California ISO
Your Link to Power

California Independent
System Operator Corporation

January 29, 2007

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

**RE: Long-Term Firm Transmission Rights In Organized Electricity Markets
Docket No. RM06-8-___**

Dear Secretary Salas:

Pursuant to Section 205 of the Federal Power Act (FPA), 16 U.S.C. § 824d, and Part 35 of the Federal Energy Regulatory Commission's (FERC or Commission) regulations, 18 C.F.R. § 35 *et seq*., the California Independent System Operator Corporation (CAISO) hereby submits its filing to provide long-term firm transmission rights in its markets. The submittal is in compliance with Order Nos. 681 and 681-A, the Commission's Final Rule regarding Long-Term Firm Transmission Rights in Organized Electricity Markets.[1]

I. EXECUTIVE SUMMARY

This filing complies with Section 217 of the FPA and Order Nos. 681 and 681-A.[2] The long-term firm transmission rights proposed by the CAISO are referred to as "Long-Term Congestion Revenue Rights" (Long Term CRRs). Specifically, the CAISO's Long Term CRR proposal satisfies each of the seven guidelines contained in the Final Rule in the following manner:

(1) Long Term CRRs specify a source, sink and quantity. **(Guideline 1).**

(2) Long Term CRRs will not be modified during their term and will be fully funded. Once allocated, Long Term CRRs will be modeled as a fixed injections and withdrawals on the DC full network model in subsequent allocation and auction

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1 *Long-Term Firm Transmission Rights in Organized Electricity Markets*, Order No. 681, 71 FR 43564 (Aug. 1, 2006), FERC Stats. & Regs. ¶ 31,226 (2006) ("Order No. 681" or "Final Rule"); and Order No. 681-A, 117 FERC ¶ 61,201 (2006) ("Order No. 681-A" or "Rehearing Order").

2 It is important to note that the Final Rule uses the generic term "load serving entities" and that in the MRTU Tariff a Load Serving Entity is defined to mean only those entities that serve load inside the CAISO Control Area. Therefore, because entities serving external loads will also be eligible for Long Term CRRs, this filing letter will use the lower case term "load serving entity" to refer to both categories of loads.

processes. In addition, the CAISO will ensure the continued feasibility or stability in the amount of an allocated Long Term CRR through its transmission planning process **(Guideline 2)**.

(3) The CAISO will make CRRs available for upgrades or expansions to a party that pays for such upgrades or expansions **(Guideline 3).**

(4) Long Term CRRs will have a term of 10 years. In addition, Long Term CRRs will be allocated to load serving entities that serve load up to 50 percent of their Adjusted Load Metric, which is sufficient to meet the reasonable needs of such load serving entities **(Guideline 4).**

(5) Long Term CRRs will be allocated only to load serving entities and therefore the preference for load serving entities over non-load serving entities required in the Final Rule is inherent in the proposal **(Guideline 5)**.

(6) Long Term CRRs are fully re-assignable in cases of load migration **(Guideline 6)**.

(7) Entities eligible to nominate and receive Long Term CRRs need not participate in an auction to receive them **(Guideline 7)**.

The proposal was developed through a robust stakeholder process and responds to many concerns raised by market participants throughout the design period. Building on the flexibility afforded to parties in Order Nos. 681 and 681-A, the proposal is well tailored and balanced to meet the regional needs of market participants in California. Finally, the proposal makes it possible for the CAISO to make available a fully developed allocation of Long Term CRRs to be effective at the start of the CAISO's Market Redesign and Technology Upgrade (MRTU).

II. INTRODUCTION.

The CAISO's proposal to implement long-term firm transmission rights is an extension of the Congestion Revenue Rights (CRRs) program under the MRTU Tariff. The proposal incorporates the provision of long-term firm transmission rights into the CRR allocation process under the MRTU Tariff conditionally approved by the Commission.[3] In so doing, the instant filing complies with FPA Section 217 and the seven Commission guidelines set forth in Order No. 681 and as further clarified in Order No. 681-A.[4]

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[3] *California Independent System Operator Corporation*, 116 FERC ¶ 61,274 (2006) (September 21 Order). One of the primary drivers of the MRTU as described in the CAISO's February 9, 2006 filing in Docket No.ER06-615-000 ("MRTU Filing") is to encourage long-term contracting and ease pressure on spot markets. *See generally* Testimony of Scott Harvey and Susan Pope, Docket No. ER06-615-000, Exh. ISO-2 at p 27.

[4] In addition to this transmittal letter and revised tariff sheets, the CAISO provides the testimony of Dr. Lorenzo Kristov, Dr. Susan Pope, and Dr. Roger Treinen in support of the proposal. *See* Attachment C, Exhibit No. ISO-1 – testimony of Dr. Lorenzo Kristov; Attachment D, Exhibit No. ISO-2 - testimony of Dr. Susan Pope; Attachment C, Exhibit No. ISO-3 - testimony of Dr. Roger Treinen; *see also* Section VII of this transmittal letter ("Supporting Documents").

It is important to note at the outset that the introduction of Long Term CRRs requires small but important terminology changes in the MRTU Tariff. The existing CRRs, applicable in any single year in the MRTU Tariff will be defined as "Monthly" CRRs and "Seasonal" CRRs.[5] The generic term CRR is retained as general reference to any of the specific types of CRRs in the MRTU Tariff.[6] All changes in terminology resulting from this filing are captured in the tariff through revisions and additions to Appendix A to the MRTU Tariff as submitted in Attachments A and B to this transmittal letter.

The CAISO's proposal will provide Long Term CRRs to load serving entities at the start up of the MRTU markets, currently scheduled for January 31, 2008. Given the scheduled start date for the MRTU markets and the Commission's deadline for a compliance filing in this proceeding, the CAISO is requesting waiver of the notice requirements in section 35.3(a) of the Commission regulations[7] to permit an effective date of the Long Term CRR tariff provisions on July 1, 2007. The requested effective date will allow the CAISO to implement Long Term CRRs in a timely manner before MRTU start-up.[8]

III. BACKGROUND

A. ORDER NOS. 681 AND 681-A: THE FINAL RULE ON LONG-TERM FIRM TRANSMISSION RIGHTS

1. Inquiry into Long-Term Transmission Rights in Organized Electricity Markets

The Commission began its inquiry into long-term transmission rights in organized electricity markets by issuing a Staff Discussion Paper and soliciting comments on the implementation of a

5 *See* New §§ 36.2.5 (Monthly CRRs) and 36.2.6 (Seasonal CRRs) of the proposed tariff language.

6 The CAISO notes that the existing MRTU Tariff includes a separate category of CRRs for entities developing merchant transmission projects – merchant transmission CRRs (MT-CRRs). The CAISO intends for MT-CRRs to be implemented simultaneously with the start of the initial CRR release process for the startup of the MRTU market. The CAISO has formed an internal team to develop the methodology for determining the incremental CRRs available due to merchant transmission projects, will post a Whitepaper on the topic shortly, and will solicit public input on MT-CRRs in a separate stakeholder process.

