. Following such meeting, the ISO shall indicate whether or not there is a Local Resource Adequacy Requirement Deficiency for the RA Entity. Each Scheduling Coordinator for an RA Entity who has been notified of a deficiency by the ISO shall inform the ISO in writing within five (5) Business Days of the issuance of the ISO's evaluation, or within five (5) Business Days after the meeting to discuss the ISO's evaluation,

~~whichever is applicable, whether the RA Entity intends to take steps to make up such deficiency, pursuant to any CPUC-established or Local Regulatory Authority-established opportunity to make up the deficiency, and the timing and nature of those steps. To the extent an RA Entity makes up such deficiency within the time allowed by the CPUC or Local Regulatory Authority, as appropriate, the Scheduling Coordinator for the RA Entity shall provide to the ISO information demonstrating that the deficiency has been made up.~~

43.2.1.3 20087 Local RCST Designations for Deficiencies

~~Following the ISO's identification of any Local Resource Adequacy Requirement Deficiency, and after the time for any consultation with the ISO and the CPUC-established or Local Regulatory Authority-established opportunity to make up such deficiency, the ISO may designate Eligible Capacity to provide services under the RCST consistent with the criteria set forth in Section 43.2.2. The ISO may designate Eligible Capacity to provide service under this Section 43.2.1 to the extent necessary to satisfy any remaining Local Resource Adequacy Deficiency only after: (i) RMR Units have been designated in the local area reliability study process for 20087, and (ii) completion of the evaluation process set forth in Section 40.7 of Appendix CC~~the ISO has completed its evaluation of all Resource Adequacy Plans for 2007 and taken into account the effect of the resources identified in such plans (whether or not any of these resources are located in a 2007 Local Reliability Area). Designations of Eligible Capacity to provide services under the RCST made pursuant to this section shall have a term that commences upon the day after the ISO provides notice to the Generator providing the Eligible Capacity on January 1, 2007, and expires at midnight on the earlier of the day before the MRTU Tariff goes into effect or the day preceding the effective date of any successor backstop capacity procurement mechanism to the RCST midnight, December 31, 2007, or midnight on the day preceding the implementation of the MRTU Tariff.~~~~

43.2.2 Selection of Eligible Capacity Designated for Local Reliability

The ISO will make designations of Eligible Capacity under Section 43.2 based on the lowest overall cost for each ~~20087~~ Local Reliability Capacity Area considering the following factors: the effectiveness of the Eligible Capacity, the quantity of Eligible Capacity of the resource relative to the remaining amount of capacity that is needed; and the Start-Up and Minimum Load Costs associated with the Eligible Capacity. The ISO shall have reasonable allowance to designate under the RCST an amount of Eligible Capacity

from a Generating Unit that is slightly more or slightly less than a deficiency due to the quantity of Eligible Capacity from such Generating Unit that is available and suitable to meet the deficiency, consistent with the criteria in this section.

43.3 System RCST Designations

The ISO may designate Eligible Capacity for calendar years ~~2006, 2007 and~~ 2008 to the extent provided in this Section 43.3.

43.3.1 Annual System Reliability Capacity Services Designations

~~No sooner than May 17, 2006, and f~~Following the ISO's review under Section 40.7 of Appendix CC of the annual 2008 Resource Adequacy Plans submitted pursuant to Section 40.2.1 of the ISO Tariff and Sections 40.2.1.1, 40.2.2.4, 40.2.3.4, or 40.2.4 of Appendix CC, and its review of, for 2007 and 2008, any 2008 designation of Eligible Capacity pursuant to Section 43.2.1, the ISO may designate Eligible Capacity or System Resources to provide services under the RCST under this Section 43.3 to the extent necessary to cover the aggregate Year-Ahead System Resource Deficiency consistent with the criteria set forth in Section 43.3.3.

