

April 21, 2008

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

**RE: California Independent System Operator Corporation  
Docket No. ER08-519- \_\_\_\_ - Compliance Filing**

Dear Secretary Bose:

Pursuant to the Federal Energy Regulatory Commission's ("Commission") March 31, 2008 Order ("March 31 Order") in the above-referenced proceeding,<sup>1</sup> the California Independent System Operator Corporation ("CAISO") hereby submits five copies of its Compliance Filing to comply with the Commission's directives in the March 31 Order.

## **I. BACKGROUND**

### **A. Proceeding History**

Over the last several years, the CAISO has developed under the Market Redesign and Technology Upgrade ("MRTU"), through an extensive stakeholder process, procedures for creating and releasing Congestion Revenue Rights ("CRRs") that will replace the Firm Transmission Rights ("FTRs") that are used under the CAISO's current market design. The currently effective CAISO Tariff provides for releases of FTRs through an FTR auction under Section 36 of the CAISO Tariff. In addition, Appendix BB to the CAISO Tariff includes currently effective language that enables the CAISO to implement and release CRRs in preparation for operations under MRTU through both a CRR Allocation and a CRR Auction.

On January 26, 2007, the CAISO completed its auction of the FTRs to be in effect during the time period April 1, 2007 through March 31, 2008. On December 3, 2007, the CAISO completed its first annual CRR Allocation, and on December 19, 2007, the CAISO completed its first annual CRR Auction, thereby releasing the CRRs to be in effect following the anticipated start of MRTU. On January 4, 2008, the CAISO settled

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<sup>1</sup> California Indep. Sys. Operator Corp., 122 FERC ¶ 61,629 (2008) ("March 31 Order").

the outcome of the first annual CRR Auction. In anticipation that the CAISO would commence operations under MRTU on the April 1, 2008 Trading Day, the CAISO did not conduct an annual FTR auction for the April 1, 2008-March 31, 2009 time period.

On December 31, 2007, the CAISO announced a delay in the start of Market Simulation Update 2 in light of difficulties experienced in implementing that next important step in the market simulation process. In its MRTU monthly report filed on January 14, 2008, the CAISO informed the Commission and Market Participants of the delay in the schedule for MRTU "go-live." At that time, the CAISO did not announce a new MRTU start-up date. On March 27, 2008, the CAISO announced that MRTU was not likely to start sooner than Fall 2008. No new date has been established for MRTU "go-live".

On January 31, 2008, pursuant to section 205 of the Federal Power Act ("FPA"),<sup>2</sup> the CAISO filed a proposed amendment to the current CAISO Tariff to provide for the treatment of CRRs and FTRs in light of the delayed implementation of the MRTU. The Congestion Revenue Rights Contingency Plan ("CRR Contingency Plan") filed by the CAISO addressed the need to: (1) reduce the term of any CRRs already released through the first annual CRR Allocation and Auction processes; (2) resettle those CRRs released through the CRR Auction held in December 2007; and (3) make available FTRs effective April 1, 2008. The CAISO requested that the amendment to the current CAISO Tariff be effective on April 1, 2008.

On March 31, 2008, the Commission accepted for filing, subject to modifications, the proposed tariff revisions effective April 1, 2008. The Commission also directed the CAISO to submit the following two compliance filings:

- 1) Within thirty days from the issuance of the March 31 Order, the CAISO is directed to submit a compliance filing:
  - a. with proposed tariff language that reflects its treatment of interest for resettled CRRs (P 29);
  - b. to remove Appendix BB, Part L, section 45.1 (Backstop Measures) (P 42);
  - c. addressing refunds of interest for FTRs, as proposed in its Answer (P 45);
  - d. to include clarification in the CAISO Tariff that the FTRs provided to new participating transmission owners under section 36.4.3 of the CAISO Tariff will be extended until the earlier of either the start-up date for MRTU or the end of 2010 (P 51).

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<sup>2</sup> 16 U.S.C. § 824d (2000).

- 2) Within sixty days from the issuance of the March 31 Order, the CAISO is directed to make a compliance filing to address if and how the CRR Contingency Plan will affect the Priority Nomination (P 39).