7 18 C.F.R. § 35.3(a) (2006)

8 The CAISO recognizes that the sheets filed in this proceeding are only a portion of the complete Section 36 that will enable the CAISO to begin its first annual CRR Allocation and CRR Auction process on July 1, 2007. At the start of the second quarter of 2007, following the completion of the CRR Dry Run, the CAISO expects to be submitting a filing under Section 205 of the FPA requesting approval for any necessary changes to the existing CRR rules in the conditionally-approved MRTU Tariff due to lessons learned through the CRR Dry Run. In that filing, the CAISO will also be requesting early effectiveness of the CRR provisions in Section 36 to enable the CAISO to allocate and auction CRRs in a timely manner before MRTU start-up. These CRR provisions will be appended to the currently effective CAISO Tariff as the MRTU tariff will not be in effect until MRTU start-up. As provided in Section IX of this transmittal letter, to accomplish the multiplicity of filings required prior to inception of the first annual CRR Allocation and CRR Auction process in 2007 and actual MRTU start-up in 2008, the CAISO requests waiver of the requirements on proper identification of tariff sheets under Order No. 614. *See Designation of Electric Rate Schedule Sheets*, FERC Stats. & Regs., Regs. ¶ 31,096 [Preambles 1996-2000] (2000).

long term transmission rights. *See* May 11, 2005 Notice in Docket No. AD05-7-000. The inquiry was premised on four factors:[9]

- Congestion costs are an important component of delivered price of electricity;
- In locational marginal pricing (LMP) markets congestion costs can be hedged with Financial Transmission Rights (FTRs);
- At the present time, the longest congestion hedge in all relevant markets is one-year; and
- Transmission customers and other parties had expressed interest in having the ability to obtain transmission service for periods longer than a year with price certainty.

2. The Energy Policy Act of 2005

On August 8, 2005 the Energy Policy Act of 2005 (EPAct 2005) was signed into law. Section 1233 of the EPAct 2005 added new section 217 to the Federal Power Act (FPA) that requires the Commission to exercise its authority under the section in a manner that facilitates the planning and expansion of transmission facilities to meet the reasonable needs of load serving entities and enables load serving entities to secure firm transmission rights (or equivalent tradable or financial rights) on a long-term basis for long-term power supply arrangements made, or planned, to meet such needs.[10]

3. Commission Rulemaking Proceeding and Guidelines for Establishing Long-Term Transmission Rights

The Commission instituted a formal Notice of Proposed Rulemaking in the instant proceeding on February 2, 2006.[11] After rounds of comments, the Commission issued the Final Rule on July 20, 2006. In the Final Rule, the Commission amended its regulations to require each transmission organization that is a public utility with one or more organized electricity markets to make available long-term firm transmission rights that satisfy seven guidelines contained in Order No. 681. The seven guidelines set forth the minimum characteristics for long-term transmission rights that will satisfy the Final Rule and section 1233 of EPAct 2005. The seven guidelines are:

(1) The long-term firm transmission right should specify a source (injection node or nodes) and sink (withdrawal node or nodes), and a quantity (MW);

(2) The long-term firm transmission right must provide a hedge against day-ahead locational marginal pricing congestion charges or other direct assignment of congestion costs for the period covered and quantity specified. Once allocated, the financial coverage provided by a financial long-term right should not be modified during its term (the "full funding" requirement) except in the case of extraordinary

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9 *See Notice Inviting Comments On Establishing Long Term Transmission Rights In Markets With Locational Pricing*, Docket No. AD05-7-000, at p. 1 (May 11, 2005).

10 Section 217(b)(4) of the FPA, 16 U.S.C. § 824q (2006).

11 See Long-Term Firm Transmission Rights in Organized Electricity Markets, 114 FERC ¶ 61,097 (2006) ("NOPR").

circumstances or through voluntary agreement of both the holder of the right and the transmission organization;

(3) Long-term firm transmission rights made feasible by transmission upgrades or expansions must be available upon request to any party that pays for such upgrades or expansions in accordance with the transmission organization's prevailing cost allocation methods for upgrades or expansions;

(4) Long-term firm transmission rights must be made available with term lengths (and/or rights to renewal) that are sufficient to meet the needs of load serving entities to hedge long-term power supply arrangements made or planned to satisfy a service obligation. The length of term of renewals may be different from the original term. Transmission organizations may propose rules specifying the length of terms and use of renewal rights to provide long-term coverage, but must be able to offer firm coverage for at least a 10 year period;

(5) Load serving entities must have priority over non-load serving entities in the allocation of long-term firm transmission rights that are supported by existing capacity. The transmission organization may propose reasonable limits on the amount of existing capacity used to support long-term firm transmission rights;

(6) A long-term transmission right held by a load serving entity to support a service obligation should be re-assignable to another entity that acquires that service obligation; and

(7) The initial allocation of the long-term firm transmission rights shall not require recipients to participate in an auction.

Order No. 681-A at P 15 (guidelines to be set forth in 18 C.F.R. § 42.1(d)).

The Final Rule requires each transmission organization subject to its requirements to file with the Commission, no later than January 29, 2007, either tariff sheets and rate schedules that make available long-term firm transmission rights that satisfy each of the guidelines set forth in the final regulations, or an explanation of how its current tariff and rate schedules already provide for long-term firm transmission rights that satisfy each of the guidelines.[12] On November 16, 2006, the Commission issued the Order on Rehearing and Clarification that largely affirmed the Final Rule and the compliance requirements thereof.[13]

B. CONGESTION REVENUE RIGHTS UNDER THE MRTU TARIFF

Concurrent with the Commission's long-term firm transmission rights rulemaking proceeding, the CAISO has been pursuing implementation of the comprehensive redesign of its market structure in the MRTU proceeding, Docket No. ER06-615-000. The CAISO submitted the MRTU Filing on February 9, 2006. On September 21, 2006, the Commission accepted for

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[12] *Order No. 681* at P 490; *see also* 18 C.F.R. § 42.1(c).

[13] *See Order No. 681-A* at P 3.

filing the MRTU Tariff to become effective November 1, 2007, subject to a number of modifications.[14]

The CAISO's MRTU market design is based on the use of Locational Marginal Prices (LMPs), which has been successfully employed in other regions of the country to allocate congestion costs and provide appropriate short-term and long-term price signals. LMP determines marginal energy prices for each settlement period that accurately reflect the cost of serving the next MWh of demand at each location on the CAISO grid, including the marginal cost of congestion and transmission losses, based on market participants' submitted bids for supply and demand or the CAISO's forecast of demand. A core component of the MRTU market design is CRRs that enable holders of such instruments to manage the cost of congestion. CRRs entitle the holder to receive revenues or charges based on the congestion components of the LMPs calculated for each hour in the Integrated Forward Market (IFM). Under the MRTU Tariff the CAISO first allocates CRRs to load serving entities that pay for the embedded costs of the CAISO Controlled Grid; the remaining CRRs are then made available through auctions open to all creditworthy parties.

The filed MRTU market design did not contain long-term transmission rights.[15] The Commission directed CAISO to work with its stakeholders to develop and submit a compliance filing within the timetable prescribed in the Final Rule.[16] The Commission also noted transmission organizations may need to seek permission from the Commission to reorder their work on existing initiatives in order to implement the Final Rule.[17] Similarly, the Order on the MRTU Filing required CAISO to comply with the Final Rule concerning timely implementation of long-term firm transmission rights.[18]

IV. STAKEHOLDER PROCESS

From the time the Final Rule was issued on July 20, 2006, the CAISO diligently engaged in a thorough and transparent stakeholder consultation process to arrive at the proposal contained in this filing. Because the CAISO was required to make available long-term firm transmission rights consistent with the Commission's Final Rule at the onset of MRTU, the challenge in developing this compliance filing was unique and required significant thoughtfulness and attention from stakeholders. The CAISO appreciates the efforts of all of its market participants in their review of, comments on, and suggestions for improving various iterations of proposals to satisfy the Final Rule. Dr. Kristov provides a more detail description of the robust stakeholder

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14 *See September 21 Order* at PP 1, 2.

