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February 2, 2006

The Honorable Magalie R. Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

**Re: California Independent System Operator Corporation
Compliance Filing
Docket Nos. ER06-354-____ and EL06-44-____**

Dear Secretary Salas:

The California Independent System Operator Corporation ("CAISO")¹ submits an original and five copies of the instant filing in compliance with the Commission's January 13, 2006 order in the captioned docket, as corrected on January 18, 2006, 114 FERC ¶ 61,026 ("Amendment No. 73 Order"), accepting and modifying Amendment No. 73 to the CAISO Tariff ("Amendment No. 73") and instituting a Section 206 proceeding.

In the Amendment No. 73 Order, the Commission accepted the CAISO's proposal to raise the current cap on real-time Energy bids and Adjustment Bids from \$250/MWh to \$400/MWh. Amendment No. 73 Order at P 25. However, the Commission rejected "the CAISO's proposal to change the current 'soft' nature of the cap to a 'hard' cap during this interim period prior to the implementation of MRTU [the Market Redesign & Technology Upgrade] and a resource adequacy mechanism. *Id.*"² The Commission ordered the CAISO to file revised tariff sheets

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

² Under a "soft" bid cap regime, Market Participants are allowed to submit above-cap bids, but such bids do not set the Market Clearing Price. Under a "hard" bid cap, Market Participants are forbidden from submitting above-cap bids. Transmittal Letter for Amendment No. 73 at 2.

consistent with its directives. *Id.* at Ordering Paragraph (A). To comply with the Commission's directives, the CAISO has revised Section 28.1.2 of the CAISO Tariff to state that the Commission-approved \$400/MWh cap on Energy bids is a soft cap.³

The CAISO has deleted the proposed revisions to Section 28.1.2 contained in Amendment No. 73 concerning the cap on Adjustment Bids. The CAISO explained in a recent filing in this proceeding that, in accordance with prior Commission orders, the CAISO has applied a hard cap on Adjustment Bids, at the same level as the soft cap in Section 28.1.2. Motion for Clarification or, in the Alternative, Request for Rehearing and Motion for Stay of the CAISO, Docket Nos. ER06-354-001 and EL06-44-001 (Jan. 24, 2006), at 3-5 ("January 24 Filing"). However, the cap on Adjustment Bids was not expressly stated in the CAISO Tariff until the CAISO submitted Amendment No. 73. In the January 24 Filing, the CAISO requested that the Commission clarify that it intended for the CAISO to retain the existing hard cap on Adjustment Bids rather than changing that cap to a soft cap or, if the Commission did not grant the requested clarification, the CAISO stated that the Commission should find on rehearing that the CAISO should continue to apply a hard cap rather than a soft cap to Adjustment Bids. January 24 Filing at 2-3, 5-17. If so directed by the Commission, the CAISO is prepared to submit, in a subsequent compliance filing in this proceeding, tariff revisions to reflect a finding by the Commission that a hard cap continues to apply to Adjustment Bids.

The instant filing does not contain any changes to the provisions in Section 28.1.2 of the CAISO Tariff, as filed in Amendment No. 73, concerning the level of the cap on bids in the CAISO's Ancillary Services capacity markets. In the Amendment No. 73 Order, the Commission stated that it would address the issue of the appropriate level of that bid cap in an investigation pursuant to Section 206 of the Federal Power Act. Amendment No. 73 Order at P 32. The

³ As revised in the instant filing, Section 28.1.2 states that any accepted Energy bids above the soft bid cap "are not eligible to set the Market Clearing Price and are subject to cost-justification and refund." This is the same language that was contained in Section 28.1.2 prior to the submittal of Amendment No. 73. The CAISO notes that the process for cost-justifying Energy bids above the soft bid cap is the same as the process for cost-justifying negative decremental Energy bids above the soft bid cap described in Section 28.1.3 of the CAISO Tariff. Specifically, if the CAISO dispatches an incremental Energy bid at a price above the soft bid cap pursuant to Section 28.1.2, the supplier must provide a detailed breakdown of the component costs justifying the bid to the CAISO and the Commission no later than seven days after the end of the month in which the bid was submitted. The CAISO will treat such information as confidential and will apply the procedures set forth in Section 20.3.4 of the CAISO Tariff with regard to requests for disclosure of such information. Finally, the CAISO notes that it will pay dispatched bids for incremental Energy in excess of the soft bid cap based on their bid price, with any payments in excess of the Market Clearing Price being subject to refund by the CAISO if directed by the Commission. The process described above is consistent with Commission directives. See *California Independent System Operator Corporation*, 101 FERC ¶ 61,061, at P 17 (2002).

