

APPENDIX A

PRINCIPLES FOR ENERGY AUCTION PROCESS AND PRODUCTS

The following principles outline an energy auction process and describe certain products for use in such auctions. These principles have been developed pursuant to Commission Decision (“D.”) 06-07-029 and are being offered in settlement, subject to Commission approval, as set forth in the *Motion to Approve Joint Settlement Agreement Regarding Principles for Energy Auction Process and Products*.

I. Election of D. 06-07-029 Cost Allocation and Designation of Energy Auction PPAs

- A. The utility identifies new generation power purchase agreements (“PPAs”) for which it elects to use the D.06-07-029 cost allocation methodology at the time it files an application for approval of the PPAs (“Energy Auction PPAs”).
- B. Consistent with D. 06-11-048, Ordering Paragraph 21, Pacific Gas and Electric Company (“PG&E”) may defer its election of cost allocation mechanisms for its 2004 Long-Term Request for Offers (“LTRFO”) PPAs until after the Commission issues a final order regarding the D. 06-07-029 energy auction process.

II. Selection and Qualifications of Independent Evaluator

- A. The utility selects, with Energy Division approval, an independent evaluator (“Independent Evaluator”) to oversee the utility’s preparation for and administration of the energy auction and provide independent feedback to the Energy Division and the utility’s Procurement Review Group (“PRG”) participants.
- B. Interested parties may propose Independent Evaluator candidates to the utility and the Energy Division.
- C. The Independent Evaluator shall have qualifications similar to those identified in D. 04-12-048, Finding of Fact No. 95. In addition, the Independent Evaluator should have expertise in the design, administration, and evaluation of solicitation processes for electric energy and/or capacity, including the development of *pro forma* contracts and bid evaluation criteria and methodologies.
- D. All costs associated with the Independent Evaluator will be included as a part of the Energy Auction PPA costs.

III. Pre-Bid Process

- A. **Timing of Pre-Bid Process:** For Energy Auction PPAs that are not currently subject to an energy auction contract, except as provided in Section III.G, the utility shall, in general, initiate a pre-bid process at least six (6) months prior to the expected Energy Auction PPA commercial operation date. For Energy Auction PPAs that are currently subject to an energy auction contract, the utility shall, in general, initiate a pre-bid process at least three (3) months prior to the expiration of the existing energy auction contract. As discussed in Section III.C, the pre-bid process is intended to be an iterative process for stakeholders to provide input to the utility in the development of energy auction bid documents and schedules. The utility shall consider such input, including proposals to accelerate or delay the timing of various elements of the energy auction process.
- B. **Issuance of Initial Pre-Bid Documents:** To initiate the pre-bid process, the utility shall issue the following for each Energy Auction PPA being auctioned (collectively, "Initial Pre-Bid Documents"):
1. **Listing of Auction Products.** The utility shall specify which of the products described in Section IV are proposed for the energy auction.
 2. **Energy Auction PPA Information.** The utility shall provide pertinent and commercially relevant information concerning the operating parameters of the Energy Auction PPA including, for example, term, start date, quantity, operating characteristics and limitations, air quality and other permit limitations, performance/availability incentives, penalties, and maintenance schedules. The utility shall also provide pertinent information concerning credit, collateral and termination provisions in the Energy Auction PPA.
 3. ***Pro Forma* Contracts.** The utility shall provide proposed *pro forma* contracts that successful bidders will be expected to execute following the energy auction. The *pro forma* contracts shall contain provisions for product definition, term, start date, quantity, operating characteristics and limitations, air quality and other permit limitations, maintenance schedules, and proposed credit, collateral and termination terms.
 4. **Auction Process Description.** The utility shall provide a description of the auction process that includes the following:

- a. **Proposed auction schedule.** In general, the first energy auction for a new facility should be conducted no later than three (3) full calendar months after commercial operation, with deliveries to commence the later of: (i) the first day of the month that is one full calendar month after bids are awarded, or (ii) the first day of the month that is one full calendar month after commercial operation.
 - b. **Bid templates.** The forms that prospective bidders will be expected to use to submit bids.
 - c. **Bid award process.** The utility will specify the date on which it expects to conduct the auction, the bid submission deadline and manner in which bids are to be submitted. The utility will also specify the time frame in which it will: (i) notify successful bidder(s) that their bid(s) have been accepted, or (ii) that there were no successful bidder(s), provided that such notifications will be made within one business day after the bid submission date.
5. **Utility Participation Notice.** At the time it provides the Initial Pre-Bid Documents, the utility shall provide notice of whether or not it will participate in the energy auction and the product(s) on which it intends to bid.
- C. **Stakeholder Process.** The utility will conduct one or more meetings to solicit input from stakeholders on the Initial Pre-Bid Documents. At the conclusion of this stakeholder process, the utility shall issue final bid documents ("Final Bid Documents") in a form that allows bidders to see what changes have been made from the Initial Pre-Bid Documents. In order to promote the timely conduct of the auction, any individual or entity that wishes to challenge or protest any aspect of the Final Bid Documents must file a complaint at the Commission within ten (10) business days of issuance of the Final Bid Documents. The energy auction will be suspended until the Commission makes a determination regarding any complaint. If the Commission requires a material modification or change to the Final Bid Documents that results in additional risks or costs to the utility, the utility may elect, upon written notice to the Commission, not to proceed with the energy auction and instead allocate the costs associated with the Energy Auction PPA under D.04-12-048 for the remaining term of the Energy Auction PPA.
- D. **Selection of Market Value Assessment Consultant.** If the utility elects not to bid on the Back-to-Back Toll product described in Section IV.B, the

utility shall select, with Energy Division approval, an independent third-party consultant (“MVA Consultant”) to provide an independent assessment of the market value (“Market Value Assessment”) of the Back-to-Back Toll for each identified term (e.g., two-year term, three-year term, four-year term, five-year term, and/or balance of Energy Auction PPA term not to exceed five years) offered in the energy auction. The MVA Consultant is not required to develop market valuations for the Residual Back-to-Back Toll or the Day-Ahead Unit Contingent Call Option(s). In selecting the MVA Consultant, the utility shall review with the Independent Evaluator, Energy Division and its PRG participants the methodology that the MVA Consultant will use to determine the Market Value Assessment. If the utility provides notice that it will bid on the Back-to-Back Toll product described in Section IV.B, the selection of a MVA Consultant and the development of a Market Value Assessment will not occur because it will not be necessary. All costs associated with the MVA Consultant will be included as a part of the Energy Auction PPA costs.

- E. **Review of bid evaluation process.** During the pre-bid process, the utility shall consult with its PRG participants and the Energy Division regarding the utility’s bid evaluation methodology, including the methodology for comparing bids for different products and different contract terms.
- F. **Submission Of Acceptable Counter-Party Information:** After the Final Bid Documents are issued and near the time that the auction occurs, each bidder in the energy auction shall provide to the utility a list of acceptable counter-parties for each product category, including the maximum megawatts acceptable from each counter-party. The utility will receive this information subject to an appropriate non-disclosure agreement.
- G. **Long Beach PPA.** The Initial Pre-Bid Documents for Long Beach will be made available to potential bidders within one hundred and twenty (120) calendar days of the date that the Commission approves this settlement. Southern California Edison will conduct the Energy Auction within one hundred and twenty (120) calendar days of the date the Initial Pre-Bid Documents are issued.

