

August 18, 2008

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

**Re: California Independent System Operator Corporation
Compliance Filing
Docket Nos. ER06-615- 013**

Dear Secretary Bose:

The California Independent System Operator (“CAISO”)¹ hereby submits an original and five copies of the instant filing in compliance with the Federal Energy Regulatory Commission’s (“Commission”) “Order Conditionally Accepting, Subject to Modification, MRTU Compliance Filings,” 123 FERC ¶ 61,043, issued on July 17, 2008 (“July 17 Order”). Two additional copies of this filing are enclosed to be date-stamped and returned to our messenger.

I. Background

On February 9, 2006, the CAISO filed a proposed Market Redesign and Technology Upgrade (“MRTU”) Tariff that included modifications to the then-current ISO Tariff reflecting the numerous changes to the CAISO’s market structure included in the MRTU proposal. On September 21, 2006, the Commission issued an order conditionally accepting the MRTU Tariff for filing, subject to modifications.²

In the September 2006 MRTU Order, the Commission directed the CAISO to implement convergence bidding within 12 months of the effective date of MRTU, rather than postpone MRTU until the development and approval of a convergence bidding plan. The Commission also directed the CAISO to develop and file interim measures to mitigate the potential economic incentives for Load

¹ Capitalized terms not otherwise defined herein have the meanings set forth in the Master Definitions Supplement, Appendix A to the CAISO Tariff (also known as the Market Redesign and Technology Upgrade or MRTU Tariff). Except where otherwise noted herein, references to sections are references to sections of the MRTU Tariff.

² *California Indep. Sys. Operator Corp.*, 116 FERC ¶ 61,274 (2006) (“September 21 Order”).

Serving Entities (“LSEs”) to underschedule in the Day-Ahead Market. Such measures are further required to remain in effect until they are superseded by the implementation of an approved convergence bidding proposal.

On September 28, 2007, the CAISO submitted a compliance filing that consisted of the following features: (1) a bright line test to define persistent underscheduling; (2) an interim scheduling charge for LSEs that persistently underschedule; and (3) confidential weekly reports to disclose scheduling performances.

On July 17, 2008, the Commission issued its Order Conditionally Accepting, Subject to Modification, MRTU Compliance Filings requiring further compliance filings as described herein.

II. Tariff Revisions Directed in the July 17 Order.

In response to the Commission’s directives in the September 21 Order, the CAISO conducted a stakeholder process to arrive to a proposal as filed with the Commission that would implement a bright line test to identify and penalize persistent underscheduling. As proposed in its September 28, 2007 filing in section 11.24.2, persistent underscheduling would occur when, in any given month, a scheduling coordinator’s Net Negative CAISO Demand Deviation in its applicable Load Aggregation Point (LAP) exceeds 15 percent of the Scheduling Coordinator’s cleared total CAISO demand as represented in its Day-Ahead Schedule in its applicable LAP *for five percent or more of the total trading hours* for that given month.

The Commission accepted the proposed bright line test as filed except for the five percent “free pass” provision. The Commission directed the CAISO to eliminate the five percent provision, finding that this “free pass” could provide the LSEs an economic incentive, during peak hours, to strategically exceed the 15 percent threshold in order to artificially reduce the day-ahead price without penalty.³ The Commission further stipulated that in the event that an LSE exceeds the 15 percent threshold of variability between the day-ahead and real-time market, the CAISO should impose a penalty because the proposed threshold provides LSEs with a reasonable amount of flexibility to address unavoidable forecasting errors and market uncertainties. Accordingly, the CAISO on compliance hereby submits proposed revisions to Section 11.24.2 that eliminate the five percent “free pass” provision that was originally proposed.

III. Materials Provided in the Instant Compliance Filing

In addition to this transmittal letter, the instant compliance filing includes Attachments A and B. Attachment A contains clean MRTU Tariff sheets

³ July 17 Order at P 23.

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reflecting the tariff modifications described in Section II, above. Attachment B shows these modifications in red-line format.