15 However, the CRR proposal filed with the MRTU Tariff does contain a provision that enhances the long-term certainty of the one-year "Seasonal" CRRs contained in the Tariff. Specifically, it incorporates a feature (the Priority Nomination Process) that enables LSEs to renew Seasonal CRRs they were previously allocated before allocating new CRRs, thereby providing greater multi-year certainty for LSEs than the one-year term of these CRRs would suggest. In addition, as discussed in this document and the attached testimony, the CRR proposal filed with the MRTU Tariff already meets several of the guidelines contained in the Final Rule.

16 *See Order No. 681* at P 495; *Order No. 681-A* at P 116.

17 *Order No. 681* at P 491.

18 *September 21 Order* at PP 890, 891.

process conducted by the CAISO during this limited time set for this proceeding in his Direct Testimony. The stakeholder process included the following:

- Publication of five various iterations of its compliance proposal White Paper and analysis of the Final Rule. One of these White Papers contained a comparison of competing alternatives;
- Six rounds of written stakeholder comments posted on the CAISO website;
- Three day-long public meetings with technical, policy and senior CAISO staff as well as external experts;
- A half-day panel discussion for the public and the CAISO Board, in which many stakeholders participated;
- Three public MSC discussions and a formal MSC opinion on Long Term Transmission Rights;
- Three open conference calls; and,
- At least fifteen additional conference calls with individual entities to address discrete issues on an as-requested basis.

The following timeline provides precise details of this stakeholder process.

[table on next page]

Long Term CRR Stakeholder Timeline

Date	Stakeholder Activity
July 20, 2006	Commission Issues Order No. 681.
August 10, 2006	Initial conference call held with stakeholders to discuss CAISO's proposed compliance process and timetable.
August 18, 2006	Stakeholders submit initial comments on process and key issues.
September 26, 2006	CAISO publishes first White Paper on long-term transmission rights design issues and options.
October 3, 2006	CAISO conducts first stakeholder meeting to evaluate various compliance options.
October 16, 2006	Stakeholders submit second round of written comments on key issues.
October 18, 2006	CAISO sponsors a panel discussion involving various market participants as well as an MSC member and staff from the NYISO. Presentation materials from this meeting are posted on the CAISO website.
November 7, 2006	CAISO publishes second White Paper that incorporates a "Straw Proposal for the Design and Release of Long Term Transmission Rights."
November 9, 2006	CAISO holds second stakeholder meeting.
November 20, 2006	Stakeholders submit third round of comments focused on "Straw Proposal."
November 28, 2006	CAISO publishes third White Paper containing additional alternatives for long term transmission rights.
December 8, 2006	Stakeholders submit fourth round of written comments on alternatives.
December 15, 2006	CAISO publishes fourth White Paper, a "Draft Proposal" for Long Term CRRs.
December 19, 2006	CAISO hosts second conference call with stakeholders to discuss December 15th Draft Proposal.
January 5, 2007	CAISO publishes fifth White Paper Titled "CAISO Proposal: Long Term Congestion Revenue Rights."
January 5, 2007	Stakeholders submit fifth round of written comments.
January 9, 2007	CAISO hosts third stakeholder meeting.
January 11, 2007	Stakeholders submit sixth round of written comments.
January 16, 2007	CAISO conducts third conference call with stakeholders.
January 24, 2007	Public comments and discussion at the CAISO Board of Governors meeting.

The CAISO is grateful for the tremendous effort of its stakeholders in participating in this process and recognizes that this comprehensive proposal could not have been realized without their dedication to this goal. The CAISO has thoughtfully considered all stakeholder feedback and has acted on stakeholder suggestions wherever possible and appropriate.

For example, stakeholder comments included comments on the following issues: (a) a request to change the historical reference period for source verification in CRR Year One; (b) a request to change the allocation of costs to meet the full funding requirement of the Final Rule; (c) a request to allow Existing Transmission Contract (ETC) holders with expiring contracts to use the Priority Nomination Process (PNP) as if the ETC sources and sinks previously had been allocated Seasonal CRRs; (d) a concern that using 75% of grid capacity to allocate Long Term CRRs may adversely affect the availability of Seasonal CRRs in future years; (e) allowing entities serving external loads to pre-pay Wheeling Access Charges (WAC) in annual payments rather than a single payment for ten years; and (f) agreeing to develop a proposal to allow the CAISO to track transfers of Long Term CRRs due to Load migration. As summarized below, the CAISO changed its proposal in response to the comments of stakeholder on these issues.

The proposed historical reference period for source verification changed to calendar year 2006;[19] the allocation of full funding uplift costs changed from allocation to Participating Transmission Owners and their transmission revenue requirements to allocation to Measured Demand;[20] ETC holders with expiring contracts are allowed to use the PNP process;[21] the CAISO is now proposing to use 60% of grid capacity to allocate Long Term CRRs as opposed to 75% of grid capacity;[22] OCALSEs will be allowed to pre-pay WAC in annual payments;[23] and the CAISO will develop the procedures, in consultation with stakeholders, to perform the responsibility of tracking the transfer of Long Term CRRs due to load migration.[24]

There were stakeholder comments the CAISO did not adopt. For example, certain stakeholders asked the CAISO in early January to include an auction of Long Term CRRs as part of the compliance filing. The CAISO determined that to consider such a request would extend the design and regulatory approval process past the date on which the CRR releases for MRTU start-up need to begin and, therefore, did not adopt the suggestion.[25] However, while the CAISO did not adopt the suggestion, it will include the item as a possible enhancement for future years to be discussed with stakeholders.

[19] *See* Dr. Kristov's discussion of this issue at Exh. No. ISO-1 at pp. 30-31. The change applies to all CRRs and will be made in separate Section 205 filing in April after analyzing the CRR Dry Run results.

[20] *See* Dr. Kristov's discussion of full funding, Exh. No. ISO-1 at pp. 52-53; Dr. Pope's discussion of this issue at Exh. No. ISO-2 at pp. 55-56; and proposed tariff § 11.2.4.4.1.

[21] *See* Dr. Kristov's discussion of ETCs, Exh. No. ISO-1 at pp. 40-43; and proposed tariff § 36.8.3.5.1.

[22] *See* Dr. Kristov's discussion of grid capacity, Exh. No. ISO-1 at pp. 38-40; Dr. Pope's discussion of this issue at Exh. No. ISO-2 at pp. 40-41; and proposed tariff § 36.4.1.

[23] *See* Dr. Kristov's discussion of prepayment of access charges, Exh. No. ISO-1 at pp. 46-47; and proposed tariff §§ 11.2.5.2 and 36.9.2.1.

[24] *See* Dr. Kristov's discussion of load migration, Exh. No. ISO-1 at pp. 56-58.

[25] *See* Dr. Kristov's discussion of the considerations relating to auctions of LT-CRRs, Exh. No. ISO-1 at p. 10.

V. DESCRIPTION OF THE LONG-TERM CRR PROPOSAL

A. OVERVIEW.

The CAISO proposes to implement Long Term CRRs by building on the existing CRR program as filed in the MRTU Tariff.[26] Specifically, the CAISO will introduce a new allocation tier (Tier LT) after Tier 1 and 2 in the CRR allocation process for CRR Year One,[27] and after Tier 1 (*i.e.*, the PNP) in the CRR allocation process for years subsequent to CRR Year One.[28] The Tier LT provides load serving entities that have been allocated Seasonal CRRs in prior tiers with an opportunity to nominate and be allocated Long Term CRRs for their eligible load.