A designation of Eligible Capacity or System Resources to provide services under the RCST made pursuant to this Section 43.3.1 shall be for a minimum term of three months, provided that, at the discretion of the ISO, ~~the designation term during 2006 may be extended to a maximum of the four summer months of June through September and, for 2007, the designation term during 2007 may be extended up to a maximum term of the five summer months of May through September, and provided further, that in no event shall the term of any RCST designation under this section extend beyond midnight on the earlier of the day before the MRTU Tariff goes into effect or the day preceding the effective date of any successor backstop capacity procurement mechanism to the RCST.~~

43.3.2 Monthly System Reliability Capacity Services Designations

Following its review under Section 40.7 of Appendix CC of the monthly Resource Adequacy Plans submitted by Scheduling Coordinators pursuant to Section 40.2.2, the ISO may designate Eligible Capacity or System Resources to provide services under the RCST under this Section 43.3 to the extent

necessary to cover the aggregate Month-Ahead System Resource Deficiency consistent with the criteria set forth in Section 43.3.3.

Designations of Eligible Capacity or System Resources to provide services under the RCST made pursuant to this Section 43.3.2 shall be for the lesser of three months, the remainder of the calendar year or the period of time until the MRTU Tariff becomes effective or the period of time until a successor backstop capacity procurement mechanism to the RCST becomes effective.

* * *

43.4 RCST Designations For Significant Events

The ISO may designate Eligible Capacity or System Resources to provide service under this Section 43.4 following a Significant Event, and taking into account the expected duration of the Significant Event, if such an RCST designation is necessary to remedy any resulting material difference in ISO Controlled Grid operations for 2008 relative to the assumptions reflected in the 2008 Local Capacity Technical Analysis or, for 2006, relative to the assumptions reflected in the LARN Report for 2006 ~~or relative to the assumptions underlying the CPUC's and, if applicable, a Local Regulatory Authority's development of Local Resource Adequacy Requirements for 2007.~~ An RCST designation due to a Significant Event shall have a minimum term of three months and a maximum term up to the period of time which the ISO determines the Significant Event will remain in effect, provided that in no event shall the term of such RCST designation extend beyond midnight on the earlier of the day before the MRTU Tariff goes into effect or the day preceding the effective date of any successor backstop capacity procurement mechanism to the RCST. Any RCST designations under this section shall be in accordance with the criteria set forth in Section 43.3.3.

43.5 Obligations of a Resource Designated under the RCST

* * *

43.5.2 Replacement Option

If a Generating Unit designated under the RCST is unavailable when issued a must-offer waiver denial by the ISO pursuant to Section 40.7.6 of the ISO Tariff, the Scheduling Coordinator for the resource may, within 2 hours for a must-offer waiver denial issued prior to the Hour-Ahead market and within 30 minutes for a must-offer waiver denial issued in Real-Time, substitute capacity from such Generating Unit with

Eligible Capacity that: (i) is located at the same bus, or (ii) if not located at the same bus, is located in the same ~~Local Reliability Capacity Area or 2007 Local Reliability Area, whichever is applicable~~, and which meets the ISO's effectiveness and operational needs, including size of resource, as determined by the ISO in its reasonable discretion. If the Scheduling Coordinator substitutes such Eligible Capacity, the Scheduling Coordinator must pay all additional Minimum Load Costs, Start-Up Costs, Emissions Costs (above the corresponding costs of the Generating Unit that is being substituted), and any bilateral contract costs incurred by the Scheduling Coordinator, as a result of the substitution. The actual Availability of the substitute resource will be used for the purposes of the calculations in Appendix F, Schedule 6.

* * *

43.6 RCST Report

The ISO shall publish a monthly report on the ISO Website which shall show the resources designated under RCST, the megawatts of each RCST capacity designation, the duration of RCST designations, the reason for the RCST designation, and all payments, excluding costs covered in the Minimum Load Cost Report described in Section 43.11.2 herein, in dollars, itemized for system purposes as well as for each ~~Local Reliability Area or 2007 Local Reliability Capacity Area, whichever is applicable~~. The ISO will provide a market notice of the availability of this report.