#### **B. Resettlement of CRRs Issued through the CRR Auction**

Pursuant to CRR Contingency Plan filed on January 31, 2008, as modified by the Commission in its March 31 Order, the CAISO will include in its upcoming scheduled invoice on April 23, 2008, the resettlement amounts for the unwound CRRs that were issued through the CRR Auction for the Spring and Summer Season of 2008. The CAISO has taken every reasonable action to ensure implementation of the resettlement of the CRRs as soon as practicable and in a manner consistent with the Tariff provisions filed to comply with the directives in the March 31 Order.

While it is not customary for the CAISO to post proposed compliance filing tariff language, in order to provide sufficient notice to Market Participants on how the resettlement would be conducted, the CAISO posted the proposed tariff language on April 9 and requested comments from Market Participants by April 16. Only one Market Participant submitted written comments, and one Market Participant contacted the CAISO requesting clarification. In addition, on April 15, the CAISO posted a more detailed description of how the actual calculations were conducted in order to inform Market Participants of the procedures the CAISO has used to calculate the resettlement consistent with the tariff. For informational purposes, this document is included in Attachment C to the instant compliance filing.

#### **C. Release of the FTRs Through the FTR Auction**

As reported in its January 31 Filing and later updated in its Answer filed on March 3, 2007, the CAISO immediately took reasonable measures to conduct an FTR auction for the period April 1, 2008 through March 31, 2009 as required by the currently effective CAISO Tariff. On March 11-13, 2008, the CAISO ran the FTR auction for 2007 and posted its results on March 14.<sup>3</sup> On March 17, 2008, the CAISO issued invoices for amounts owed pursuant to the FTR auction on March 17, 2008 and received and disbursed funds to PTOs as required by the CAISO Tariff on March 31, 2008.

## **II. COMPLIANCE FILING**

This filing is intended to comply with the Commission's directives as specified in paragraphs 29, 42, 45 and 51 of the March 31 Order. The CAISO is submitting this compliance filing sooner than 30 days after issuance of the March 31 Order in preparation for its issuance of an invoice settling the outcome of the CRR resettlement on April 23, 2008. The CAISO will file the second required compliance filing to comply

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<sup>3</sup> The outcome of the FTR auction can be found at <http://www.caiso.com/1f64/1f647e2b6aaf0.html>.

with the requirements of Paragraph 39 of the March 31 Order at a later date. That will enable the CAISO to complete its stakeholder process that is currently underway to address the issue raised by Paragraph 39.

**A. Proposed Tariff Changes to Reflect Treatment of Interest for Resettled CRRs**

In its March 31 Order, the Commission agreed that “for each month the CRR auction is resettled, the CAISO should realize neither a shortfall nor surplus of funds, and that the same interest rate and interest period should apply to holders of positively-valued and negatively-valued CRRs.” The Commission also found that the approach discussed by the CAISO and Citadel in their answers would ensure that the CRR resettlement will only impact CRR purchasers and not other Market Participants. However, the Commission found that while Citadel represented that the CAISO had addressed its original concerns, there were some discrepancies between Citadel’s understanding of the interest methodology and the CAISO’s proposed refinement as explained in its answer. The Commission noted that the CAISO did not propose to modify proposed Section 44.2.2 and, therefore, directed the CAISO to submit a compliance filing with proposed tariff language reflecting its treatment of interest for resettled CRRs.

Consistent with this directive, the CAISO proposes to add language to Section 44.2.2 to provide additional detail regarding the interest methodology that the CAISO is applying to the resettlement of the CRRs released through the CRR Auction. In addition, the CAISO is proposing changes to Sections 44.2.1.1 and 44.2.1.2 to delete language that is inconsistent with the proposed changes in 44.2.2 and inconsistent with the methodology described in CAISO’s and Citadel’s Answers regarding the interest methodology to be applied.