IV. Energy Auction Product Descriptions

- A. Unless a product is found by the Commission to be infeasible at the time the Commission approves the utility’s application for the Energy Auction PPA, or the Commission otherwise rules that the utility is not required to include a particular product prior to the energy auction, the energy auction for each Energy Auction PPA shall include the following proposed products: (1) a Back-to-Back Toll (described below in Section IV.B); and

(2) a Residual Back-To-Back Toll with associated Day-Ahead Unit Contingent Call Option(s) (described below in Section IV.C). In addition, the utility may offer as a product: (1) novation (described in Section IV.D below); or (2) any other Commission approved product(s) (as described in Section IV.E below).

B. Back-to-Back Toll

1. **Parties:** Parties to the Back-to-Back Toll are the utility and the successful Back-To-Back Toll bidder (“Back-to-Back Toll holder”).
2. **Summary of the Product:** The Back-to-Back Toll transfers the same dispatch rights, operational constraints, gas supply requirements, performance/availability incentives, penalties, and avoidable cost payments in the Energy Auction PPA to the Back-to-Back Toll holder for a specified period of time. The Back-to-Back Toll holder will be responsible for ensuring that resource adequacy capacity obligations that would have been the responsibility of the utility under the Energy Auction PPA are satisfied.
3. **Back-to-Back Toll Size:** Because of operational constraints, such as minimum load requirements, minimum run times, ramp rates and loading-dependent heat rates, the energy rights for the entire Energy Auction PPA will be auctioned through a matching Back-to-Back Toll. A single Energy Auction PPA will not be disaggregated into multiple, or smaller sized Back-to-Back Tolls.
4. **Product Term:** The Final Bid Documents shall specify the term(s) that may be bid for the Back-to-Back Toll in a particular energy auction. For example, an energy auction may solicit Back-to-Back Toll bids of two years, three years, four years, five years, and/or balance of Energy Auction PPA term not to exceed five years, all of which shall commence on the same date. The utility is not required to offer all of these terms in an energy auction.
5. **Scheduling Coordinator and Fuel Manager:** The Back-to-Back Toll holder will be responsible for providing the Scheduling Coordinator (as that term is defined in the California Independent System Operator Corporation (“CAISO”) Tariff) services and fuel manager for the Energy Auction PPA.
6. **Settlement Activities:** The Back-to-Back Toll holder will be required to provide the utility with information necessary to allow

the utility to settle with the Energy Auction PPA generator, in a format specified by the utility.

7. **Delivery Point:** The Back-to-Back Toll delivery point shall be consistent with the delivery point specified in the underlying Energy Auction PPA.
8. **Payments Under Energy Auction PPA and Back-to-Back Toll:** The following provides an overview of the revenue and payment streams associated with a Back-to-Back Toll, subject to the terms of the Final Bid Documents. The utility will make fixed and avoidable cost payments to the generator as required under the Energy Auction PPA. The Back-to-Back Toll holder will make a fixed payment to the utility based on its bid in the energy auction, as well as an avoidable cost payment which is intended to equal the avoidable cost payment made from the utility to the generator under the Energy Auction PPA.¹ The Back-to-Back Toll holder payments will be specified in the Back-to-Back Toll.
9. **Default and Termination:** The default and termination provisions for the Back-to-Back Toll shall be specified in the Final Bid Documents. The Final Bid Documents shall: (1) include default and termination provisions that do not result in additional costs and risks to the utility, relative to the Back-to-Back Toll, than the utility would have otherwise incurred under the Energy Auction PPA; and (2) provide for a proportional allocation to the Back-to-Back Toll holder of proceeds that the utility receives from a defaulting generator under the Energy Auction PPA, provided the Back-to-Back Toll requires a distribution of such proceeds. The following provides a general overview of the default and termination provisions associated with a Back-to-Back Toll:
 - a. Generator Default of Energy Auction PPA:
 - (1) Energy Auction PPA Default: A generator default event which does not result in a termination of the Energy Auction PPA is not a utility default under the Back-to-Back Toll and does not terminate the Back-to-Back Toll. The impact of a generator default flows from the utility to the Back-to-Back Toll holder, including both the harm and any applicable remedy received from the generator to cure the default.

¹ An illustrative diagram is included as Attachment 1.

(2) Energy Auction PPA Termination:

- (a) If the Energy Auction PPA terminates as a result of generator default, the Back-to-Back Toll terminates as well. However, if the Energy Auction PPA includes a step-in right, and the utility elects to step-in, termination of the Energy Auction PPA will not result in termination of the Back-to-Back Toll.
- (b) If the Energy Auction PPA terminates as a result of generator default and the Back-to-Back Toll terminates, either the utility or the Back-to-Back Toll holder will make a payment to the other, based on a market valuation as provided in the Back-to-Back Toll.
- (c) If the Energy Auction PPA terminates as a result of generator default and the Back-to-Back Toll terminates, in accordance with the terms of the Back-to-Back Toll, the utility shall include in the calculation of damages that it provides to the generator the Back-to-Back Toll holder's calculation of damages if the Energy Auction PPA allows the utility to include the Back-to-Back Toll holder's calculation of damages. If the Energy Auction PPA does not allow the utility to include the Back-to-Back Toll holder's calculation of damages and requires the use of reference market makers, at the Back-to-Back Toll holder's option the utility shall include the Back-to-Back Toll holder as one of the reference market makers to the extent allowed under the Energy Auction PPA.

b. Back-to-Back Toll Holder Default:

- (1) Default: The Back-to-Back Toll will include standard default and cure language.
- (2) Termination: The Back-to-Back Toll will include standard termination language which will base the payment between the Back-to-Back Toll holder and

the utility on the remaining market value of the Back-to-Back Toll at the time of the termination.

c. Utility Default of Energy Auction PPA.

- (1) Default: The Back-to-Back Toll will include provisions for cure and/or remedy of a utility default under the Energy Auction PPA that impacts the Back-to-Back Toll holder.
- (2) Termination: The Back-to-Back Toll will include standard termination language which will base the payment between the Back-to-Back Toll holder and the utility on the remaining market value of the Back-to-Back Toll at the time of the default.

d. Utility Default of Back-to-Back Toll:

- (1) Default: The Back-to-Back Toll will include provisions for cure and/or remedy of a utility default under the Back-to-Back Toll.
- (2) Termination: The Back-to-Back Toll will include standard termination language which will base the payment between the Back-to-Back Toll holder and the Utility on the remaining market value of the Back-to-Back Toll at the time of the default.

e. Utility Voluntary Termination of Energy Auction PPA: If the utility voluntarily terminates the Energy Auction PPA, the utility will make a termination payment to the Back-to-Back Toll holder based on a market valuation as provided in the Back-to-Back Toll.

f. Notice Provisions for Potential Default or Termination: The utility will provide reasonable notice to the Back-to-Back Toll holder of any default under or termination of the Energy Auction PPA, or notice of a pending default if notice of a pending default is provided for under the Energy Auction PPA.