While the CAISO considered having Tier LT be the first tier in both the CRR Year One and CRR Year Two allocation processes, the CAISO decided to place the new Tier LT *after* Tiers 1 and 2 in the CRR Year One process and *after* the Priority Nomination Process in Tier 1 for years subsequent to CRR Year One. This placement of Tier LT is consistent with the Commission's guidance (i) that there might be advantages to harmonizing the rules for short-term and long-term rights to ensure that the rules encourage efficient nominations and equitable allocations;[29] and (ii) to avoid the potential discriminatory treatment between load serving entities that prefer short-term rights (*i.e.*, Seasonal and Monthly CRRs) and load serving entities that prefer long-term transmission rights (*i.e.*, Long Term CRRs).[30] Another benefit of embedding Tier LT in the existing structure is that, since the allocation of Long Term CRRs will be based on the annual CRR allocation of Seasonal CRRs, the Long Term CRRs will inherit the same season and time-of-use specifications as the Seasonal CRRs, which is a feature stakeholders broadly favor.

Like Seasonal and Monthly CRRs, Long Term CRRs will also be obligations,[31] and will have a specific source, sink and MW quantity. Long Term CRRs are also differentiated by season and time-of-use (TOU) period (*i.e.*, on-peak or off-peak) as are the conditionally-approved Seasonal CRRs (Monthly CRRs are also differentiated by TOU). Thus, each Long

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[26] The CAISO believes that in order to understand fully the Long Term CRR allocation process, the reader could benefit from an understanding of the conditionally approved CRR allocation program. Therefore, Dr. Kristov has provided in his testimony a summary of the conditionally approved CRR allocation process. *See generally* Exh. No. ISO-1; *see also* Attachment F, Whitepaper at 6-10. Additional material explaining the CRR allocation process can be found in MRTU Tariff Section 36 as filed and further amended in Docket No. ER06-615 and on the CAISO website.

[27] *See* tariff section 36.8.3.1.3. Conforming changes were also made to sections 36.8.1 and 36.8.3.1.

[28] *See* tariff §§ 36.8.3.5.2; 36.8.3.5.3; and 36.8.3.5.4.

[29] *Order No. 681* at P 119.

[30] *See Order No. 681* at P 319 (where the Commission stated that it does not construe the directive to make available long-term transmission rights as requiring a preference for load serving entities that prefer long-term rights over those that prefer short-term rights); *see also Order No. 681* at PP 275-290 (for comments regarding the potential discriminatory treatment of load serving entities that prefer short-term rights as compared to load serving entities that prefer long-term rights).

[31] CRR Obligations will entitle the CRR Holder to receive revenues but also obligate the CRR Holder to pay congestion charges in certain circumstances depending on whether the difference between the congestion components of the LMP at the source and the LMP at the sink is positive or negative. The filed CRR proposal offers to allocate a different variety of CRRs, namely CRR Options, only to sponsors of merchant transmission projects.

Term CRR applies to a single season and TOU combination for a 10-year period. If a load serving entity wants a Long Term CRR for every hour of the year for 10 years, it would have to nominate and be allocated eight separate Long Term CRRs, *i.e.*, one for each of the four seasons of the year and each TOU period. Proposed tariff section 36.2.7 captures the parameters of Long Term CRRs.

As is the case for CRRs conditionally approved in the MRTU Tariff, Long Term CRRs will be allocated based on the capacity of the grid as it exists when the nomination is submitted to the CAISO. Each allocated Long Term CRR will be feasible for a ten-year period over the transmission grid that is derated to 60% of its total capacity.[32] Specifically, the additional simultaneous feasibility tests for Tier LT will be performed using a grid modeled for 60% of existing transmission capacity, which is smaller than the 75% used for the SFTs to allocate Seasonal CRRs in Tiers 1, 2 and 3.[33] A primary reason for modeling 60% of grid capacity for the Tier LT SFTs is to ensure that binding constraints occurring in Tier LT do not adversely impact future years' allocation of Seasonal CRRs.[34]

Like other tiers in the conditionally-approved CRR allocation process, the Tier LT process involves an exchange of information between the CAISO and load serving entities, as well as the performance of SFTs to assess the 10-year feasibility of the Seasonal CRRs nominated as Long Term CRRs. There is one characteristic of Seasonal and Monthly CRRs, however, that changes with the CAISO's long-term transmission rights proposal and that is the full funding aspect of those CRRs. In the Final Rule the Commission encouraged transmission organizations to evaluate whether the requirement to fully fund long-term rights should be paired with full funding of short-term rights.[35] The CAISO followed the Commission's suggestion and decided that it was appropriate to extend the full-funding principle to the Seasonal and Monthly CRRs as well as Long Term CRRs.[36] Other than the change regarding full funding, the features of the conditionally-approved Seasonal and Monthly CRR instruments in the MRTU Filing are not affected by the proposal. The proposal does, however, modify some of the details of the three-tier annual allocation process in the MRTU Tariff, to ensure balanced opportunities for load serving entities to obtain an efficient mix of Seasonal CRRs and Long Term CRRs. These details are described fully in the testimony of Dr. Kristov.

The CAISO established the following objectives and guiding principles that were the drivers of the design of the Long Term CRR proposal and its incorporation into the MRTU market design: (i) complying with the seven Commission guidelines in the Final Rule; (ii) using the flexibility offered in the Final Rule to design a proposal suited to the California context and

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32 *See* Exh. No ISO-1 at pp 39-40.

33 This requirement is found in revised tariff section 36.4.1.

34 *See* Exh. No ISO-1 at p. 39 (where Dr. Kristov explains that allocated Long Term CRRs must be modeled into the network for the annual CRR processes in subsequent years and, if Tier LT results in binding constraints at the 75% of grid capacity level, it may excessively limit the availability of certain rights in subsequent years' allocation processes. Dr. Kristov notes that this could pose a problem, particularly for the Tier 1 PNP used by load serving entities who want to rely on year-to-year renewal of seasonal CRRs to meet their congestion cost management needs).

35 *Order No. 681* at P 179.

36 *See* revised tariff §§ 11.2.4.4.1; 11.2.4.5; and 36.8.2. S*ee also* Exh. No ISO-1 at p. 48.

the MRTU markets; (iii) promoting efficient use of existing transmission and generation assets; (iv) promoting efficient investment in transmission and generation; (v) ensuring implementation of Long Term CRRs at the startup of MRTU; and (vi) promoting equitable allocation of Long Term CRRs to entities that pay for the transmission network.[37] In addition, the MSC provided additional guidance that the proposal should also support secondary market activity for both short term and long term CRRs.

The CAISO believes this proposal will allow the CAISO to meet its goals for a smooth transition to the MRTU market while also meeting the needs of market participants and satisfying the guidelines for long-term rights set forth in the Final Rule. Before describing how the proposal complies with the Final Rule, the details of the Long Term CRR allocation process for CRR Year One and for years subsequent to CRR Year One as discussed below.

B. LONG TERM CRR RELEASE FOR CRR YEAR ONE

For CRR Year One, the Tier LT process would be initiated after the completion of Tier 2 of the annual CRR allocation process[38] and before load serving entities submit nominations in the Tier 3 process. After load serving entities are notified of the Seasonal CRRs awarded from the Tier 2 nominations, load serving entities are then able to submit requests to nominate a portion of the Seasonal CRRs awarded in Tiers 1 and 2 as Long Term CRRs.

The CAISO proposes to limit Long Term CRR nominations to 50 percent of a load serving entity's Adjusted Load Metric.[39] The Adjusted Load Metric consists of the load serving entity's Load Metric minus any MWs of Load covered by Existing Transmission Contracts, Converted Rights, and Transmission Ownership Rights. The Load Metric is the basis of a load serving entity's load eligible for CRR allocation and is calculated as the level of Load in megawatts (MW) for a defined time period that is exceeded in only 0.5% of the hours of that time period based on historical or forecast Load data.