These revisions are necessary to reflect the changes agreed to through the CAISO and Citadel answers and accepted by the March 31 Order. The revised tariff provisions reflect an interest rate methodology that calculates associated interest payments and charges in such a manner as to: (1) apply the same effective interest rate and interest period to holders of positively-valued and negatively-valued CRRs awarded through the CRR Auction; and (2) ensure that the CAISO realizes neither a surplus nor a deficit of funds for any month for which CRR Auction Settlement adjustments are required. This methodology requires that the CAISO calculate the interest payments and charges due to CRR Holders based on the effective interest rate the CAISO earned on the CRR Auction revenue amounts held in the monthly CRR Balancing Accounts, for the time period during which the CAISO earned interest on those amounts. These new provisions replace the previously filed tariff language that would otherwise require the CAISO to apply the FERC interest rate to the extent that the CRR Auction resettlements were invoiced after the start of any month that has been eliminated from a CRR term.

The revisions ensure that the CAISO will refund the principal and interest to CRR Holders of positively valued CRRs and collect the principal and interest on amounts the CAISO paid to CRR Holders of negatively valued CRRs that cleared the CRR Auction. Under these resettlement provisions, the CAISO's obligation to refund holders of positively valued CRRs the principal and interest on their CRR Auction payments through its clearing of the CRR Balancing Account exists irrespective of whether and when the CAISO receives payment from holders of negatively valued CRRs. The CAISO notes that market clearing requirements under Section 11.12, 11.16, and 11.19, provide methods to ensure that ISO Creditors are paid the amounts they are owed and provide the mechanisms for accessing funds in the event that an ISO Debtor on a given invoice defaults from its payments. Nothing in the instant filing is intended to modify these existing mechanisms in Section 11.

**B. Proposed Changes to Reflect Treatment of Interest for Resettled FTRs after MRTU Go Live**

The Commission also directed the CAISO to add specific language that addresses refunds of interest for FTRs consistent with CAISO's proposal in its Answer filed on March 3, 2008. In its comments Southern California Edison Company argued that (1) if operations under MRTU commence prior to March 2009, the CAISO should refund to the FTR-holders the settlement amounts plus interest based on the reduced terms of the FTRs proportionately, (2) that the interest adjustments should be from the FTR invoice due date to the FTR refund date, and (3) interest should be calculated at the rate specified in the Commission's regulations. The CAISO responded that Section 45.2 as filed on January 31, 2008 already provided that the CAISO shall "refund to the FTR Holders the Settlement amounts associated with the reduced terms of the FTRs proportionately." The CAISO also proposed to calculate and allocate interest on these FTR amounts using the same methodology that was proposed for the resettlement of CRRs, as discussed above.

The Commission found the FTR methodology for resettling the terms of FTRs to be acceptable, but directed the CAISO to make a compliance filing addressing the refund of interest for FTRs as proposed in the CAISO's Answer. Accordingly, the CAISO proposes changes to Section 45.2 to provide that, in the event the CAISO must reduce the terms of the FTRs released in the FTR auction because MRTU operations commence before March 31, 2009, the CAISO will calculate the amount of interest to be paid as follows: for each month which the FTR auction is resettled, the CAISO will realize neither a shortfall nor a surplus of funds, and all affected FTR Holders will receive the same effective interest rate for the month. The proposed changes require that the effective interest rate paid to the affected FTR Holders will be based on the interest rate the CAISO has earned on amounts held in the monthly FTR auction accounts.

Consistent with Section 36.5 of the currently effective CAISO Tariff, the CAISO on March 31, 2008, transferred the proceeds of the FTR auction to Participating

Transmission Owners ("PTOs") as appropriate. In anticipation that the CAISO will commence operations under MRTU in the fall of 2008 but not before October 1, 2008, the CAISO transferred only the funds associated with FTRs through the month of September 2008. Once the CAISO begins operations under MRTU, consistent with Section 45.2, the CAISO will resettle any auction revenues received from holders of FTRs and disburse any interest earned on FTR auctions held in the interim. Because the CAISO has retained the FTR auction revenues for the months of October 2008 through March 2009, resettlement of the outstanding FTRs will not require recovery of the FTR proceeds from the PTOs in order to effectuate the resettlement of the effected FTRs.