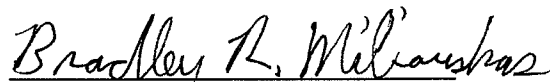
Commission has not yet made a finding in the Section 206 proceeding concerning the Ancillary Services bid cap.

The rest of the proposed revisions in Amendment No. 73 to sections of the CAISO Tariff and Protocols had to do with changing the existing soft cap on Energy bids to a hard cap on such bids; because the Commission rejected the use of a hard cap on Energy bids, as explained above, those revisions never went into effect and therefore the provisions in those sections of the CAISO Tariff and Protocols have reverted back to how they read prior to Amendment No. 73.

The tariff changes described above are incorporated into the revised sheet provided in Attachment A to the instant filing, and are shown in black-line format in Attachment B to the instant filing.

Two additional copies of this filing are enclosed to be date-stamped and returned to our messenger. If there are any questions concerning the filing, please contact the undersigned.

Respectfully submitted,



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ATTACHMENT A

which this Section 27 shall cease to apply, which date shall not be less than seven (7) days after the Notice of Full-Scale Operations is posted.

27.2 For so long as this Section 27.2 remains in effect, Scheduling Coordinators shall continue to be allowed to specify Adjustment Bids for Dispatchable Loads and exports, conditioned on the rule that the last segment of the Adjustment Bid (i.e., the maximum MW value) must equal the preferred MW operating point specified for the Dispatchable Load or export.

28. RULES LIMITING CERTAIN ENERGY AND ANCILLARY SERVICE BIDS

28.1 Damage Control Bid Cap

28.1 Notwithstanding any other provision of this ISO Tariff, Damage Control Bid Cap provisions of Section 28.1.2 and 28.1.3 shall apply to the ISO's Energy and Ancillary Service capacity markets.

28.1.2 Maximum Bid Levels. The maximum bid level in the ISO's Energy markets shall be \$400/MWh. Market Participants may submit bids in the ISO's Energy markets above \$400/MWh, however, any accepted bids above this cap are not eligible to set the Market Clearing Price and are subject to cost-justification and refund.

The maximum bid level in the ISO's Ancillary Service capacity markets shall be \$250/MWh. Market Participants may submit bids in the ISO's Ancillary Service capacity markets above \$250/MWh, however, any accepted bids above this cap are not eligible to set the Market Clearing Price and are subject to cost-justification and refund.

ATTACHMENT B

28.1 Damage Control Bid Cap

28.1 Notwithstanding any other provision of this ISO Tariff, Damage Control Bid Cap provisions of Section 28.1.2 and 28.1.3 shall apply to the ISO's Energy and Ancillary Service capacity markets.

28.1.2 **Maximum Bid Levels.** The maximum bid level for bids in the ISO's Energy markets, and the maximum bid level applicable to Adjustment Bids used in the ISO's Congestion Management markets, shall be \$400/MWh. ~~Notwithstanding any provision in this ISO Tariff to the contrary, the ISO shall not accept Energy bids or Adjustment Bids in excess of \$400/MWh.~~ Market Participants may submit bids in the ISO's Energy markets above \$400/MWh, however, any accepted bids above this cap are not eligible to set the Market Clearing Price and are subject to cost-justification and refund.

The maximum bid level in the ISO's Ancillary Service capacity markets shall be \$250/MWh. Market Participants may submit bids in the ISO's Ancillary Service capacity markets above \$250/MWh, however, any accepted bids above this cap are not eligible to set the Market Clearing Price and are subject to cost-justification and refund.

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all parties on the official service list compiled by the Secretary in the above-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, California this 2nd day of February, 2006.

 ^{BAM}
Anthony Ivanovich
Anthony Ivanovich