



February 7, 2012

**VIA ELECTRONIC FILING**

The Honorable Kimberly D. Bose  
Secretary  
Federal Energy Regulatory Commission  
888 First Street, NE  
Washington, DC 20426

**Re: California Independent System Operator Corporation,  
Docket No. ER06-615-\_\_\_\_\_  
Informational Filing of Negotiated Default Energy Bids  
Request for Privileged Treatment Under 18 C.F.R Section 388.112**

Dear Secretary Bose:

Pursuant to Paragraph 1057 of the Federal Energy Regulatory Commission's (Commission) September 21, 2006 order in Docket Nos. ER06-615-000, *et al.*<sup>1</sup> and Section 39.7.1.3.2 of its tariff, the California Independent System Operator Corporation respectfully submits this informational filing containing formulas used to calculate default energy bids (DEBs) under the negotiated rate option for certain suppliers participating in the ISO's markets that went into effect in the month of January 2012. As explained in greater detail below, the ISO is seeking privileged treatment of the attached formulas pursuant to 18 C.F.R. Section 388.112 because the ISO is obligated to keep bid data confidential under its tariff.

**I. BACKGROUND**

Under its market power mitigation procedures, the ISO calculates DEBs for all generating units and participating loads pursuant to one of three methodologies, at the election of the scheduling coordinators representing such resources: (1) the variable cost option, under which the DEB is determined by adding the incremental fuel costs and variable operation and maintenance costs, along with a 10% bid adder; (2) the LMP option, under which the DEB is set at the weighted average of the lowest quartile of locational marginal prices at the generating unit PNode in periods when the unit was dispatched during the preceding 90 days; and (3) the negotiated rate option, under which the DEB is derived through consultation between the scheduling coordinator and the ISO or an independent entity selected by the ISO. If a scheduling coordinator does not elect to use any of these three options or the ISO cannot obtain sufficient data to calculate a DEB using one of these three options, then the ISO may establish a temporary DEB based on certain types of data as provided in tariff section 39.7.1.5.

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<sup>1</sup> 116 FERC ¶ 61,274 (2006) ("September 2006 Order").

In the September 2006 Order, the Commission approved the ISO's proposal to provide the negotiated rate option for calculating DEBs, finding that it provided market participants with greater flexibility to recover their variable operating costs when their market bids were subject to local market power mitigation. The Commission also directed the ISO to include in its tariff language a requirement to file these DEBs in an informational filing with the Commission. The ISO complied with this directive by adding to its tariff section 39.7.1.3.2, which states that the ISO shall make an informational filing with the Commission of any DEBs calculated pursuant to the negotiated rate option, or any temporary DEBs, no later than seven (7) days after the end of the month in which the DEBs were established. On May 7, 2009, the ISO made its first informational filing of negotiated rate option DEBs pursuant to this requirement. Since then, the ISO has submitted an informational filing on or about the seventh of any month following the implementation of a new or changed DEB or to update any scheduling coordinator-specific information.

In January 2012, the ISO implemented revised negotiated rate option DEBs on behalf of fifteen resources. As discussed briefly in the ISO's January 13, 2012, tariff amendment filing to update the default operations and maintenance cost adders used to calculate minimum load costs and default energy bids under the variable cost option,<sup>2</sup> the ISO temporarily revised the operations and maintenance adders used to calculate minimum load costs to be consistent with any negotiated operations and maintenance adders negotiated as part of the negotiated default energy bid option.<sup>3</sup> When this occurred, Potomac Economics, the independent entity that calculates negotiated default energy bids, adjusted the operations and maintenance adders used to calculate negotiated default energy bids. The ISO returned to its prior practice, in effect since April 2009, which has been to use the custom operations and maintenance adder negotiated as part of the negotiated DEB solely to calculate default energy bids. The ISO determined that it would be more appropriate to implement any such change through the business practice manual change management process. When the ISO reversed course, Potomac Economics restored the original operations and maintenance values. As a result, there were two changes for each resource that had a custom operations and maintenance adder as part of its negotiated default energy bid. This accounts for the increase volume in changes occurring in January 2012.

## **II. REQUEST FOR CONFIDENTIAL TREATMENT**

Section 20.2 of the ISO tariff requires that the ISO treat individual bids from scheduling coordinators as confidential. Pursuant to this Section, the ISO has labeled the negotiated DEB formula documents included with this filing as confidential because, although they do not contain specific numeric bids, the methodologies set forth in these documents can be used to determine the bids that the ISO will use for these units when applying market mitigation measures. Moreover, many of the documents contain proprietary information regarding specific generating units, such as unit efficiency factors, scaling factors, and operation and maintenance costs. For these reasons, the Commission should accord these attachments privileged treatment pursuant to 18 C.F.R. Section 388.112.

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<sup>2</sup> This tariff amendment is pending in ER12-806. See discussion set forth in the ISO's January 13, 2012 transmittal letter at footnote six.

<sup>3</sup> For affected resources, the change was effective as of January 4, 2012 and terminated two days later on January 6, 2012.

### III. CONTENTS OF FILING

This filing is comprised of:

This Transmittal Letter

Attachment A Confidential Negotiated DEB Formula Documents

### IV. COMMUNICATIONS

Correspondence and other communications regarding this filing should be directed to:

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\* Parties designated for service.

### V. SERVICE

The ISO has served a copy of this filing letter on all parties on the official service list for Commission docket no. ER06-615.

### VI. CONCLUSION

For the reasons set forth above, the ISO respectfully requests that the Commission accept this informational filing and accord the attachment to this filing confidential treatment under Section 388.112.

Respectfully submitted,  
**By: /s/ Sidney M. Davies**  
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## CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon the parties listed on the official service list in the above-referenced proceeding, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, CA this 7<sup>th</sup> day of February, 2012.

*/s/ Anna Pascuzzo*

Anna Pascuzzo

**Informational Filing of Negotiated Default Energy Bids  
February 7, 2012  
California Independent System Operator Corporation  
Attachment A**

**[ATTACHMENT CONSISTS OF PRIVILEGED MATERIAL REDACTED  
PURSUANT TO 18 C.F.R. 388.112]**