10. **Credit and Collateral:** The Final Bid Documents will specify for the Back-to-Back Toll standard credit and collateral terms. The energy auction will also include a pre-bid qualification process in which the utility and potential Back-to-Back Toll bidders will seek

to resolve credit and collateral issues to ensure that Back-to-Back Toll bidders are qualified to meet the credit and collateral requirements. To the extent that the Utility has collateral posted to it by the generator, the Utility shall post a proportional share of such collateral to the Back-to-Back Toll holder to the extent collateral is required under the Back-to-Back Toll. Qualifying Back-to-Back Toll bidders must have an executed master agreement in place with the utility.

C. Residual Back-to-Back Toll with Associated Day-Ahead Unit Contingent Call Option(s)

1. Description of the Joined Products

- a. This joined product will result from two concurrent auctions for an Energy Auction PPA resource: (i) an auction for Day-Ahead Unit Contingent Call Options; and (ii) an auction for a Residual Back-to-Back Toll.
- b. The Residual Back-to-Back Toll and associated Day-Ahead Unit Contingent Call Options are to be auctioned concurrently. The award of Day-Ahead Unit Contingent Call Options is contingent on the award of a joined Residual Back-to-Back Toll bid.
- c. No Day-Ahead Unit Contingent Call Option shall be awarded unless there is a successful Residual Back-to-Back Toll bid for the identical contract term and energy product.

2. Residual Back-to-Back Toll

- a. **Parties:** Parties to the Residual Back-to-Back Toll are the utility and the successful Residual Back-to-Back Toll bidder (“Residual Back-to-Back Toll holder”).
- b. **Summary of the Product:** The Residual Back-to-Back Toll transfers the same dispatch rights, operational constraints, gas supply requirements, performance/availability incentives, penalties, and avoidable cost payments in the Energy Auction PPA to the Residual Back-to-Back Toll holder for a specified period of time, subject to the obligations of the Day-Ahead Unit Contingent Call Options auctioned concurrently. The Residual Back-To-Back Toll holder will be responsible for ensuring that resource adequacy capacity obligations that

would have been the responsibility of the utility under the Energy Auction PPA are satisfied.

- c. **Residual Back-to-Back Toll Size:** Because of operational constraints, such as minimum load requirements, minimum run times, ramp rates and loading-dependent heat rates, the energy rights for the entire Energy Auction PPA will be auctioned through a matching Residual Back-to-Back Toll. A single Energy Auction PPA will not be disaggregated into multiple, or smaller sized Residual Back-to-Back Tolls.
- d. **Residual Back-to-Back Toll Bids And Product Terms:** Residual Back-to-Back Toll bidders may submit separate bids for various combinations of product structures and terms that are offered in the concurrent Day-Ahead Unit Contingent Call Option auction. However, the Residual Back-to-Back Toll is for all hours during the term of the Residual Back-To-Back Toll, not just the hours corresponding to the Day-Ahead Unit Contingent Call Option.
- e. **Bids for Residual Back-to-Back Tolls:** Residual Back-to-Back Toll bids may be positive or negative.
- f. **Scheduling Coordinator and Fuel Manager:** The Residual Back-to-Back Toll holder will be responsible for providing the Scheduling Coordinator (as that term is defined in the CAISO Tariff) service and fuel manager for the Energy Auction PPA, and shall be subject to the obligations of any awarded Day-Ahead Unit Contingent Call Options.
- g. **Settlement Activities:** The Residual Back-to-Back Toll holder will be required to provide the utility with information necessary to allow the utility to settle with the Energy Auction PPA generator, in a format specified by the utility.
- h. **Delivery Point:** The Residual Back-to-Back Toll delivery point shall be consistent with the delivery point in the Energy Auction PPA.
- i. **Payments Under Energy Auction PPA and Residual Back-to-Back Toll:** The following provides an overview of the revenue and payment streams associated with a Residual Back-to-Back Toll, subject to the Final Bid Documents. The utility will make fixed and avoidable cost payments to the

generator as required under the Energy Auction PPA. The Residual Back-to-Back Toll holder will make two payments to the utility: (1) the total amount of the option premiums from all Day-Ahead Unit Contingent Call Option holder(s); and (2) an avoidable cost payment which is intended to equal the avoidable cost payment made from the utility to the generator under the Energy Auction PPA. The specific payments will be specified in the Residual Back-to-Back Toll. In addition, the Residual Back-to-Back Toll holder will make a fixed payment to the utility or receive a fixed payment from the utility consistent with the Residual Back-to-Back Toll bid.² The Residual Back-to-Back Toll holder must make all of the foregoing payments to the utility notwithstanding non-payment or other default by a Day-Ahead Unit Contingent Call Option holder.

- j. **Default and Termination:** The default and termination provisions for the Residual Back-to-Back Toll and Day-Ahead Unit-Contingent Call Options shall be specified in the Final Bid Documents. The Final Bid Documents shall: (1) include default and termination provisions that do not result in additional costs and risks to the utility, relative to the Residual Back-to-Back Toll, than the utility would have otherwise incurred under the Energy Auction PPA; (2) provide for a proportional allocation to the Residual Back-to-Back Toll holder of proceeds that the utility receives from a defaulting generator under the Energy Auction PPA, provided the Residual Back-to-Back Toll requires a distribution of such proceeds; and (3) provide for a proportional allocation to the Day-Ahead Call Option holder of proceeds that the Residual Back-to-Back Toll holder receives as a result of a generator default under the Energy Auction PPA, provided that the Day-Ahead Unit Contingent Call Option requires a distribution of such proceeds. The following provides a general overview of the default and termination provisions associated with a Residual Back-to-Back Toll and the Day-Ahead Unit Contingent Call Option:

- (1) Generator Default of Energy Auction PPA:
- (a) Energy Auction PPA Default: A generator default event which does not result in a

² An illustrative diagram is included as Attachment 1.

termination of the Energy Auction PPA is not a utility default under the Residual Back-to-Back Toll and does not terminate the Residual Back-to-Back Toll. The impact of a generator default flows through from the utility to the Residual Back-to-Back Toll holder, including both the harm and any applicable remedy received from the generator to cure the default.

(b) Energy Auction PPA Termination:

- (i) If the Energy Auction PPA terminates as a result of generator default, the Residual Back-to-Back Toll terminates as well. However, if the Energy Auction PPA includes a step-in right, and the utility elects to step-in, termination of the Energy Auction PPA will not result in termination of the Residual Back-to-Back Toll.
- (ii) If the Energy Auction PPA terminates as a result of generator default and the Residual Back-to-Back Toll terminates, either the utility or the Residual Back-to-Back Toll holder will make a payment to the other, based on a market valuation as provided in the Residual Back-to-Back Toll.
- (iii) If the Energy Auction PPA terminates as a result of generator default and the Residual Back-to-Back Toll terminates, in accordance with the terms of the Residual Back-to-Back Toll, the utility shall include in the calculation of damages that it provides to the generator the Residual Back-to-Back Toll holder's calculation of damages if the Energy Auction PPA allows the utility to include the Residual Back-to-Back Toll holder's calculation of damages. If the Energy Auction PPA does not allow the utility to include the Residual Back-to-Back Toll

holder's calculation of damages and requires the use of reference market makers, at the Residual Back-to-Back Toll holder's option the utility shall include the Residual Back-to-Back Toll holder as one of the reference market makers to the extent allowed under the Energy Auction PPA.