### **C. Additional Compliance Requirements**

In its March 31 Order, the Commission acknowledged that because the CAISO completed the 2008 FTR auction prior to April 1, 2008, the proposed backstop measure in Section 45.1 was no longer necessary. Accordingly, the Commission directed the CAISO to eliminate that language.<sup>4</sup> The CAISO is proposing to delete the backstop language from that Section 45.1 in this filing.

In their comments, the Cities of Anaheim, Azusa, Banning, Colton, Pasadena and Riverside, California ("Six Cities") raised concerns regarding the lack of an explicit reference in the CRR Contingency Plan to the FTRs that the New PTOs are entitled to until the end of the transition period (*i.e.*, December 31, 2010) under Section 36.4.3 of the CAISO Tariff. In its answer, the CAISO confirmed that the FTRs provided to New PTOs under Section 36.4.3 of the CAISO Tariff would be extended until the earlier of either the start-up date for MRTU or the end of 2010. The Commission found that the clarification provided by the CAISO resolved the concern raised by Six Cities and directed the CAISO to include this clarification in the CAISO Tariff. Accordingly, the CAISO is including in Section 45.1 new language to clarify that the FTRs provided to new participating transmission owners under Section 36.4.3 of the CAISO Tariff will be extended until the earlier of either the start-up date for MRTU or the end of 2010.

### **III. ATTACHMENTS**

Along with this transmittal letter, the CAISO provides the following supporting materials:

Attachment A - Revised clean tariff sheets

Attachment B - Blacklines showing changes from initial filing

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<sup>4</sup> March 31 Order at P 49.

Attachment C - Timeline and Methodology for Unwinding Congestion  
Revenue Rights Released Through the 2007 Annual CRR  
Auction

#### IV. CONCLUSION

For all the reasons stated herein, the CAISO respectfully requests that the Commission accept this Compliance Filing.

Respectfully submitted,

 <sup>BAM</sup>

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**Attachment A – Clean Sheets**  
**Congestion Revenue Rights Contingency Plan Amendment Filing**  
**Currently Effective ISO Tariff**  
**April 21, 2008**

**44.2.1 Timing of Reduction, Resettlement and Invoicing.**

**44.2.1.1 Timing of Reduction and Resettlement Before CAISO Establishes Start-up Date for the MRTU Day-Ahead Market.**

Commencing on April 1, 2008, and continuing until such time that the CAISO has announced the date on which it anticipates that it will begin operations under the MRTU Tariff through a CAISO Market Notice, the CAISO will, for each month during which the MRTU Tariff is not in effect: 1) for any CRRs released through the CRR Allocation and CRR Auction for 2008 that were originally scheduled to be in effect during that month, reduce the terms of such CRRs by one month as provided in Section 44.1, and 2) for any CRRs released through the CRR Auction for 2008 that were originally scheduled to be in effect during that month, adjust the CRR Auction Settlement as provided in Section 44.2. All adjustments to CRR Auction Settlements, as applicable, will apply to and will be netted for each CRR Holder that was originally awarded the CRRs in the first annual CRR Auction for 2008. The CAISO shall reflect any resulting payments or charges in a subsequent invoice per the ISO Payments Calendar as soon as practicable. The CAISO will calculate and include interest in the invoiced Settlement adjustments, as set forth in Section 44.2.2.

**44.2.1.2 Timing of Reduction and Resettlement After CAISO Establishes the Date on which it Will Begin Operations under the MRTU Tariff.**

As of April 1, 2008, and after such time that the CAISO has through a CAISO Market Notice announced either (1) the anticipated date on which it will begin operations under the MRTU Tariff, or (2) a date before which it will definitely not begin operations under the MRTU Tariff, the CAISO shall determine the number of months that remain in 2008 prior to the announced date and for which CRR term reduction and CRR Auction resettlement have not already been performed, and will perform the term reduction and CRR Auction resettlement for this time period as a whole in a one-time process. The CAISO shall reduce the terms of CRRs as provided in Section 44.1 and calculate CRR Auction resettlements as provided in Section 44.2 for the full remaining time period. These CRR Auction resettlements will be reflected in a subsequent invoice per the ISO Payments Calendar as soon as practicable after the date on which the CAISO announces either of the dates described above.