* * *

43.8 Allocation of RCST Capacity Payment Costs

For each month, the ISO shall allocate the costs of RCST Capacity Payments made pursuant to Section 43.7.1 as follows:

- (1) Annual System RCST Designations: If the ISO makes RCST designations under Section 43.3.1, then the ISO will allocate the total costs of RCST Capacity Payments for such RCST designations (for the full term of those RCST designations) pro rata to each SC-RA Entity based on its portion of the aggregate Year-Ahead System Deficiency.
- (2) Monthly System RCST Designations: If the ISO makes RCST designations under Section 43.3.2, then the ISO will allocate the total costs of RCST Capacity Payments for such

RCST designations (for the full term of those RCST designations) pro rata to each SC-RA Entity based on its portion of the aggregate Month-Ahead System Deficiency.

- (3) Local RCST Designations for 2008Z. If the ISO makes local RCST designations for 2008Z under Section 43.2.4, then the ISO will allocate the total costs of RCST Capacity Payments for such RCST designations (for the full term of those RCST designations) pro rata to each Scheduling Coordinator for an RA Entity based on the ratio of its Local Resource Adequacy Requirement Deficiency to the sum of the Local Resource Adequacy Requirement Deficiencies within a TAC Area ~~aggregate Local Resource Adequacy Requirement Deficiency in the 2007 Local Reliability Area~~. To the extent there is a Local Resource Adequacy Requirement Deficiency in two or more 2008Z Local Reliability Capacity Areas that can be satisfied by designating a single unit under the RCST, the ISO shall allocate the total costs of RCST Capacity Payments for such RCST designation (for the full term of the designation) pro rata to each Scheduling Coordinator for an RA Entity that has a Local Resource Adequacy Requirement Deficiency in such 2008Z Local Reliability Capacity Areas based on the ratio of its Local Resource Adequacy Requirement Deficiency to the aggregate Local Resource Adequacy Requirement Deficiency in those 2008Z Local Reliability Capacity Areas.
- (4) Significant Event RCST Designations for 2006: If the ISO makes any Significant Event RCST designations under Section 43.4 during 2006, the ISO will allocate the costs of such designations to all SC-RA Entities in the TAC Area(s) in which the Significant Event caused or threatened to cause a failure to meet Applicable Reliability Criteria based on Scheduling Coordinators' RA Entity Load Share Percentage(s) in such TAC Area(s).
- (5) Significant Event Designations for 2008Z. If the ISO makes any Significant Event RCST designations under Section 43.4 during 2008Z, the ISO will allocate the costs of such designations to all SC-RA Entities in the TAC Area(s) in which the Significant Event caused or threatened to cause a failure to meet ~~Applicable~~ Reliability Criteria based on

Scheduling Coordinators' 2008~~7~~ RA Entity Load Share Percentage(s) in such TAC Area(s).

* * *

ISO TARIFF APPENDIX A
Master Definitions Supplement

* * *

Local Resource Adequacy Demonstration

~~The demonstration made to the ISO pursuant to Section 43.2 by the Scheduling Coordinator for an RA Entity of the resources that the RA Entity will make available to the ISO to satisfy any applicable Local Resource Adequacy Requirement.~~

* * *

Local Resource Adequacy Requirement

~~The Resource Adequacy Requirement established by the CPUC or a Local Regulatory Authority in a 2007 Local Reliability Area (or for 2007 Local Reliability Areas in the aggregate) for each RA Entity subject to their jurisdiction.~~