(2) Residual Back-to-Back Toll Holder Default:

- (a) Default: The Residual Back-to-Back Toll will include standard default and cure language.
- (b) Termination: The Residual Back-to-Back Toll will include standard termination language which will base the payment between the Residual Back-to-Back Toll holder and the utility on the remaining market value of the Residual Back-to-Back Toll at the time of the termination.

(3) Utility Default of Energy Auction PPA:

- (a) Default: The Residual Back-to-Back Toll will include provisions for cure and/or remedy of a utility default under the Energy Auction PPA if the utility default impacts the Residual Back-to-Back Toll holder.
- (b) Termination: The Residual Back-to-Back Toll will include standard termination language which will base the payment between the Residual Back-to-Back Toll holder and the utility on the remaining market value of the Residual Back-to-Back Toll at the time of the default.

(4) Utility Default of Residual Back-to-Back Toll:

- (a) Default: The Residual Back-to-Back Toll will include provisions for cure and/or remedy of a utility default under the Residual Back-to-Back Toll.

- (b) **Termination:** The Residual Back-to-Back Toll will include standard termination language which will base the payment between the Residual Back-to-Back Toll holder and the utility on the remaining market value of the Residual Back-to-Back Toll at the time of the default.
 - (5) Day-Ahead Unit Contingent Call Option Default: If a Day-Ahead Unit Contingent Call Option holder defaults and the Residual Back-to-Back Toll holder terminates the Day-Ahead Unit Contingent Call Option, the Residual Back-to-Back Toll holder has the obligation to assume the Day-Ahead Unit Contingent Call Option. In such case, the Residual Back-to-Back Toll holder's calculation of the termination amount will include the costs of the assumption of the Day-Ahead Unit Contingent Call Option.
 - (6) Utility Voluntary Termination of Energy Auction PPA: If the utility voluntarily terminates the Energy Auction PPA, the utility will make a termination payment to the Residual Back-to-Back Toll holder based on a market valuation as provided in the Residual Back-to-Back Toll.
 - (7) Notice Provisions for Potential Default or Termination: The utility will provide reasonable notice to the Residual Back-to-Back Toll holder of any default under or termination of the Energy Auction PPA, or notice of a pending default if notice of a pending default is provided for under the Energy Auction PPA.
 - (8) If the Residual Back-to-Back Toll terminates, the Day-Ahead Unit Contingent Call Option(s) also terminate.
- k. **Credit and Collateral:** The Final Bid Documents will specify for the Residual Back-to-Back Toll standard credit and collateral terms. The energy auction will also include a pre-bid qualification process in which the utility and potential Residual Back-to-Back Toll bidders will seek to resolve any credit and collateral issues to ensure that Residual Back-to-Back Toll bidders are qualified to meet the credit and

collateral requirements. To the extent that the Utility has collateral posted to it by the generator, the Utility shall post a proportional share of such collateral to the Residual Back-to-Back Toll holder to the extent collateral is required under the Residual Back-to-Back Toll. Qualifying Residual Back-to-Back Toll bidders must have an executed master agreement in place with the utility.

3. **Day-Ahead Unit Contingent Call Options Joined to a Residual Back-to-Back Toll**

- a. **Parties:** Parties to the Day-Ahead Unit Contingent Call Option are the Residual Back-to-Back Toll holder and the successful Day-Ahead Unit Contingent Call Option bidder(s) (“Day-Ahead Unit Contingent Call Option holder(s)”). The utility shall not have any obligations under the Day-Ahead Unit Contingent Call Option nor shall the utility have any obligations to the successful Day-Ahead Unit Contingent Call Option holder(s).
- b. **Summary of the Product:** The Day-Ahead Unit Contingent Call Option holder receives the right, but not the obligation, to take energy and pay a price based on a pre-determined contract heat rate and index gas price plus transportation. The Day-Ahead Unit Contingent Call Option is for a fixed quantity for relatively standard, non-overlapping and predetermined time blocks (*e.g.*, peak, off-peak, super-peak, etc.), subject to the characteristics of the unit being tolled. The Final Bid Documents shall specify the Day-Ahead Unit Contingent Call Options that may be bid for a particular energy auction.
- c. **Unit-Contingent Product:** The Day-Ahead Unit Contingent Call Option is unit contingent, provided, however, that the Residual Back-to-Back Toll holder may, at its option, supply the Day-Ahead Unit Contingent Call Option holder from either the Energy Auction PPA resource or the market. If the Energy Auction PPA resource is not available, the Residual Back-to-Back Toll holder has no obligation to deliver the energy associated with the option and can cut the schedule intra-day. The Final Bid Documents will address circumstances where the Energy Auction PPA is partially available.

- d. **Product Term:** The Final Bid Documents shall specify the term(s) that may be bid for the Day-Ahead Unit Contingent Call Option product in a particular auction. For example, an energy auction may solicit Day-Ahead Unit Contingent Call Option bids of two years, three years, four years, five years, and/or balance of Energy Auction PPA term not to exceed five years, all of which shall commence on the same date. The utility is not required to offer all of these terms in an energy auction.
- e. **Scheduling Coordinator and Fuel Manager:** With respect to the Energy Auction PPA resource, the Residual Back-to-Back Toll holder will be responsible for providing the Scheduling Coordinator (as that term is defined in the CAISO Tariff) service and fuel manager and provide the dispatch instructions to the plant operations manager.
- f. **Delivery Point:** The Day-Ahead Unit Contingent Call Option delivery point shall be consistent with the delivery point specified in the Energy Auction PPA, provided that the Day-Ahead Unit Contingent Call Option holder may specify an alternate delivery point if it agrees to pay the Residual Back-to-Back Toll holder all costs associated with delivery to the alternate delivery point.
- g. **Contract Heat Rates:** Contract heat rates for Day-Ahead Unit Contingent Call Options may correspond to the heat rate of a particular generating unit or for the heat rates of a portfolio of generating units, and may be adjusted to include start-up costs, variable costs, and other energy-related costs in an Energy Auction PPA. The contract heat rate(s) for a Day-Ahead Unit Contingent Call Option shall be established in the Final Bid Documents.
- h. **Day-Ahead Unit Contingent Call Option Size:** The total MW quantity auctioned shall match the underlying Energy Auction PPA MW quantity. The minimum bid size shall not be less than 25 MW and consideration shall be given to the operational attributes of the underlying Energy Auction PPA resource.
- i. **Payments Under Day-Ahead Unit Contingent Call Option:** The following provides an overview of the revenue and payment streams associated with a Day-Ahead Unit

Contingent Call Option. A Day-Ahead Unit Contingent Call Option holder makes two payments to the Residual Back-to-Back Toll holder: (1) the option premium; and (2) a strike price payment if the holder exercises the option on a given day.³

- j. **Default and Termination:** Default and termination provisions related to the Day-Ahead Unit Contingent Call Option are discussed in Section IV.C.2.j, above.
- k. **Credit and Collateral:** The Final Bid Documents will specify for the Day-Ahead Unit Contingent Call Option standard credit and collateral terms.

D. Novation

- 1. **Product Description:** Assigns an Energy Auction PPA to the successful bidder with the concurrence of the counterparty to the Energy Auction PPA, with the successful bidder assigning the resource adequacy attributes of the Energy Auction PPA back to the utility.
- 2. Details regarding the novation product will be specified in the Initial Pre-Bid Documents and finalized in the Final Bid Documents.