**44.2.2 Interest on Payments and Charges for Reduced Terms of CRRs Released Through the CRR Auction.**

As part of the calculation of CRR Auction Settlement adjustments for each affected CRR Holder, the CAISO shall calculate associated interest payments and charges in such a manner as to: (1) apply the same effective interest rate and interest period to holders of positively-valued and negatively-valued CRRs; and (2) ensure that the CAISO realizes neither a surplus nor a deficit of funds for any month for which CRR Auction Settlement adjustments are required. To accomplish these objectives the CAISO will calculate the interest payments and charges due to CRR Holders based on the effective interest rate the CAISO earned on the CRR Auction revenue amounts held in the monthly CRR Balancing Accounts, for the time period during which the CAISO earned interest on those amounts. Interest on a positively valued CRR will represent interest owed by the CAISO to the entity to whom the affected CRR was originally released in the CRR Auction for 2008. Interest on a negatively valued CRR will represent interest due to the CAISO from the entity who obtained the CRR in the 2008 CRR Auction.

**45 Firm Transmission Rights Additional Measures.**

**45.1 FTRs Awarded to New Participating TOs Under Section 36.4.3.**

FTRs awarded to New Participating TOs until the end of the transition period (December 31, 2010) under Section 36.4.3 will be extended until the earlier of the start-up date for MRTU or the end of 2010.

**45.2 Reduction of Terms of Firm Transmission Rights when MRTU Tariff is in Effect.**

After the CAISO commences operations under the MRTU Tariff, for any FTRs that are still effect at such time, the CAISO shall reduce the terms of any FTRs that were released for any hours beginning at 12:00 a.m., on April 1, 2008 and ending at 11:00p.m., on March 31, 2009 p.m., for any month that the CAISO is operating under the MRTU Tariff. The CAISO shall also refund to the FTR Holders the FTR auction Settlement amounts associated with the reduced terms of the FTRs proportionately. The CAISO shall reflect any resulting payments in a subsequent invoice per the ISO Payments Calendar as soon as practicable. The amount of interest to be paid to each party that was awarded FTRs in the FTR auction that are reduced in term shall be determined so that for each month for which the FTR auction is resettled the CAISO will realize neither a shortfall nor a surplus of funds and all affected FTR Holders will receive the same effective interest rate for the month. Thus the effective interest rate paid to the affected FTR Holders shall be based on the interest rate the CAISO has earned on amounts held in the monthly FTR auction accounts.

**Attachment B – Blacklines**  
**Congestion Revenue Rights Contingency Plan Compliance Filing**  
**Currently Effective ISO Tariff**  
**April 21, 2008**

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## ISO TARIFF APPENDIX BB

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### **PART L. CRR CONTINGENCY PLAN**

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#### **44.2 Adjustment of the CRR Auction Settlement for CRRs with Reduced Terms.**

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##### **44.2.1 Timing of Reduction, Resettlement and Invoicing.**

###### **44.2.1.1 Timing of Reduction and Resettlement Before CAISO Establishes Start-up Date for the MRTU Day-Ahead Market.**

Commencing on April 1, 2008, and continuing until such time that the CAISO has announced the date on which it anticipates that it will begin operations under the MRTU Tariff through a CAISO Market Notice, the CAISO will, for each month during which the MRTU Tariff is not in effect: 1) for any CRRs released through the CRR Allocation and CRR Auction for 2008 that were originally scheduled to be in effect during that month, reduce the terms of such CRRs by one month as provided in Section 44.1, and 2) for any CRRs released through the CRR Auction for 2008 that were originally scheduled to be in effect during that month, adjust the CRR Auction Settlement as provided in Section 44.2. All adjustments to CRR Auction Settlements, as applicable, will apply to and will be netted for each CRR Holder that was originally awarded the CRRs in the first annual CRR Auction for 2008. The CAISO shall reflect any resulting payments or charges in a subsequent invoice per the ISO Payments Calendar as soon as practicable. ~~To the extent that the CRR Auction resettlements as specified in this section are invoiced after the start of any month that has been eliminated from a CRR term, the CAISO will calculate and include interest in the invoiced Settlement adjustments, as set forth in Section 44.2.2. Interest on such adjustments will run from the first day of the applicable month until the day on which the invoice is issued.~~