As explained by Dr. Kristov, the CAISO found that the 50 percent limitation is reasonable based on Dr. Treinen's findings that, on average, the ratio of a load serving entity's minimum and maximum load is approximately fifty percent.[40] Based on the premise that minimum load is an appropriate definition for base load, and that maximum load is a reasonable approximation of the Load Metric, the CAISO concludes that fifty percent of a load serving entity's Load Metric is a reasonable approximation for the base load for which Long Term CRRs are needed to manage congestion risk.[41] Moreover, because the Seasonal CRRs awarded in

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[37] *See* Exh. No ISO-1 at pp. 5-12 for a full explanation of these principles.

[38] For CRR Year One, the annual allocation of seasonal CRRs will be initiated on July 1, 2007, which is several months before MRTU start-up. Also, CRR Year One will not be a full year with MRTU start up scheduled for January 31, 2008. After CRR Year One, the CAISO will standardize CRR Years on conventional calendar years, starting with the January 1, 2009 calendar year.

[39] *See* proposed tariff § 36.8.3.1.3 (CRR Year One) and proposed § 36.8.3.5.2 (beyond CRR Year One).

[40] *See generally* Dr, Treinen's treatment of this issue at Exh. No. ISO-3 and Dr. Kristov's discussion of the issue at Exh. No ISO-1 at 35-36.

[41] The Commission has noted that "as long as each load serving entity receives a "reasonable" allocation of long-term firm transmission rights (for example, a quantity sufficient to hedge the load serving entity's needs at its base load level), it arguably is receiving its fair share of long-term firm transmission rights, based on its historical

Tiers 1 and 2 for CRR Year One are directly linked to verified sources, Long Term CRRs are likely to be associated with owned generation and long-term contracts that load serving entities had in place during the historical reference period.

The CAISO will test the feasibility of the nominated Long Term CRRs for the 9-year period following CRR Year One after receiving nominations for Long Term CRRs within Tier LT. The feasibility of the Long Term CRR nominations for the first year of the ten year term will have already been established by the SFTs run in Tier 2. To test feasibility for the remaining nine years, the SFT runs for Tier LT will omit those awarded Seasonal CRRs that were not nominated as Long Term CRRs; this will ensure that the feasibility of the Long Term CRR nominations does not depend on counterflows created by Seasonal CRRs that may not be renewed in future years. Thus, in the Tier LT process the SFT will test only those Seasonal CRRs that are nominated as Long Term CRRs. The quantity of Long Term CRRs that can be allocated for any season and time-of-use period must be feasible for the entire ten-year term of the Long Term CRR.

As a result of the Tier LT SFT runs, it is possible that not all nominated Long Term CRRs will be fully allocated.[42] Such a result will not, however, affect the simultaneous feasibility of the previously allocated Seasonal CRRs in Tiers 1 and 2 of CRR Year One. The CAISO will inform nominating load serving entities of the results of the Tier LT feasibility tests before the deadline for submission of the Tier 3 nominations for Seasonal CRRs.

When the CAISO conducts the annual allocation and auction processes in years subsequent to CRR Year One, all previously-allocated Long Term CRRs will be modeled as fixed CRRs on the network to ensure that these subsequent processes do not adversely affect the Long Term CRRs.[43] In addition, for the duration of the term of a Long Term CRR the MW amount of any allocated Long Term CRR will count against: (i) the amount of MWs a load serving entity is eligible to obtain as Seasonal CRRs in future annual allocation processes, and (ii) the amount of MWs a load serving entity is eligible to use to participate in the PNP in Tier 1 of the annual allocation process for years subsequent to CRR Year One.

C. LONG TERM CRR RELEASE IN CRR YEAR TWO AND SUBSEQUENT YEARS

Before describing the Tier LT allocation process for CRR Year Two and subsequent years, it is important to note a proposed change in the Tier 1 PNP for Seasonal CRRs. As originally filed in the MRTU Filing, there were limits on the percentage of the load serving entity's Seasonal Eligible Quantity (SEQ) that could be nominated in the PNP process for years

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cost responsibility." *Order No. 681-A* at P 69. For load serving entities covered in part by ETCs, CVRs or TORs, while 50 percent of the Adjusted Load Metric will be less than the estimated base load, it should be noted that when combined with the load serving entity's ETC, CVR and TOR coverage, , which is also long-term in nature, the result will be long-term congestion cost management greater than 50 percent of the Load Metric.

42 S*ee* Dr. Kristov's discussion of simultaneous feasibility tests at Exh. No. ISO-1 at pp. 43-46.

43 *See* proposed tariff § 36.4.1.

beyond CRR Year One.[44] Each load serving entity was able to nominate up to 33.3 percent of its SEQ in the CRR Year Two PNP, and up to 66.7 percent of its SEQ in the PNP in subsequent years.[45]

In the September 21 Order on the MRTU Filing, the Commission asked the CAISO to reconsider the upper bound on the PNP nominations for years beyond CRR Year One.[46] Specifically, the Commission wanted additional support for why the eligible quantities for CRRs doubled after the first PNP.[47] The Commission also allowed the CAISO to justify PNP process in the compliance filing in this proceeding.[48] In order to address the Commission's concerns, the CAISO proposes to increase the eligible quantity for PNP purposes in years beyond CRR Year One to the lesser of: (i) 66.7% of its SEQ minus the quantity of previously allocated Long Term CRRs for each season, time of use period and LAP for that year, or (2) the total quantity of Seasonal CRRs allocated to the load serving entity in the previous annual CRR Allocation for that season, time of use period and LAP, minus any reduction for net loss of Load through retail Load migration.[49]

For CRR Year Two and subsequent years, Tier LT would immediately follow the Tier 1, PNP.[50] Load serving entities would be able to nominate new Long Term CRRs from among the Seasonal CRRs awarded in the Tier 1 PNP. Because the PNP specifically is for renewal of Seasonal CRRs that were allocated in the previous year, in order to obtain an Long Term CRR a load serving entity must first be allocated a Seasonal CRR and then renew the Seasonal CRR in the following year's Tier 1 PNP process. Stated differently, Seasonal CRRs that are eligible to be nominated as Long Term CRRs are only those that are renewed in the Tier 1 PNP process.[51]

As with the Tier LT process for CRR Year One, the CAISO proposes to limit Long Term CRR nominations in Tier LT for CRR Year Two and subsequent years. Load serving entities may nominate Long Term CRRs from any of the Seasonal CRRs awarded in Tier 1 PNP so long as the amount of new Long Term CRRs nominated is less than or equal to 50% of the load serving entity's Adjusted Load Metric minus the quantity of previously allocated Long Term CRRs.[52] For renewed Seasonal CRRs that are nominated as Long Term CRRs, simultaneous feasibility tests are run for the season and TOU characteristics for the remaining nine years of the ten-year term.[53] To test feasibility for the remaining nine years, the SFT runs for Tier LT will

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44 Of course, the amount of Seasonal CRRs a load serving entity may nominate for renewal in any PNP process is limited by the Seasonal CRRs actually awarded in the prior year.

45 *See* the stricken tariff provisions in the blackline version of the proposed tariff § 36.8.3.5.1 (this section was previously numbered as § "36.8.3.5a.").

46 *September 21 Order* at P 805.

47 *Id*.

48 *Id*.

49 *See* proposed tariff § 36.8.3.5.1

50 *See generally* Testimony of Dr. Kristov for a detailed description of the mechanics of Tier LT, Exh. No. ISO-1 .

51 *See* proposed tariff § 36.8.3.5.