E. Additional Products

- 1. The utility or other parties may propose additional products, which will be discussed in an open stakeholder process.
- 2. Additional products shall be submitted to the Commission for approval via advice letter.
- 3. Details regarding additional products will be specified in the Initial Pre-Bid Documents and finalized in the Final Bid Documents.

V. The Bid Valuation and Award Process. The energy auction shall be conducted as specified in the Final Bid Documents, unless otherwise directed by an order of the Commission. The following procedures shall be followed to evaluate and award successful bid(s):

A. Establishing the Minimum Bid Price (if required)

³ An illustrative diagram is included as Attachment 1.

1. **Establishing the Market Value Assessment.** The MVA Consultant shall prepare the Market Value Assessment on the day before bids are due and shall provide the Market Value Assessment to the Independent Evaluator and the Energy Division.
2. **Establishing the Minimum Bid Price Percentage.**
 - a. The utility, in consultation with its Independent Evaluator and PRG participants, shall establish a percentage value (“Minimum Bid Price Percentage”) to be used in conjunction with the Market Value Assessment to calculate a minimum bid price (“Minimum Bid Price”) that must be met or exceeded in order for an energy auction bid to be eligible for award.
 - b. The Minimum Bid Price Percentage cannot exceed 100% and must be approved by the Energy Division prior to the receipt of energy auction bids.
 - c. The Minimum Bid Price Percentage shall not be publicly released.
3. **Calculation and Release of the Minimum Bid Price.**
 - a. Immediately after the close of bidding, the Independent Evaluator shall calculate the Minimum Bid Price of the Back-to-Back Toll for each identified term (*e.g.*, two-year term, three-year term, four-year term, five-year term, and/or balance of Energy Auction PPA term not to exceed five years) offered in the energy auction and provide it to the utility, PRG and Energy Division. The Minimum Bid Price should be calculated as follows:
$$\text{Market Value Assessment} \times \text{Minimum Bid Price Percentage} = \text{Minimum Bid Price}$$
 - b. The Independent Evaluator shall publicly release the Minimum Bid Price for each Back-to-Back Toll term within three (3) business days of the receipt of bids. The Market Value Assessment and the Minimum Bid Price Percentage shall remain confidential.
 - c. If the utility submits a bid for the Back-to-Back Toll, the utility bid will establish the Minimum Bid Price.

B. Bid Valuation Methodology – Selection of Successful Bids

1. The utility, with oversight from the Independent Evaluator, shall review the bids, select successful bidders and execute contracts with successful bidders or, in the case of any awards of Day-Ahead Unit Contingent Call Options, facilitate the execution of contracts between successful bidders.
2. The highest-priced Day-Ahead Unit Contingent Call Option bid(s) will be combined with the highest-priced Residual Back-to-Back Toll bids for a common energy product to establish the joined Day-Ahead Unit Contingent Call Option/Residual Back-To-Back Toll bid for the common energy product, subject to the bidder counterparty restrictions specified before the energy auction.
3. The successful bid will be either: (i) the joined Day-Ahead Unit Contingent Call Option/Residual Back-To-Back Toll bids or (ii) the Back-to-Back Toll bid that provides the highest overall value, provided that it is equal to or higher than the Minimum Bid Price for the subject product.

VI. Subsequent Auction Process If No Bids Are Awarded. If no energy auction bid is awarded for a particular Energy Auction PPA, the utility shall conduct another energy auction that includes that Energy Auction PPA within six months. For purposes of allocating the costs and benefits of an Energy Auction PPA, the Joint Parties' Proposal shall be used until a successful energy auction has been completed.⁴ If no energy auction bid is awarded in subsequent energy auctions for an Energy Auction PPA, the stakeholders will meet and attempt to develop a recommendation to the Commission regarding the Energy Auction PPA. If after sixty (60) calendar days the stakeholders are unable to develop a joint recommendation, parties or entities may make separate recommendations to the Commission regarding the Energy Auction PPA.

VII. Energy Auction Process Review. The utility shall review its energy auction process with interested parties within sixty (60) calendar days of the conclusion of an energy auction for the purpose of identifying improvements for future energy auctions.

⁴ The Joint Parties' Proposal was described in the *Proposal of Southern California Edison Company, Pacific Gas and Electric Company, NRG Energy Inc., AES Corporation, And The Utility Reform Network On Additional Policies Necessary To Support New Generation and Long-Term Contracting* filed on March 7, 2006 in this proceeding. Section IX of these settlement principles provides additional detail concerning the implementation of the Joint Parties' Proposal.

VIII. Benefit and Cost Allocation. D.06-07-029 provides that “[a]ll RA counting benefits and net costs are spread to the LSEs whose customers are allocated net costs based on share of 12-month coincident peak, adjusted on a monthly basis to facilitate load migration. The contract costs paid and RA benefits received by DA (or CCA and muni load) and bundled customers should be based on a share basis equal to the credit received.”

A. Allocation of Reliability Benefits - Resource Adequacy (“RA”) Credits

1. For each Energy Auction PPA, the amount of RA capacity and the date the RA capacity is available to be included in an Load Serving Entity’s (“LSE’s”) RA compliance filings shall be determined consistent with the Commission’s and/or CAISO’s RA process, rules and procedures in effect at the time the underlying generation unit(s) become eligible for RA Capacity status. For example, under current Commission rules, RA Capacity for new generating units can be included in an LSE’s year-ahead RA filing as of its expected commercial operation date and can be counted in the month-ahead RA filing sixty (60) days after commercial operation. *See* D.05-10-042, Section 7.9.
2. The Settling Parties recommend that the RA Capacity be allocated using the following process:
 - a. The California Energy Commission (“CEC”) will allocate the RA capacity based on the peak load share of each LSE representing Benefiting Customers.⁵
 - b. In June, the CEC shall notify all LSEs representing Benefiting Customers as to the amount of RA capacity that they will receive in connection with each Energy Auction PPA for each month in the following year. Since that allocation will be unit specific, it can be used toward system and potentially local (to the extent the unit is in a local area) requirements.
 - c. To the extent a facility associated with an Energy Auction PPA has not yet commenced operation, the CEC shall notify the LSE of the amount of new construction RA capacity allocated to the LSE based on the projected commercial operation date of the facility. The CEC shall also notify the LSE of a projection of the amount of RA capacity that,

⁵ “Benefiting Customers” are defined in D.06-07-029 at 26, n. 21.

barring adjustments described in (e) below, would be allocated to the LSE for its month-ahead RA filing.