IV. Effective Date and Request for Waiver

The CAISO requests that the Commission approve this compliance filing as submitted to be effective upon implementation of MRTU. As discussed in the monthly status reports the CAISO has submitted in Docket No. ER06-615, the CAISO will not be able to announce a new proposed implementation date for MRTU until the CAISO is confident that the MRTU software is operating successfully. Accordingly, the CAISO is filing clean MRTU Tariff sheets without indicating a proposed effective date and therefore requests waiver of Order No. 614 and applicable provisions of Section 35.9 of the Commission's regulations.

V. Conclusion

The CAISO respectfully requests that the Commission accept the instant filing as complying with the directives of the July 17, 2008 Order. Please contact the undersigned with any questions concerning this filing.

Respectfully submitted,



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Attachment A – Cleansheets

Interim Measures for Underscheduling in the Day-Ahead Market Compliance Filing

Docket No. ER06-615-013

4th Replacement MRTU Tariff

11.24 Interim Scheduling Report, Charge and Allocation.

11.24.1 Interim Scheduling Report.

The CAISO will provide to each Scheduling Coordinator on a weekly basis a report of the difference between a Scheduling Coordinator's metered CAISO Demand and the total CAISO Demand scheduled by the Scheduling Coordinator in its Day-Ahead Schedule, based on available Meter Data. The CAISO shall treat such reports as confidential in accordance with Section 20. Such reports shall be prepared as provided in the applicable Business Practice Manual.

11.24.2 Interim Scheduling Charge.

In the event that a Scheduling Coordinator's Net Negative CAISO Demand Deviation in its applicable LAP exceeds fifteen percent (15%) of the Scheduling Coordinator's cleared total CAISO Demand as represented in its Day-Ahead Schedule in its applicable LAP for any given month, the Scheduling Coordinator shall pay through the end of the applicable calendar month the monthly Interim Scheduling Charge as follows:

- (a) For any given Trading Hour in which the Scheduling Coordinator's Net Negative CAISO Demand Deviation in its applicable LAP is greater than fifteen percent (15%) and less than twenty percent (20%) of the Scheduling Coordinator's cleared total CAISO Demand as represented in its Day-Ahead Schedule in its applicable LAP, the Scheduling Coordinator shall pay \$150/MWh for its Net Negative CAISO Demand Deviation that is greater than fifteen percent (15%) and less than twenty percent (20%) of its cleared total CAISO Demand as represented in its Day-Ahead Schedule in the applicable LAP in that Trading Hour.

Attachment B – Blacklines

Interim Measures for Underscheduling in the Day-Ahead Market Compliance Filing

Docket No. ER06-615-013

4th Replacement MRTU Tariff

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11.24.2 Interim Scheduling Charge.

In the event that a Scheduling Coordinator's Net Negative CAISO Demand Deviation in its applicable LAP exceeds fifteen percent (15%) of the Scheduling Coordinator's cleared total CAISO Demand as represented in its Day-Ahead Schedule in its applicable LAP for ~~five percent (5%) or more of the total Trading Hours in~~ any given month, the Scheduling Coordinator shall pay through the end of the applicable calendar month the monthly Interim Scheduling Charge as follows:

- (a) For any given Trading Hour in which the Scheduling Coordinator's Net Negative CAISO Demand Deviation in its applicable LAP is greater than fifteen percent (15%) and less than twenty percent (20%) of the Scheduling Coordinator's cleared total CAISO Demand as represented in its Day-Ahead Schedule in its applicable LAP, the Scheduling Coordinator shall pay \$150/MWh for its Net Negative CAISO Demand Deviation that is greater than fifteen percent (15%) and less than twenty percent (20%) of its cleared total CAISO Demand as represented in its Day-Ahead Schedule in the applicable LAP in that Trading Hour.
- (b) For any given Trading Hour in which the Scheduling Coordinator's Net Negative CAISO Demand Deviation in its applicable LAP is greater than or equal to twenty percent (20%) of the Scheduling Coordinator's cleared total CAISO Demand as represented in its Day-Ahead Schedule in its applicable LAP, the Scheduling Coordinator shall pay \$250/MWh for its Net Negative CAISO Demand Deviation greater than or equal to twenty percent (20%) of its cleared total CAISO Demand as represented in its Day-Ahead Schedule in the applicable LAP in that Trading Hour.

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