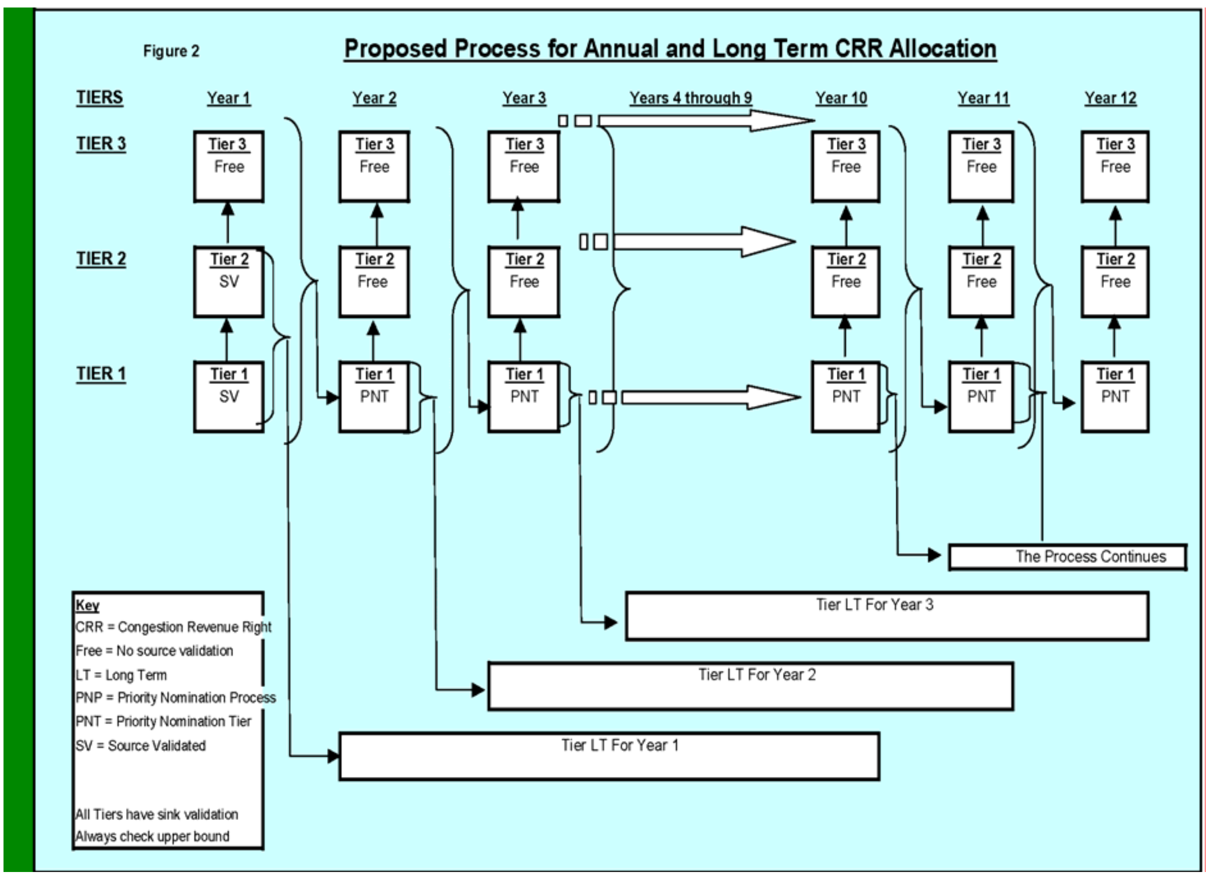
52 *See* proposed tariff § 36.8.3.5.2

53 The feasibility of the nominated Long Term CRRs for the first year of the ten-year term will have already been established by the SFTs run in Tier 1.

omit those renewed Seasonal CRRs that were not nominated as Long Term CRRs. This ensures that the feasibility of the Long Term CRR nominations does not depend on counterflows created by renewed Seasonal CRRs that may not be renewed in future years. Thus, in the Tier LT process, the SFT will test only those renewed Seasonal CRRs that are nominated as Long Term CRRs. The quantity of Long Term CRRs that can be allocated for any season and time-of-use period must be feasible for the entire ten-year term of the Long Term CRR.

Long Term CRR nominations may not be fully allocated in Tier LT due to the SFT runs. However, such a result will not affect the validity of either the Long Term CRRs allocated in previous years or the Seasonal CRRs awarded in the Tier 1 PNP regardless of whether they were nominated as Long Term CRRs. The CAISO will inform nominating load serving entities of the results of the Tier LT feasibility tests before the deadline for submission of the Tier 2 nominations for Seasonal CRRs.

The incorporation of the Tier LT allocation process into the conditionally-approved allocation processes can be illustrated as follows:



D. OBTAINING A LONG TERM CRR FROM A NEW SOURCE.

Given the allocation processes described above, in order for an load serving entity to obtain a Long Term CRR from a new, eligible source it must do the following. First, the load serving entity must request and receive a Seasonal CRR from the eligible source either in Tier 3 of the CRR allocation process for CRR Year One or in Tier 2 or Tier 3 of the CRR allocation process for Year Two and subsequent years. Second, in the annual allocation process for the following year, the load serving entity must request and receive a Seasonal CRR from the eligible source in the PNP. Third, the load serving entity must nominate and be allocated a Long Term CRR in the Tier LT process following the PNP.

E. RENEWING A LONG TERM CRR.

Given the allocation processes described above, in order for a load serving entity to renew a Long Term CRR it must do the following. First, in the final year of the Long Term CRR the load serving entity must nominate the identical source, sink, and MW terms[54] of the expiring Long Term CRR in the Tier 1 PNP process and receive a Seasonal CRR. Second, the load serving entity must then nominate and receive a new Long Term CRR in the Tier LT process following the PNP. This process is captured in the tariff through changes to Section 36.8.3.5.1.

F. ELIGIBILITY OF OUT OF CONTROL AREA LOAD-SERVING ENTITIES FOR LONG TERM CRRS

For load serving entities that serve load external to the CAISO control area (OCALSEs), the rules for obtaining Long Term CRR through the allocation process build upon the procedures for allocating Seasonal and Monthly CRRs to OCALSEs contained in the conditionally-approved MRTU Tariff. Just as OCALSEs are eligible to nominate Seasonal and Monthly CRRs in the conditionally-approved MRTU Tariff, OCALSEs are eligible to nominate Long Term CRRs in the CRR allocation process, through Tier LT.[55]

The same requirements that apply to OCALSEs in the conditionally-approved MRTU Tariff apply to an OCALSE's ability to obtain Long Term CRRs. The proposal does not modify MRTU tariff Section 36.9 with respect to how an OCALSE qualifies for allocation of Seasonal CRRs or Monthly CRRs. The requirement for a showing of legitimate need in Section 36.9.1 also remains the same. An OCALSE must demonstrate legitimate need based on ownership of or bilateral energy contract with generation inside CAISO control area, and such generation will define the eligible sources the OCALSE may nominate for CRR allocation. This, therefore, also means that intertie Scheduling Points cannot be nominated by OCALSEs as sources for CRR allocation. This limitation preserves the priority for native CAISO Control Area load in obtaining import CRRs; for those OCALSEs who rely on sources outside the CAISO Control Area and other parties who wheel power through the CAISO, CRRs must be acquired through the CRR auction processes or the secondary market.

The provisions in Section 36.9.2 regarding prepayment of access charges by OCALSEs to obtain Seasonal and Monthly CRRs will apply to the provision of Long Term CRRs to OCALSEs. However, because Long Term CRRs have terms of 10 years, the prepayment of access charges requires slight modification. For an OCALSE that wants to nominate an

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[54] This procedure does not, of course, prohibit the load-serving entity from nominating a different MW quantity if desired, within the general rules on eligible quantities.