###### **44.2.1.2 Timing of Reduction and Resettlement After CAISO Establishes the Date on which it Will Begin Operations under the MRTU Tariff.**

As of April 1, 2008, and after such time that the CAISO has through a CAISO Market Notice announced either (1) the anticipated date of on which it will begin operations under the MRTU Tariff, or (2) a date before which it will definitely not begin operations under the MRTU Tariff, the CAISO shall determine the

number of months that remain in 2008 prior to the announced ~~start-up~~ date and for which CRR term reduction and CRR Auction resettlement have not already been performed, and will perform the term reduction and CRR Auction resettlement for this time period as a whole in a one-time process. The CAISO shall reduce the terms of CRRs as provided in Section 44.1 and calculate CRR Auction resettlements as provided in Section 44.2 for the full remaining time period. These CRR Auction resettlements will be reflected in a subsequent invoice per the ISO Payments Calendar as soon as practicable after the date on which the CAISO announces either of the dates described above, ~~on which it will begin operations under the MRTU Tariff.~~ ~~To the extent that the CRR Auction resettlements as specified in this section are invoiced after the start of any month that has been eliminated from a CRR term, the CAISO will calculate and include interest in the invoiced resettlement amounts, as set forth in Section 44.2.2. Interest on such adjustments will run from the first day of the applicable month until the day on which the invoice is issued.~~

**44.2.2 Interest on Payments and Charges for Reduced Terms of CRRs Released Through the CRR Auction.**

As part of the calculation of CRR Auction Settlement adjustments for each affected CRR Holder, the CAISO shall calculate associated interest payments and charges in such a manner as to: (1) apply the same effective interest rate and interest period to holders of positively-valued and negatively-valued CRRs; and (2) ensure that the CAISO realizes neither a surplus nor a deficit of funds for any month for which CRR Auction Settlement adjustments are required. To accomplish these objectives the CAISO will calculate the interest payments and charges due to CRR Holders based on the effective interest rate the CAISO earned on the CRR Auction revenue amounts held in the monthly CRR Balancing Accounts, for the time period during which the CAISO earned interest on those amounts. ~~Interest on any adjustments to CRR Auction Settlements will be calculated at the rate specified in the regulations of FERC at 18 C.F.R. §35.19(a)(2)(iii). Interest on a positively valued CRR will represent interest owed by the CAISO to the entity to whom the affected CRR was originally released in the CRR Auction for 2008. Interest on a negatively valued CRR will represent interest due to the CAISO from the entity who obtained the CRR in the 2008 CRR Auction.~~

**45.1 FTRs Awarded to New Participating TOs Under Section 36.4.3 Backstop Measures.**

FTRs awarded to New Participating TOs until the end of the transition period (December 31, 2010) under Section 36.4.3 will be extended until the earlier of the start-up date for MRTU or the end of 2010.In the event that the FTR auction for 2008-2009 cannot be completed in time to make FTRs available by April 1, 2008, the CAISO will offer entities who received FTRs in the previous FTR auction for April 2007 the opportunity to renew such FTRs for April 2008. Similarly, if the FTR auction for 2008-2009 also cannot be completed in time to make FTRs available for May 1, 2008, the CAISO will offer entities who received FTRs in the previous FTR auction for May 2007 the opportunity to renew such FTRs for May 2008. Before renewing such FTRs, however, the CAISO will calculate revised FTR maximum quantities for each applicable FTR transmission path based on the 99.5 percent availability criterion approved by the Commission in *California Independent System Operator Corp.*, 88 FERC ¶ 61,156 (1999). In the event that the maximum FTR quantity for any applicable transmission path is determined to be less than the quantity of the FTRs released for that path for the April 2007 and May 2008 terms, parties who wish to renew their FTRs will be limited to a *pro rata* share of the revised quantity available for that path. Otherwise, parties will be permitted to renew up to 100 percent of their awarded FTRs for April 2007 and May 2007. Any available incremental capacity that is not nominated will be made available to through a manual auction conducted by the CAISO that will be based on submitted bids and a market clearing price.