* * *

Local Resource Adequacy Requirement Deficiency

~~The difference in MWs, as determined under Section 40.7 of Appendix CC following the opportunity to resolve deficiencies that is provided under Section 40.7 of Appendix CC, between any(1) the allocated responsibility for Local Capacity Area Resources under Section 40.3.2 of Appendix CC of a Scheduling Coordinator for an RA Entity and (2) the Net Qualifying Capacity of the Local Capacity Area Resources identified in the annual Resource Adequacy Plan submitted by that Scheduling Coordinator pursuant to Sections 40.2.1.1, 40.2.2.4, 40.2.3.4, or 40.2.4 of Appendix CC-applicable Local Resource Adequacy Requirements for an RA Entity as established by the CPUC or appropriate Local Regulatory Authority in a given 2007 Local Reliability Area and the quantity of MWs shown in the RA Entity's Local Resource Adequacy Demonstration pursuant to Section 43.2 for that 2007 Local Reliability Area.~~

* * *

Month-Ahead System Resource Deficiency

The monthly deficiency in meeting the Month-Ahead System Resource Adequacy Requirements as determined under

Section 40.7 of Appendix CC following the opportunity to resolve deficiencies that is provided under Section 40.7 of Appendix CC by the CPUC and applicable Local Regulatory Authorities for each RA Entity subject to their jurisdiction.

* * *

Significant Event

For 2006, a "Significant Event" is an event that results in a material difference in ISO Controlled Grid operations relative to what was assumed in developing the LARN Report for 2006 that causes, or threatens to cause, a failure to meet Applicable Reliability Criteria. For 2008~~7~~, a "Significant Event" is an event that results in a material difference in ISO Controlled Grid operations relative to the 2008 Local Capacity Technical Study~~what was assumed by the CPUC and Local Regulatory Authorities in developing Local Resource Adequacy Requirements for 2007~~ that causes, or threatens to cause, a failure to meet Applicable Reliability Criteria.

* * *

Year-Ahead System Resource Deficiency

The monthly deficiency in meeting Year-Ahead System Resource Adequacy Requirements as determined under Section 40.7 of Appendix CC following the opportunity to resolve deficiencies that is provided under Section 40.7 of Appendix CC by the CPUC and applicable Local Regulatory Authorities.

* * *

**ISO TARIFF APPENDIX F
Schedule 6**

RCST SCHEDULES

Monthly RCST Charge

* * *

Calculation of the Monthly PER

The ISO shall calculate the Monthly Peak Energy Rent ("Monthly PER") as follows: immediately following the end of the month the ISO will determine all those hours during which the Reference Resource would have been dispatched (based on Reference Resource characteristics) to provide either energy or non-spinning reserves and will calculate, on a per kW-Month basis, the total dollar amount of rent (earnings in excess of proxy unit variable costs calculated using Reference Resource unit characteristics) that would

have been earned by the Reference Resource. The Reference Resource will be assumed to have been dispatched for energy in any hour in which the hourly energy price described below is greater than the Reference Resource variable cost; the ISO shall use its day ahead Non-spinning Reserve price to calculate the rent for all hours in which the Reference Resource is not assumed dispatched to provide energy (i.e., any hour where the hourly price is less than the Reference Resource variable costs).

Hourly price profiles will be determined using the shaping factors for SP-15 and NP15/ZP-26 that appear below. Hourly energy prices shall be the weighted average of: (1) the applicable zonal on/off peak day-ahead index prices set forth in Platts Megawatt Daily, shaped to hourly profiles using the factors set forth below, and (2) the applicable zonal ISO hourly average real-time energy prices. For 2006, the index/ex post weighting will be 50/50, respectively. For 2007, the index/ex post weighting will be 75/25, respectively.

The assumed heat rate of the Reference Resource will be 10,500 BTU/kWh. Variable operations and maintenance costs shall be based on the Energy Information Administration AEO Electricity Market Module Assumptions, which are currently \$3,346/MWh. An emissions allowance of \$0.71/MWh shall be used to estimate variable costs. Gas prices for the Reference Resource will be based on a daily gas price based on Equation C1-8 (Gas) of the Schedules to the Reliability Must Run Contract for the relevant Service Area (San Diego Gas & Electric Company, Southern California Gas Company or Pacific Gas and Electric Company) or, if the resource is served from one of those three Service Areas then from the nearest of those Service Areas.

