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FEDERAL ENERGY
REGULATORY COMMISSION

California Independent
System Operator Corporation

November 17, 2008

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

**Re: California Independent System Operator Corporation
Compliance Filing
Docket Nos. ER08-556-000 and ER06-615-020**

Dear Secretary Bose:

The California Independent System Operator Corporation ("CAISO") hereby submits for filing an original and five copies of the instant filing in compliance with the Commission's "Order Accepting Tariff Filing Subject to Modification," 125 FERC ¶ 61,053 (2008), issued in the above-referenced proceeding on October 16, 2008 ("October 16 Order"). The October 16 Order addressed proposed amendments to the CAISO Tariff regarding the Interim Capacity Procurement Mechanism ("ICPM").¹

I. Background

On February 8, 2008, the CAISO filed the ICPM pursuant to section 205 of the Federal Power Act ("FPA") and Part 35 of the Commission's regulations. The purpose of the ICPM is to enable the CAISO to acquire generation capacity to maintain grid reliability if load serving entities ("LSEs") fail to meet resource adequacy requirements, procured Resource Adequacy Resources are insufficient, or unexpected conditions create the need for additional capacity.

In the October 16 Order, the Commission conditionally accepted the CAISO's tariff filing, subject to modification.² The Commission ordered a few modifications to the ICPM. First, the Commission found that the CAISO should not procure system capacity

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

² October 16 Order at P 1.

under the ICPM unless a net system deficiency exists.³ In other words, the CAISO would not engage in backstop procurement if a specific LSE did not meet its individual resource adequacy requirements, if other LSE's had procured more than their required amounts and this additional procurement covered the shortfall. The Commission found that to do otherwise may result in more capacity being procured than is necessary to operate the CAISO system reliably. Accordingly, the Commission directed the CAISO to submit tariff language in section 43.1.3 of the MRTU Tariff clarifying this point.⁴ Second, with respect to reporting timelines, the Commission found that ICPM reporting timelines should be consistent with the reporting timelines established in the Reliability Capacity Services Tariff ("RCST").⁵ Additionally, the Commission found that preliminary reports explaining ICPM designations should include designations associated with LSE procurement deficiencies.⁶ Therefore, the Commission directed the CAISO to modify Sections 43.5.1 and 43.5.2 of the MRTU Tariff consistent with these findings.⁷

II. Revisions to the CAISO Tariff to Comply with the October 16 Order

A. Revisions to Section 43.1.3

The Commission directed the CAISO not procure system ICPM capacity unless a net system deficiency occurs. To comply with this directive, the CAISO has added language to Section 43.1.1 stating that the CAISO shall not designate ICPM Capacity under that section unless there is an overall net deficiency in meeting the total annual or monthly Demand and Reserve Margin requirements, whichever is applicable, after taking into account all LSE demonstrations in their applicable annual or monthly Resource Adequacy Plans.

B. Revisions to Sections 43.5.1 and 43.5.2

As noted above, the Commission found that the preliminary reports on ICPM designations should include designations associated with LSE procurement deficiencies. To comply with this directive, the CAISO has made various modifications to Section 43.5.1 to make it clear that the market notice requirement applies to all ICPM designations, not just Significant Event designations.

In the October 16 Order, the Commission also agreed with Santa Clara's argument that the ICPM reporting timelines should be consistent with reporting timelines established in the RCST. In support of its argument, Santa Clara cited a January 9,

³ *Id.* at P 96.

⁴ *Id.*

⁵ *Id.* at P 114.

⁶ *Id.*

⁷ *Id.*

2008 Order that "accept[ed] the CAISO's commitment to report the quantity, duration and cost of any backstop procurement of local capacity area resources within 10 days after the end of the month." The CAISO notes that the Commission issued this directive in the MRTU proceeding, not the RCST proceeding. The RCST did not require the CAISO to report on RCST designations within 10 days after the end of the month. Rather, the RCST only required the CAISO to issue RCST designation reports on a monthly basis. See Section 43.6 of the CAISO Tariff, First Revised Sheet No. 479E, effective June 1, 2006. In its comments, Santa Clara suggested that a solution was for the CAISO to modify Section 43.5.2 to require the ICPM designation report to be posted on or before the earlier of 10 days after the end of the month or 30 days after the designation occurs. See October 16 Order at P 114.