**45.2 Reduction of Terms of Firm Transmission Rights when MRTU Tariff is in Effect.**

After the CAISO commences operations under the MRTU Tariff, for any FTRs that are still effect at such time, the CAISO shall reduce the terms of any FTRs that were released for any hours beginning at 12:00 a.m., on April 1, 2008 and ending at 11:00p.m., on March 31, 2009 p.m., for any month that the CAISO is operating under the MRTU Tariff. The CAISO shall also refund to the FTR Holders the FTR auction Settlement amounts associated with the reduced terms of the FTRs proportionately. The CAISO shall reflect any resulting payments in a subsequent invoice per the ISO Payments Calendar as soon as practicable. The amount of interest to be paid to each party that was awarded FTRs in the FTR auction that are reduced in term shall be determined so that for each month for which the FTR auction is resettled the CAISO will realize neither a shortfall nor a surplus of funds and all affected FTR Holders will receive

the same effective interest rate for the month. Thus the effective interest rate paid to the affected FTR Holders shall be based on the interest rate the CAISO has earned on amounts held in the monthly FTR auction accounts.

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**Attachment C –  
Timeline and Methodology for Unwinding Congestion Revenue Rights  
Released Through the 2007 Annual CRR Auction**

**Congestion Revenue Rights Contingency Plan Compliance Filing**

**Currently Effective ISO Tariff**

**April 21, 2008**



**Timeline and Methodology for Unwinding  
Congestion Revenue Rights Released Through the  
2007 Annual CRR Auction**

**April 15, 2008**

Consistent with the CRR Contingency Plan as conditionally accepted by the Federal Energy Regulatory Commission (FERC) on March 31, 2008, the CAISO has initiated its process for unwinding a portion of CRR Holders' portfolios due to the delay in the start-up of Market Redesign and Technology Upgrade (MRTU).<sup>1</sup> This process will affect CRR Holders that participated in the 2008 Annual CRR Auction held in 2007 with net positive or net negative portfolio values for the months of April through September 2008. The methodology described below is consistent with the methodology described in CAISO's recent FERC filing as further enhanced by the CAISO's answer to Citadel's protest and further clarified by the filing related to the withdrawal of Citadel's protest.<sup>2</sup>

Key dates for affected CRRs include:

1/7/2008	Interest accrual start date
4/23/2008	April invoice date
4/30/2008	April payment due date
	Interest accrual end date
	Unwinding distribution date
5/22/2008	May invoice date
5/30/2008	May payment due date
	Unwinding distribution true-up date (if necessary)

**A. Unwinding of CRRs**

On March 27, 2008, at its Board of Governors Meeting, the CAISO announced that it would not commence operations under MRTU until after summer. Based on this decision, the CAISO determined that it was certain that MRTU would not be in effect for the months of April through September in 2008. Pursuant to Section 44.1 of the CAISO tariff as conditionally accepted by the FERC on March 31, 2008, the CAISO reduced the

<sup>1</sup> See *California Indep. Sys. Operator Corp.*, 122 FERC 61, 296 (2008) which can be found at [http://elibrary.ferc.gov/idmws/File\\_list.asp?document\\_id=13594595](http://elibrary.ferc.gov/idmws/File_list.asp?document_id=13594595).

<sup>2</sup> See FERC Docket No. ER07-519-000.

terms of Seasonal CRRs released in the annual CRR Allocation or CRR Auction for 2008 and Long Term CRRs released in the annual CRR Allocation by the months of April through September 2008. For these reduced CRRs, the new term will begin at the start of the first hour of that CRR's time of use period in which the CAISO begins operations under the MRTU Tariff, and will end at that CRR's originally specified expiration. At this time the new term of the CRRs begins as of October 1, 2008. If MRTU operations do not begin as of October 1, 2008, the CAISO will further reduce the terms of the released CRRs as appropriate consistent with the conditionally accepted tariff provisions.