[55] The testimony of Dr. Kristov addresses OCALSE eligibility in detail. *See* Exh. No. ISO-1 at pp. 43-45.

allocated Seasonal CRR as a Long Term CRR, it must execute a contract with the CAISO committing the entity to make annual WAC payments for each year of the term of a Long Term CRR.[56] Each year's payment will be made at the beginning of the annual CRR Allocation process for the following year.[57]

In sum, the same principles regarding the eligibility of non-CAISO load to be allocated CRRs in the conditionally-approved MRTU Tariff apply to an OCALSE's ability to obtain Long Term CRRs. The proposal continues to afford a preference for load inside the CAISO Control Area, which is situated differently than load outside the CAISO Control Area and enables the CAISO to provide non-discriminatory treatment to all OCALSEs that seek to use the CAISO Controlled Grid.

VI. COMPLIANCE WITH THE FINAL RULE.

The CAISO's Long Term CRR proposal complies with all of the guidelines in the Final Rule. The Long Term CRR proposal provides the certainty and stability of long-term rights sought by the Commission and maintains significant flexibility for market participants to adjust to changing market conditions. The following sections detail each of guidelines of the Final Rule and how the CAISO's proposal satisfies each of the guidelines.

A. THE SEVEN GUIDELINES FOR LONG-TERM FIRM TRANSMISSION RIGHTS.

Guideline 1: *The long-term firm transmission right (LTTR) should specify a source (injection node or nodes) and sink (withdrawal node or nodes), and a quantity (MW).*

As with CRRs under the MRTU Tariff, all Long Term CRRs will have a specified source, sink, and quantity. No tariff changes are needed to comply with this guideline. These specifications are addressed in MRTU Tariff Section 36.2 and Section 36.3. Section 36.2 contains the new terminology and descriptions for one-year CRRs (*i.e.*, "Monthly" and "Seasonal" CRRs) necessitated by implementation of Long Term CRRs which have similar characteristics but have a term of ten-years.

Guideline 2: *The LTTR must provide a hedge against day-ahead locational marginal pricing congestion charges or other direct assignment of congestion costs for the period covered and quantity specified. Once allocated, the financial coverage provided by a financial LTTR should not be modified during its term (the "full funding" requirement) except in the case of extraordinary circumstances or through voluntary agreement of both the holder of the right and the transmission organization;*

The Commission has stated that in order to satisfy the full funding requirement, long-term rights must have two properties: ". . . stability in the quantity of rights that a load serving

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[56] *See* proposed tariff §§ 11.2.5.2 and 36.9.2.1.

[57] *Id*.

entity is allocated over time and "price certainty" for the load serving entity that seeks to hedge congestion charges associated with a particular generation resource or transmission path."[58] The CAISO's proposal satisfies this Guideline. As with CRRs under the MRTU Tariff, Long Term CRRs provide a holder with a mechanism to manage congestion costs associated with day-ahead LMPs. These properties are addressed in Section 36.2 of the MRTU Tariff as filed with the Commission. Proposed Section 36.2.8 creates the full funding requirement in the tariff.[59]

Full Funding of Long Term CRRs.

The CAISO will fully fund both short-term CRRs (*i.e.*, Seasonal and Monthly CRRs) and Long Term CRRs using the monthly clearing of the CRR Balancing Account. Proposed tariff Section 11.2.4.4.1 is revised to achieve this result. The CAISO's proposal therefore satisfies this aspect of Guideline 2.

<u>Monthly Clearing of the CRR Balancing Account</u>. The monthly clearing of the CRR Balancing Account means that there will no longer be end-of-year clearing of the account for CRRs (other than the clearing for the last month of the year).[60] As noted earlier, this is the one area of the Long Term CRR proposal that represents a change for the conditionally-approved short-term CRRs. The rationale for clearing the CRR Balancing Account on a monthly basis rather than on an annual basis as in the existing MRTU Tariff is explained in the testimony of Dr. Kristov.[61]

<u>Allocation of uplifts costs associated with Full Funding</u>. In response to stakeholder comments regarding the allocation of uplift costs associated with full funding, the CAISO changed its allocation proposal. The originally-proposed allocation of surplus and shortfall amounts in the CRR Balancing Account was to the Participating Transmission Owners (PTOs) through each PTO's Transmission Revenue Balancing Account (TRBA). Under the filed proposal, the CAISO will distribute any surplus and charge any shortfall of revenues to Measured Demand.[62]

At the end of each month, any surplus revenue amounts will be distributed to Scheduling Coordinators in an amount equal to the revenue surplus times the ratio of each Scheduling Coordinator's Measured Demand divided by total Measured Demand for all Scheduling Coordinators.[63] If the balance in the CRR Balancing Account is not sufficient to satisfy all revenue shortfalls for the month, the shortfalls will be recovered from Scheduling Coordinators in an amount equal to the revenue shortfall times the ratio of each Scheduling Coordinator's Measured Demand divided total Measured Demand for all Scheduling Coordinators.[64] In

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58 *Order No. 681* at P 170.

59 Proposed section 36.8.7 addresses the withdrawal of a Participating Transmission Owner as an exception to the full-funding requirement.

60 Tariff § 11.2.4.4.2 ("Yearly Clearing of the CRR Balancing Account") is proposed for deletion.

61 *See* Exh. No. ISO-1 at pp 51-53.

62 Measured Demand is the metered CAISO Demand plus Real-Time Interchange export schedules.

63 Proposed tariff § 11.2.4.4.1

64 *Id*.

addition, to minimize the possibilities of uplifts, and to support the full funding requirement generally, the CAISO is proposing to modify the MRTU tariff to have the revenues from CRR auctions flow to the CRR Balancing Account, instead of to the Participating Transmission Owners. This change is captured through revisions to Section 11.2.4.3 of the tariff. Dr. Kristov addresses this change at pp. 48-49 of his Direct Testimony.

Exceptions to Full Funding of CRRs. In accordance with Guideline 2, the CAISO is proposing a few limited exceptions to the full funding of all CRRs, including Long Term CRRs. As set forth in proposed Section 36.2.8, full funding of CRRs will be suspended if: (i) a System Emergency occurs as described in Section 7.7.4, (ii) an Uncontrollable Force event occurs as described in Section 14, or (iii) a Participating Transmission Owner withdraws grid facilities from the CAISO Controlled Grid. New tariff Section 36.8.7 details the process the CAISO will undertake in the event of such a Participating TO withdrawal.

In sum, if a Participating TO withdraws facilities, the CAISO will reconfigure Long Term CRRs as necessary to reflect the CAISO Controlled Grid after the withdrawal and re-run SFTs on the reconfigured Long Term CRRs. If necessary, the CAISO will reduce some of the reconfigured Long Term CRRs to ensure their feasibility. The CAISO believes these exceptions to full funding are reasonable and consistent with the extraordinary circumstances contemplated in Guideline 2.

Stability in the Quantity of a Long-Term CRR

Under the CAISO proposal, the quantity of Long Term CRRs will be stable over the life of the Long Term CRR. First, once allocated, Long Term CRRs will be modeled as fixed injections and withdrawals on the DC FNM used in subsequent allocation and auction processes.[65] In other words, there will be no degradation in the feasibility of allocated Long Term CRRs due to future CRR allocation and auction processes.

Second, the CAISO will ensure the continued feasibility or stability in the amount of an allocated Long Term CRR through the transmission planning process. The CAISO's compliance with the Commission's transmission planning requirements are discussed, *infra.*, in Section VII.B.1.