- d. LSEs representing Benefiting Customers may reflect the RA capacity that their customers have been allocated from Energy Auction PPAs in their year-ahead RA filing (currently submitted on October 1st).
 - e. Fifty-five (55) calendar days before a given compliance month, the CEC shall notify LSEs representing Benefiting Customers of the adjusted amount of RA capacity they will receive for each Energy Auction PPA for the following month as well as a projection of the RA capacity they will receive for each month for the remainder of the year. This notification will reflect any adjustments in RA capacity allocation made as a result of load migration, the capacity of any facility associated with the Energy Auction PPA that has commenced operations within sixty (60) days before a given month⁶, or any changes in the commercial operation date of the facility associated with the Energy Auction PPA.
 - f. LSEs representing Benefiting Customers may reflect the adjusted RA capacity that their customers have been allocated from Energy Auction PPAs in their month-ahead RA filing (currently submitted the last day of the month, two months before a given month).
3. The Settling Parties understand that the current RA process, rules and procedure may be modified in the future. To the extent any future modification of the RA program impacts the allocation of RA capacity agreed to in these settlement principles, the Settling Parties will, if the modification takes place as part of a Commission proceeding, address the need for modification in that Commission proceeding. Otherwise the Settling Parties will present by motion at least ninety (90) calendar days prior to the effective date of the modification (unless the modification is made effective with less than ninety (90) calendar days notice, in which case at least twenty (20) calendar days after notice) a proposal to the Commission as to how to address those impacts. If the Settling Parties are unable to agree to a proposal as to how to address the impacts of any future modifications, they may submit separate proposals by motion or

⁶ Consistent with D.05-10-042, Section 7.9.

other procedural vehicle to the Commission. The Settling Parties will request expedited treatment of any such filing.

4. The Settling Parties understand that the implementation of the RA capacity allocation mechanism described above requires the involvement of other entities that are independent of the Commission, such as the CEC and the CAISO. The Settling Parties will work with the Commission, CEC and the CAISO to implement the RA capacity allocation mechanism described above.

B. Allocation of Net Costs

1. The utility that is a party to the Energy Auction PPA shall be allowed to recover the net costs associated with the Energy Auction PPA from the LSE and/or customers of the LSE receiving an allocation of RA credit associated with an Energy Auction PPA using the cost allocation methodology adopted in D.06-07-029.⁷
2. The utility shall forecast the annual net cost of each Energy Auction PPA, defined as the net of the total forecast annual cost of the Energy Auction PPA minus the annual revenues expected from the energy auction or, if a successful auction has not been completed, forecast revenues using the Joint Parties' Proposal. This calculation shall be subject to an annual review and balancing account true-up.
3. The utility shall use the net cost forecast it has developed to establish an annual revenue requirement for all Benefiting Customers to recover the net cost of the Energy Auction PPA. All Benefiting Customers shall be charged monthly for their respective portion of the net costs based on the established revenue requirement.
4. Net costs shall be calculated and determined separately for each Energy Auction PPA, and the net costs shall not be netted against or in any way impacted by the costs of other resources in the utility's resource portfolio.
5. All administrative costs in conducting an energy auction (*e.g.* Independent Evaluator and MVA Consultant expenses), costs in providing contract administration services for the awarded energy auction contracts (*e.g.*, external legal expenses, judgments, etc.), and all other costs that would not have been incurred, but for the energy auction, shall be included in the Energy Auction PPA costs.

⁷ See D.06-07-029 at 31, Item #15.

However, the Energy Auction PPA costs shall not include the administrative costs of securing the PPA (*i.e.*, the procurement administrative costs for contract negotiation and selection) as provided in D.06-07-029 at 27 (Item #4).

6. All utility costs associated with and payments received as a result of a default and termination of the Back-to-Back Toll, Residual Back-to-Back Toll, or other product that is successfully bid in an energy auction shall be considered part of the costs of the Energy Auction PPA.
7. The period during which a utility may recover the net costs of an Energy Auction PPA from all Benefiting Customers shall be that set forth in D.06-07-029, as that decision may be modified by the Commission.

IX. Implementation of Joint Parties' Proposal

- A. **Use of The Joint Parties' Proposal:** The Joint Parties' Proposal shall be used to determine the net cost of the Energy Auction PPA when: (1) the facility associated with an Energy Auction PPA has commenced operation, but the energy auction has not yet been successfully completed; (2) no energy auction bid is awarded for a particular Energy Auction PPA pursuant to Section VI above; or (3) if a Back-to-Back Toll, Residual Back-to-Back Toll or other product that is successfully bid in an energy auction terminates before it is set to expire, in which case the Joint Parties' Proposal will be used until a subsequent energy auction can be conducted within no later than six (6) months of the termination.
- B. **Determination of Net Costs for Allocation:** The net costs to be allocated to Benefiting Customers under the Joint Parties' Proposal shall largely be calculated on a proxy basis. Specifically, imputed avoidable costs and imputed market revenues will be calculated to determine the net cost of each Energy Auction PPA, instead of relying on actual avoidable costs, revenues, and plant operations. The net cost of each Energy Auction PPA will be determined by subtracting the Energy Auction PPA Revenues from the Energy Auction PPA Costs, where:
 1. "Energy Auction PPA Costs" include the following:
 - a. All actual unavoidable costs incurred by the utility under the Energy Auction PPA (*e.g.*, capacity payments and the cost of posting collateral, if any).

- b. Imputed avoidable fuel costs calculated as the product of: (i) the quantity of natural gas that would be utilized under the Energy Auction PPA, and (ii) the price of natural gas for periods when the Energy Auction PPA would recover its avoidable operating expenses from the day-ahead energy and/or ancillary services markets (*i.e.*, at times when it would have been “economic” to dispatch the Energy Auction PPA).
- (1) For purposes of this calculation, the price of natural gas for each hour shall be the daily spot index price for the applicable day as reported by an established industry publication (*e.g.*, *Gas Daily* or *NGI*) for the trading point closest to delivery point of the Energy Auction PPA plus any applicable Energy Auction PPA gas transportation charges and Local Distribution Company (“LDC”) tariff charges.
 - (2) Prior to the implementation of the CAISO’s Market Redesign and Technology Upgrade (“MRTU”), the imputed avoidable fuel cost shall be calculated “after-the-fact” on an hourly basis using the daily on-peak and off-peak spot price index for energy as reported in *Platts MegaWatt Daily* for hours in which it would have been economic for the Energy Auction PPA to have been scheduled to deliver energy, subject to contractual operating constraints (*e.g.*, such as ramp rates and minimum run times). In order to derive an hourly energy price, the daily on-peak and off-peak spot price indices for energy shall be decomposed into hourly prices using the hourly price profiles for the applicable delivery zone (*e.g.* SP15 zonal prices if the Energy Auction PPA specifies a SP15 delivery) specified in the CAISO’s current RCST tariff filing at FERC. After the commencement of MRTU, the CAISO hourly day-ahead nodal price for the Energy Auction PPA’s “injection point” shall be utilized in lieu of the daily on-peak and off-peak spot price indices for energy.
- c. Imputed avoidable non-fuel Energy Auction PPA costs for all assumed dispatched energy from subsection (b) above. For example, if the Energy Auction PPA requires a variable O&M charge of \$2.00/MWh for delivered energy, the

imputed avoidable non-fuel Energy Auction PPA costs for a given hour would be the amount of energy assumed to have been dispatched times the \$2.00/MWh variable O&M charge.