To comply with the Commission's directive in the October 16 Order, the CAISO is modifying Section 43.5.2 to provide that the CAISO shall post an ICPM designation report to the CAISO Website and provide a Market Notice of the availability of the report within the earlier of thirty days of procuring a resource under the ICPM or ten days after the end of the month. This approach is consistent with the solution that Santa Clara suggested in its comments on the ICPM filing and which the Commission referenced in the October 16 Order. Also, the approach is consistent with the reporting obligations that the Commission approved under the Transitional Capacity Procurement Mechanism. See Section 43.6.2 of the existing ISO Tariff. The CAISO submits that this approach is appropriate because, if the CAISO were strictly following the RCST approach, the CAISO would be issuing designation reports only on a monthly basis. However, that does not appear to be the intent of the October 16 Order. Further, such an approach would not be consistent with the January 9, 2008 MRTU Order. The CAISO's compliance approach requires the designation report to be posted the earlier of 10 days after the end of the month or 30 days after the designation occurs. As such, it promotes more timely postings of ICPM designations.

The CAISO submits that the aforementioned tariff revisions comply with the Commission's directives in the October 16 Order.

III. Materials Provided in the Instant Compliance Filing

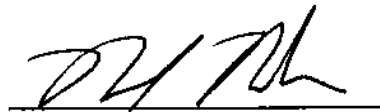
In addition to this transmittal letter, the instant compliance filing includes Attachments A and B. Attachment A contains clean CAISO Tariff sheets reflecting the modifications to the CAISO Tariff described in Section I, above. Attachment B shows these modifications in red-line format.

IV. Conclusion

For the foregoing reasons, the CAISO respectfully requests that the Commission accept the instant filing as complying with the applicable directives in the October 16 Order. Please feel free to contact the undersigned with any questions concerning this filing.



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CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all of the parties listed on the official service list for the captioned 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 this 17th day of November, 2008.



Anna Pascuzzo

Attachment A – Clean Sheets
Interim Capacity Procurement Mechanism (ICPM) Compliance Filing
4th Replacement CAISO Tariff (MRTU)
November 17, 2008

Any Scheduling Coordinator that provides such additional Local Capacity Area Resources consistent with the Market Notice under this Section shall have its share of any ICPM procurement costs under Section 43.7.3 reduced on a proportionate basis. If the full quantity of capacity is not reported to the CAISO under revised annual Resource Adequacy Plans in accordance with this Section, the CAISO may designate ICPM Capacity sufficient to alleviate the deficiency.

43.1.3 Scheduling Coordinator Failure to Demonstrate Sufficient Resource Adequacy Resources to Meet Annual and Monthly Demand and Reserve Margin Requirements.

The CAISO shall have the authority to designate ICPM Capacity where a Scheduling Coordinator fails to demonstrate in an annual or monthly Resource Adequacy Plan, submitted separately for each represented LSE, procurement of sufficient Resource Adequacy Resources to comply with each LSE's annual and monthly Demand and Reserve Margin requirements under Section 40; provided that the CAISO shall not designate ICPM Capacity under this Section 43.1.3 until after the Scheduling Coordinator has had the opportunity to cure the deficiency as set forth in Section 40.7; provided further that the CAISO shall not designate ICPM Capacity under this Section 42.1.3 unless there is an overall net deficiency in meeting the total annual or monthly Demand and Reserve Margin requirements, whichever is applicable, after taking into account all LSE demonstrations in their applicable annual or monthly Resource Adequacy Plans.

43.1.4 ICPM Significant Events.

The CAISO may designate ICPM Capacity to provide service on a prospective basis following an ICPM Significant Event, to the extent necessary to maintain compliance with Reliability Criteria and taking into account the expected duration of the ICPM Significant Event.

43.4.2 Obligation To Provide Capacity and Termination.

The decision to accept an ICPM designation shall be voluntary for the Scheduling Coordinator for any resource. If the Scheduling Coordinator for a resource accepts an ICPM designation, it shall be obligated to perform for the full quantity and full period of the designation with respect to the amount of ICPM Capacity for which it has accepted an ICPM designation. If a Participating Generator's or Participating Load's Eligible Capacity is designated under the ICPM after the Participating Generator or Participating Load has filed notice to terminate its Participating Generator Agreement or Participating Load Agreement or withdraw the Eligible Capacity from its Participating Generator Agreement or Participating Load Agreement, and the Scheduling Coordinator for the resource agrees to provide service under the ICPM, then the Scheduling Coordinator shall enter into a new Participating Generator Agreement or Participating Load Agreement, as applicable, with the CAISO.

43.5 Reports.

The CAISO shall publish the following reports and notices.