In addition to reducing the terms of the CRRs, consistent with Section 44.2 of the CAISO Tariff as conditionally accepted on March 31, 2008, for CRRs released in the CRR Auction for 2008 whose term is reduced as described above and in Section 44.1 of the Tariff, the CAISO calculated an adjustment to the CRR Auction Settlement by taking the net CRR Auction Settlement amounts for Summer and Fall seasons for each CRR Holder.

Section 44.2 of the Tariff specifies that the CAISO "calculate an adjustment to the CRR Auction Settlement by: 1) dividing the number of hours (on-peak or off-peak) that the term of the CRR was reduced by the number of hours (on-peak or off-peak) in the original term, and then 2) multiplying this ratio by the original CRR Auction Settlement amount for the CRR." As the CAISO had determined that MRTU would not be in effect for the first two full seasons between April 1<sup>st</sup> and September 30<sup>th</sup> 2008, it was determined by inspection that the pro-ration amounts would be equivalent to the entire original settlement amounts for these two seasons as all hours in each respective season were being unwound.

The CAISO then determined that to the extent that an adjustment to a CRR Auction Settlement is a positive amount, such amount will represent a payment due from the CAISO to the entity that received the CRR in the annual CRR Auction for 2008. To the extent that an adjustment to a CRR Auction Settlement is a negative amount, such adjustment will represent a charge due to the CAISO from the entity who received the CRR in the CRR Auction for 2008.

## **B. Interest Rate Calculation**

One business day following the payment due date of the 2008 Annual CRR Auction (1/7/2008), the net proceeds of the auction were transferred into an interest bearing account. This account accrues interest daily and pays monthly based on the 1 Day Yield as published by the financial institution where the funds are being held. Therefore, on any given day, the End-of-Day Balance plus the Month-to-Date Accrual less the initial deposit amount represents the total interest earned on the net proceeds of the auction. The interest accruing period for this unwind process is the period from the interest accrual start date through the unwinding distribution date, inclusive, for all CRR Holders with holdings for the affected months.

Since only six of the nine months of the awarded CRRs are being unwound, it was necessary to first determine what portion of the total interest earned to allocate among affected CRR Holders. This was determined by dividing the net auction proceeds for the CRRs being unwound by the total net proceeds of the 2008 Annual CRR Auction, and multiplying the result by the total interest earned between the interest accrual start date and the unwinding distribution date (which is also the interest accrual end date). The result of this calculation is the total amount of interest to allocate to the affected CRR Holders. This amount was then allocated among the affected CRR Holders by prorating based on each CRR Holder's net CRR auction payment for the months of April through September compared to the total net auction proceeds for the CRRs being unwound. In this way, all affected CRR Holders (holders of net positive and net negative valued portfolios) will have the same effective interest rate applied and all funds in the monthly balancing account will net to zero as a result of the unwinding process. The CRR Holder's net CRR auction payment for an affected month (principal) plus the result of the prorated interest (interest) will show on the CRR Holder's April invoice as a single positive (owed to CRR Holder) or negative (owed to CAISO) amount for that month. For each CRR Holder the aggregate net CRR auction adjustments for all affected months will be netted with each other and with other market obligations. Any resulting amounts to be paid to the CRR Holder or owed to CAISO will be settled on the April payment due date (i.e., unwinding distribution date).

The period of time between the date CAISO Settlements requires the CRR unwinding information for invoicing and the unwinding distribution date represents a lag during which CAISO will not have daily yield information. Therefore, it will be necessary for CAISO to approximate the value of the CRR account on the unwinding distribution date to achieve the results outlined above. As a result, CAISO anticipates a minimal amount of interest that will need to be allocated according to the same methodology described above and distributed as a true-up during the May invoicing period. Note that according to CAISO Tariff, if the true up amount is less than \$10 and it is the only item on the invoice, no invoice will be issued. (See CAISO Tariff Section 11.6.2.1).

## CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in the above-captioned docket. Dated at Folsom, California on this 21<sup>st</sup> day of April, 2008.

 <sup>BRM</sup>  
Anna A. McKenna  
Anna A. McKenna