- d. All administrative costs in conducting an energy auction (*e.g.* Independent Evaluator and MVA Consultant expenses), costs in providing contract administration services for the awarded energy auction contracts (*e.g.*, external legal expenses, judgments, etc.), and all other costs that would not have been incurred, but for the energy auction shall be included in the Energy Auction PPA costs. However, the Energy Auction PPA costs shall not include the administrative costs of securing the PPA (*i.e.*, the procurement administrative costs for contract negotiation and selection) as provided in D.06-07-029 at 27 (Item #4).
2. “Energy Auction PPA Revenues” include the following:
 - a. The imputed day-ahead energy revenues for hours in which the Energy Auction PPA is determined to have been economic to dispatch. The imputed energy revenues shall be calculated as the product of the: (i) the calculated energy assumed to be dispatched under the Energy Auction PPA, and (ii) the applicable hourly day-ahead energy price, as both amounts are described in Section IX.B.1.b(2) above.
 - b. The imputed day-ahead ancillary services revenues. For hours in which it was determined that the Energy Auction PPA would not have been economic to schedule in the day-ahead energy market, an assessment of whether it would have been economic to offer non-spinning reserves (assuming the Energy Auction PPA provides such services) shall be performed using hourly day-ahead energy prices and natural gas prices described in Section IX.A.1.b(1) above and the CAISO published day-ahead non-spinning reserves price. The imputed day-ahead ancillary service revenue calculation shall be constrained by the amount of capacity available under the Energy Auction PPA to be offered into non-spinning reserves market and any other relevant operating limitation (*e.g.*, minimum load requirements or maximum operating hours). The imputed day-ahead ancillary services revenues shall be calculated net of any calculated operating costs that would have to be incurred to offer ancillary services capacity (*e.g.*, start-up costs). The imputed day-ahead

ancillary services revenues calculation will not assume real-time incremental dispatch of energy by the CAISO.

- C. Net costs determined under the Joint Parties' Proposal and RA benefits shall be allocated consistent with the principles described in Section VIII above.

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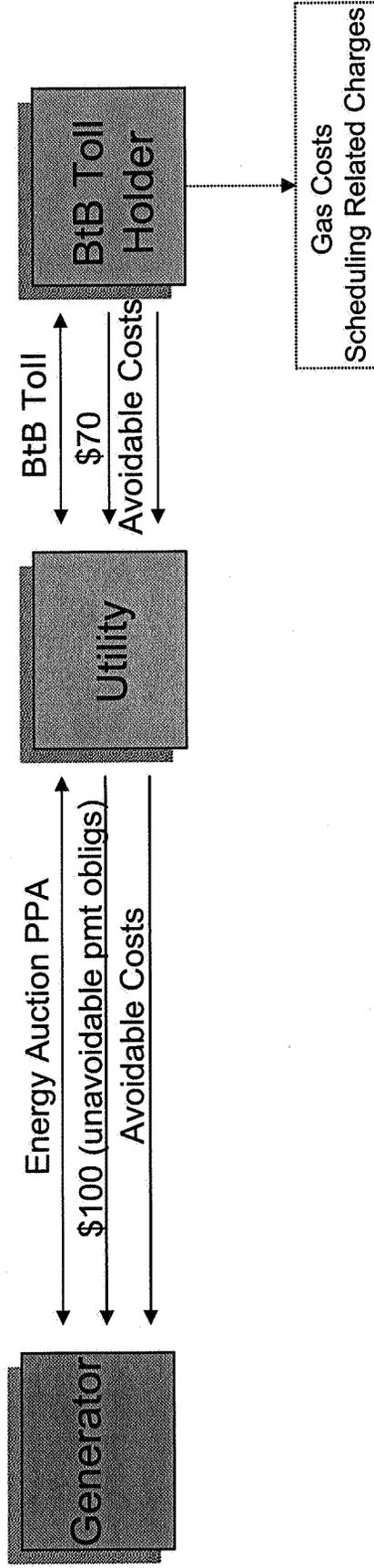
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APPENDIX A

ATTACHMENT 1

Back-to-Back Toll



Cost Allocation

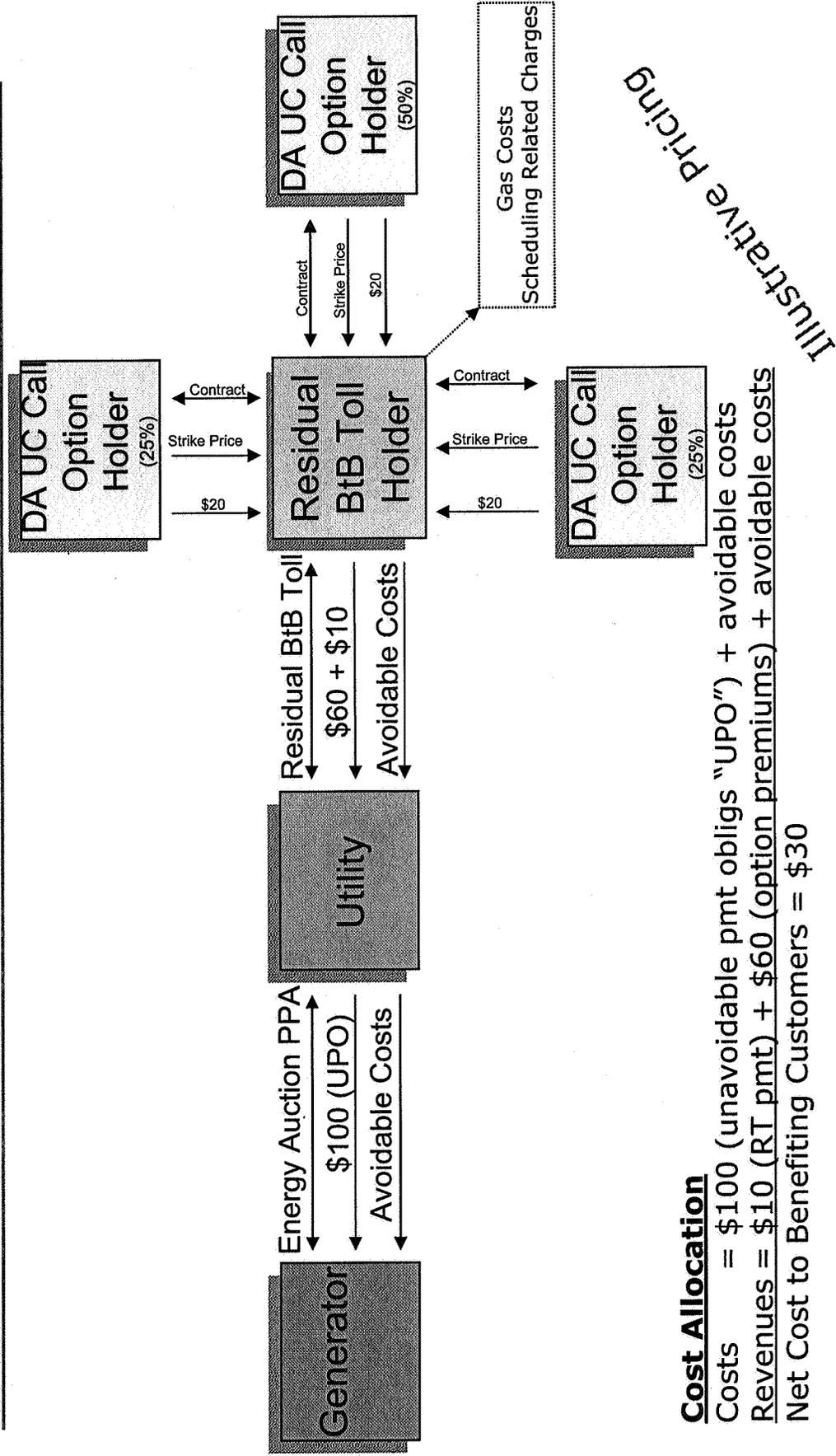
Costs = \$100 (unavoidable pmt obligs) + avoidable costs