* * *

ISO TARIFF APPENDIX CC

* * *

40.7 Compliance.

The CAISO will evaluate whether each annual and monthly Resource Adequacy Plan submitted by a Scheduling Coordinator on behalf of a Load Serving Entity under this appendix (including for 2008 each monthly Resource Adequacy Plan submitted pursuant to Sections 40.2.2 of the CAISO Tariff)

demonstrates Resource Adequacy Capacity sufficient to satisfy the Load Serving Entity's (i) allocated responsibility for Local Capacity Area Resources under Section 40.3.2 of this appendix and (ii) applicable Demand and Reserve Margin requirements. In the case of an annual Reserve Margin requirement for 2008, the CAISO will also evaluate the annual Resource Adequacy Plan submitted under Section 40.2.1.

If the CAISO determines that a Resource Adequacy Plan does not demonstrate Local Capacity Area Resources sufficient to meet its allocated responsibility under Section 40.3.2 of this appendix, compliance with applicable Demand and Reserve Margin requirements, or compliance with any other resource adequacy requirement in this appendix or adopted by the CPUC, Local Regulatory Authority, or federal agency, as applicable, the CAISO will notify the relevant Scheduling Coordinator, CPUC, Local Regulatory Authority, or federal agency with jurisdiction over the relevant Load Serving Entity, or in the

case of a mismatch between Resource Adequacy Plan(s) and Supply Plan(s), the relevant Scheduling Coordinators, in an attempt to resolve any deficiency. The notification will include the reasons the CAISO believes a deficiency exists. If the deficiency relates to the demonstration of Local Capacity Area Resources in a Load Serving Entity's annual Resource Adequacy Plan, and the CAISO does not provide a written notice of resolution of the deficiency, the Scheduling Coordinator for the Load Serving Entity may demonstrate that the identified deficiency is cured by submitting a revised annual Resource Adequacy Plan within sixty (60) days after the annual Resource Adequacy Plan is due under Sections 40.2.3.4, 40.2.2.4 and 40.2.4 of this appendix. For all other identified deficiencies, at least ten (10) days prior the effective month of the relevant Resource Adequacy Plan, the Scheduling Coordinator for the Load Serving Entity shall (i) demonstrate that the identified deficiency is cured by submitting a revised Resource Adequacy Plan or (ii) advise the CAISO that the CPUC, Local Regulatory Authority, or federal agency, as appropriate, has determined that no deficiency exists. In the case of a mismatch between Resource Adequacy Plan(s) and Supply Plan(s), if resolved, the relevant Scheduling Coordinator(s) must provide the CAISO with revised Resource Adequacy Plan(s) or Supply Plans, as applicable, at least ten (10) days prior to the effective month. If the CAISO is not advised that the deficiency or mismatch is resolved at least ten (10) days prior to the effective month, the CAISO will use the information contained in the Supply Plan to set the obligations of Resource Adequacy Resources under Section 40 of this appendix.

* * *

PART B – DEFINITIONS

* * *

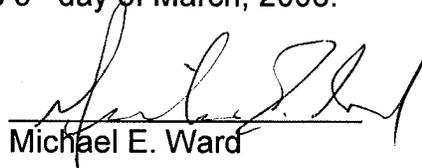
<u>Local Capacity Area</u>	<u>Transmission constrained area as defined in the study referenced in Section 40.3.1 of Appendix CC.</u>
<u>Local Capacity Area Resources</u>	<u>Resource Adequacy Capacity from a Generating Unit listed in the technical study or Participating Load that is located within a Local Capacity Area capable of contributing toward the amount of capacity required in a particular Local Capacity Area.</u>

* * *

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list for the captioned proceedings, in accordance with Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Washington, DC, on this 5th day of March, 2008.


Michael E. Ward