43.5.1 ICPM Designation Market Notice.

The CAISO shall issue a Market Notice within two (2) Business Days of an ICPM designation. The Market Notice shall include a preliminary description of what caused the ICPM designation, the name of the resource(s) procured, the preliminary expected duration of the ICPM designation, the initial designation period, and an indication that a designation report is being prepared in accordance with Section 43.5.2.

43.5.2 Designation of a Resource under the ICPM.

The CAISO shall post a designation report to the CAISO Website and provide a Market Notice of the availability of the report within the earlier of thirty (30) days of procuring a resource under the ICPM or ten (10) days after the end of the month. The designation report shall include the following information:

- (1) A description of the reason for the designation (LSE procurement shortfall, Local Capacity Area Resource effectiveness deficiency, or ICPM Significant Event), and an explanation of why it was necessary for the CAISO to utilize the ICPM authority);
- (2) The following information would be reported for all backstop designations:
 - (a) the resource name;
 - (b) the amount of ICPM Capacity designated (MW),
 - (c) an explanation of why that amount of ICPM Capacity was designated,
 - (d) the date ICPM Capacity was designated,
 - (e) the duration of the designation; and
 - (f) the price for the ICPM procurement; and
- (3) If the reason for the designation is an ICPM Significant Event, the CAISO will also include:
 - (a) a discussion of the event or events that have occurred, why the CAISO has procured ICPM Capacity, and how much has been procured;
 - (b) an assessment of the expected duration of the ICPM Significant Event;
 - (c) the duration of the initial designation (thirty (30) days); and
 - (d) a statement as to whether the initial designation has been extended (such that the backstop procurement is now for more than thirty (30) days), and, if it has been extended, the length of the extension.

Attachment B – Blacklines
Interim Capacity Procurement Mechanism (ICPM) Compliance Filing
4th Replacement CAISO Tariff (MRTU)
November 17, 2008

43.1.3 Scheduling Coordinator Failure to Demonstrate Sufficient Resource Adequacy Resources to Meet Annual and Monthly Demand and Reserve Margin Requirements.

The CAISO shall have the authority to designate ICPM Capacity where a Scheduling Coordinator fails to demonstrate in an annual or monthly Resource Adequacy Plan, submitted separately for each represented LSE, procurement of sufficient Resource Adequacy Resources to comply with each LSE's annual and monthly Demand and Reserve Margin requirements under Section 40; provided that the CAISO shall not designate ICPM Capacity under this Section 43.1.3 until after the Scheduling Coordinator has had the opportunity to cure the deficiency as set forth in Section 40.7; provided further that the CAISO shall not designate ICPM Capacity under this Section 42.1.3 unless there is an overall net deficiency in meeting the total annual or monthly Demand and Reserve Margin requirements, whichever is applicable, after taking into account all LSE demonstrations in their applicable annual or monthly Resource Adequacy Plans.

43.5.1 ICPM Significant Event Designation Market Notice.

The CAISO shall issue a Market Notice within two (2) Business Days of an ICPM designation to address each ICPM Significant Event. The Market Notice shall include a preliminary description of what caused the ICPM designation Significant Event, the name of the resource(s) procured, the preliminary expected duration of the ICPM designation Significant Event, the initial designation period, and an indication that a designation report is being prepared in accordance with Section 43.5.2.

43.5.2 Designation of a Resource under the ICPM.

~~Within thirty (30) days of procuring a resource under the ICPM,~~ The CAISO shall post a designation report to the CAISO Website and provide a Market Notice of the availability of the report within the earlier of thirty (30) days of procuring a resource under the ICPM or ten (10) days after the end of the month.

The designation report shall include the following information:

- (1) A description of the reason for the designation (LSE procurement shortfall, Local Capacity Area Resource effectiveness deficiency, or ICPM Significant Event),

and an explanation of why it was necessary for the CAISO to utilize the ICPM authority);

- (2) The following information would be reported for all backstop designations:
 - (a) the resource name;
 - (b) the amount of ICPM Capacity designated (MW),
 - (c) an explanation of why that amount of ICPM Capacity was designated,
 - (d) the date ICPM Capacity was designated,
 - (e) the duration of the designation; and
 - (f) the price for the ICPM procurement; and
- (3) If the reason for the designation is an ICPM Significant Event, the CAISO will also include:
 - (a) a discussion of the event or events that have occurred, why the CAISO has procured ICPM Capacity, and how much has been procured;
 - (b) an assessment of the expected duration of the ICPM Significant Event;
 - (c) the duration of the initial designation (thirty (30) days); and
 - (d) a statement as to whether the initial designation has been extended (such that the backstop procurement is now for more than thirty (30) days), and, if it has been extended, the length of the extension.