Revenues = \$70 + avoidable costs

Net Cost to Benefiting Customers = \$30

Illustrative Pricing

Residual Back-to-Back Toll with Day-Ahead Unit Contingent Call Options



Cost Allocation

Costs = $\$100$ (unavoidable pmt obligs "UPO") + avoidable costs
 Revenues = $\$10$ (RT pmt) + $\$60$ (option premiums) + avoidable costs
 Net Cost to Benefiting Customers = $\$30$

Illustrative Pricing

CERTIFICATE OF SERVICE BY ELECTRONIC MAIL OR U.S. MAIL

I, the undersigned, state that I am a citizen of the United States and am employed in the City and County of San Francisco; that I am over the age of eighteen (18) years and not a party to the within cause; and that my business address is Pacific Gas and Electric Company, Law Department B30A, 77 Beale Street, San Francisco, CA 94105.

I am readily familiar with the business practice of Pacific Gas and Electric Company for collection and processing of correspondence for mailing with the United States Postal Service. In the ordinary course of business, correspondence is deposited with the United States Postal Service the same day it is submitted for mailing.

On the 11th day of May 2007, I served a true copy of:

**MOTION TO APPROVE
JOINT SETTLEMENT AGREEMENT REGARDING
PRINCIPLES FOR ENERGY AUCTION PROCESS AND PRODUCTS**

[XX] By Electronic Mail – serving the enclosed via e-mail transmission to each of the parties listed on the official service list for R. 06-02-013 with an e-mail address.

[XX] By U.S. Mail – by placing the enclosed for collection and mailing, in the course of ordinary business practice, with other correspondence of Pacific Gas and Electric Company, enclosed in a sealed envelope, with postage fully prepaid, addressed to those parties listed on the official service list for R. 06-02-013 without an e-mail address.

I certify and declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed on this 11th day of May, 2007 at San Francisco, California.

/s/
STEPHANIE LOUIE

Appendix B

CLARIFIED SECTION VIII

Appendix B: Clarified Section VIII

Clarified Section VIII

A.2. The Settling Parties recommend that the RA Capacity be allocated using the following process:

a. ~~The California Energy Commission (CEC)~~ *Energy Division of the California Public Utilities Commission (CPUC)* will allocate the RA capacity based on the peak load of each LSE representing Benefiting Customers¹ *that is determined by the California Energy Commission each June. This allocation shall be performed annually, even for multiyear contracts and the allocations will be revised quarterly by the Energy Division to facilitate load migration.*

b. In July, the ~~(CEC)~~ *Energy Division of the CPUC* shall notify all LSEs representing Benefiting Customers as to the amount of RA capacity that they will receive in connection with each Energy Auction for each month in the following year. Since that allocation will be unit specific, it can be used toward system and potentially local (to the extent the unit is in a local area) requirements.

c. To the extent a facility associated with an Energy Auction PPA has not yet commenced operation, the ~~(CEC)~~ *CPUC* shall notify the LSE of the amount of new construction RA capacity allocated to the LSE based on the projected commercial operation date of the facility. The ~~(CEC)~~ *CPUC* shall also notify the LSE of a projection of the amount of RA capacity that, ~~barring adjustments described in (e) below,~~ would be allocated to the LSE for its month-ahead RA filing.

d. LSEs representing Benefiting Customers may reflect the RA capacity that their customers have been allocated from Energy Auction PPAs in their year-ahead RA filing (currently submitted on October 31st) and may reflect any revisions provided in the quarterly update in their month-ahead filings.

(END OF APPENDIX B)

¹ "Benefiting Customers" as defined in D.06-07-029.

Appendix C

Definition of Energy Auction Terms

Appendix C: Definition of Energy Auction Terms

Energy Auction Glossary

This document is not intended to replace, modify, or supplement the settlement agreement. The provisions of the settlement agreement shall control.

Back-to-Back Toll: A back-to-back toll generally refers to a contract wherein a party to a tolling agreement transfers the same contractual dispatch rights, operational constraints, gas supply requirements, performance/availability incentives and penalties, and avoidable cost payments under the tolling agreement to another party in return for financial consideration.

Cure: Cure generally refers to the remedying of a contractual default, generally financially settled.

Day-Ahead Unit Contingent Call Option: A day-ahead unit contingent call option generally refers to a contract wherein the buyer has the right, but not the obligation, to take a fixed quantity of energy for a specified number of hours and pay a fixed price or a price based on a pre-determined contract heat rate and gas index price plus gas transportation. If the underlying unit is not available for any reason, the seller has no obligation to deliver the energy associated with the option. The seller will also generally not have the obligation to deliver energy if the unit becomes unavailable after day-ahead schedules are confirmed, and can cut delivery schedules intra-day.

Default: Default generally refers to a failure to perform an act or obligation that is required under a contract.

Fuel Manager: A fuel manager generally refers to an entity responsible for delivering, nominating and balancing the natural gas requirements for a generating unit.

Loading-Dependent Heat Rate: A loading-dependent heat rate generally refers to the efficiency of a generating unit in terms of MMBtus of natural gas consumed for each MWh of energy produced at a specific operating level of the unit. In general, a generating unit is less efficient at lower loading levels and more efficient at higher loading levels.

Novation: Novation generally refers to the substitution of a party for one of the original parties to a contract with the consent of the remaining party

or parties. The result is that the old contract is extinguished, and a new contract, with the same content but with at least one different party, is created.

Option Premium: An option premium generally refers to an amount or amounts that an option buyer pays to an option seller for the right, but not the obligation, to take a fixed quantity of energy for a specified number of hours and over a specified term and pay a fixed price or a price based on a pre-determined contract heat rate and gas index price plus gas transportation.

Ramp Rates: A ramp rate generally refers to how quickly a generating unit can change its output, measured in MW per minute.

Residual Back-to-Back Toll: A residual back-to-back toll generally refers to a contract wherein a party to a tolling agreement transfers the contractual dispatch rights, operational constraints, gas supply requirements, performance/availability incentives and penalties, and avoidable cost payments under the tolling agreement to another party subject to the obligations of other call rights, such as one or more day-ahead unit contingent call options associated with the underlying electric generation facility, in return for financial consideration.

Scheduling Coordinator: A scheduling coordinator generally refers to an entity certified by the California Independent System Operator (CAISO) for the purposes of undertaking the functions specified in Section 4.5.3 of the CAISO Tariff.

Tolling Agreement: A tolling agreement generally refers to a contractual arrangement wherein the seller transfers the right to dispatch an electric generating facility, including the obligation to provide the fuel source, to the buyer for a fee that is comprised of unavoidable (i.e., fixed) and avoidable (i.e., volumetric) payments. The tolling agreement will typically specify by contract terms the dispatch rights, operational constraints, gas supply requirements, performance/availability incentives and penalties, and payment obligations.

(END OF APPENDIX C)