With: (i) the full funding of both short-term and long-term CRRs, (ii) the modeling of allocated Long Term CRRs as fixed injections and withdrawals on the DC FNM used in subsequent CRR allocation and auction processes, and (iii) the CAISO's obligation, in coordination with the Participating TOs, to test and evaluate the simultaneous feasibility of allocated Long Term CRRs in its transmission planning and expansion procedures, the CAISO's Long Term CRR proposal satisfies Guideline 2 of the Final Rule.

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[65] *See* proposed tariff § 36.4.1

Guideline 3: *LTTRs made feasible by transmission upgrades or expansions must be available upon request to any party that pays for such upgrades or expansions in accordance with the transmission organization's prevailing cost allocation methods for upgrades or expansions;*

The CAISO will make Long Term CRRs available for upgrades or expansions to a party that pays for such upgrades or expansions. Section 24.7 of the CAISO Tariff sets forth the cost responsibility of transmission upgrades or additions for a project sponsor that does not recover the investment cost of a transmission upgrade or addition under a Commission-approved rate.[66] Section 36.11 of the conditionally-approved MRTU Tariff provides that a sponsor of a transmission facilities that turns such facilities over to CAISO operational control and does not recover the cost of the transmission investment through the CAISO's Transmission Access Charge or Wheeling Access Charge (or other regulatory cost recovery mechanism) may be allocated CRR Options that reflect the contribution of the upgrade to grid transfer capacity as determined in accordance with Section 24.7.3.

FERC's Order on the MRTU Tariff required the details regarding CRRs for merchant transmission sponsors to be submitted in a compliance filing to FERC.[67] The Commission also required that the methodology for determining the quantity and geographic sources and sinks for incremental CRRs be specified before the CAISO begins releasing Long Term CRRs. In its October 23, 2006 "Request for Clarification and Rehearing" the CAISO asked the Commission to permit the filing of tariff language related to these additional "merchant transmission" details on a time frame consistent with the requirements of the Long Term FTR Final Rule. The CAISO anticipates that it will comply with the Commission's directive to provide a detailed explanation of the methodology by the spring of 2007. A White Paper for stakeholders will be posted soon and public input and discussion will be requested in developing these details. The CAISO anticipates that certain additional detail may be also be required in the tariff and will make a filing to supplement the tariff with any necessary details in a timely manner to meet the requirement by the Commission that such CRRs be made available before Long Term CRRs are allocated.[68]

Guideline 4: *LTTRs must be made available with term lengths (and/or rights to renewal) that are sufficient to meet the needs of load serving entities to hedge long-term power supply arrangements made or planned to satisfy a service obligation. The length of term of renewals may be different from the original term. Transmission organizations may propose rules specifying the length of terms and use of renewal rights to provide long-term coverage, but must be able to offer firm coverage for at least a 10 year period;*

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66 *See* MRTU Tariff Section 24.7.3

67 *September 21 Order* at PP 873 and 1357.

68 The CAISO believes the bulk of the details associated with the methodology for determining the quantity and geographic sources and sinks for incremental CRRs for transmission expansions and upgrades will reside in the Business Practice Manual for CRRs.

The Long Term CRRs proposed by the CAISO have 10-year terms and therefore satisfy this guideline. The 10-year term is accomplished in the tariff through revisions to Section 36.3.2. In addition, a Long Term CRR may be renewed for additional 10-year terms. This is accomplished by a Long Term CRR holder nominating the identical source, sink, and MWs in the PNP in the final year of the Long Term CRR. This process is captured in the tariff through changes to Section 36.8.3.5.1.

Guideline 5: *Load serving entities must have priority over non-load serving entities in the allocation of LTTRs that are supported by existing capacity. The transmission organization may propose reasonable limits on the amount of existing capacity used to support LTTRs;*

The CAISO's Long Term CRR program complies with this guideline because only load serving entities are entitled to participate in the allocation of CRRs and thus the required preference is inherent in the process. This feature is consistent with the filed MRTU design and requires no tariff changes. Regarding the reasonable limits on the amount of existing capacity used to support long term firm transmission rights, the testimony of Dr. Kristov discusses the CAISO's decision to make 60% of the total grid capacity available for allocation of Long Term CRRs.[69] This limit is reasonable because it seeks to permit load serving entities to nominate a high amount of Long Term CRRs within their eligibility and retain the Seasonal and Monthly CRR allocations as reasonable tools for entities to manage their congestion exposure on a short-term basis.

Guideline 6: *A LTTR held by a load serving entity to support a service obligation should be re-assignable to another entity that acquires that service obligation;*

The Long Term CRR program complies with Guideline 6 by retaining the filed MRTU rules requiring CRRs to follow the load in the case of load migration.[70] The basic principle that CRRs are assigned to load serving entities as custodians for the load they serve is adhered to under the instant proposal. Section 36.8.5.1.1 of the filed MRTU tariff, as revised November 20, 2006, requires a load serving entity that loses load through direct access load migration during the annual CRR allocation cycle to transfer a portion of its allocated seasonal CRRs for the remainder of the annual cycle, or the financial equivalent, to the load serving entity that gained the load. The CAISO proposes to apply the same requirement to allocated Long Term CRRs, with two modifications.

First, the option to transfer the financial equivalent of Long Term CRRs rather than the CRRs themselves will be limited to the calendar year in which the load transfers, or to the next calendar year if the annual CRR allocation process for that year's Seasonal CRRs has already been completed. For the years of a Long Term CRR beyond the period just described, the load serving entity who loses load must transfer the actual CRRs and cannot transfer a financial equivalent. This rule is consistent with a limitation on the registered transfers of bilateral sales

[69] Exh. No ISO-1 at pp 39-40.

[70] Tariff section 36.8.5 is revised to capture this rule and new Sections 36.8.5.2, 36.8.5.2.2, 36.8.5.2.3 have been created.

of Long Term CRRs unrelated to load shifts. That is, Long Term CRRs cannot be transferred via the Secondary Registration System (SRS) for years beyond the calendar year covered by the most recent annual CRR allocation and auction process. The above limitations do not, of course, prevent a load serving entity who was allocated Long Term CRRs from achieving the financial equivalent of a sale of its Long Term CRR via a bilateral transaction outside of the CAISO's SRS. The CAISO has no ability to monitor such transactions between parties.

The second modification has to do with the enforcement of a Load migration to another load serving entity. Stakeholders have commented that relying on load serving entities to perform the required calculations and transfers will likely result in disputes and that the CAISO should take on the responsibility of performing the transfers according to clearly-specified procedures. The CAISO believes this suggestion has merit and notes that PJM performs the analogous transfers within its markets. The CAISO will develop the details and mechanics of such a proposal with stakeholders in the context of developing the FPA Section 205 filing on CRRs to be submitted at the start of the second quarter of this year.

Outside the context of load migration, certain temporal portions of Long Term CRRs will also be fully transferable. An important limitation on transferability is that the holder of the Long Term CRR cannot transfer or offer for sale any temporal portion of the future years of the Long Term CRR beyond the calendar year for which the most recent annual CRR allocation process has been completed. The same limitation applies to both bilateral transfers of Long Term CRRs via the CAISO's SRS and offers to sell CRRs in the CAISO's annual and monthly CRR auctions. That is, except for transfers to reflect load migration between load serving entities, Long Term CRRs cannot be transferred via the SRS for years beyond the year covered by the most recent annual CRR allocation and auction process. This limitation ensures that Long Term CRRs continue to be held by the load serving entity to which they were allocated, so that such portions will be available to be transferred in association with load migration consistent with Guideline 6 of the Final Rule. Dr. Kristov treats this issue in detail pp 23-25 of his Direct Testimony.

Guideline 7: *The initial allocation of LTTRs shall not require recipients to participate in an auction.*

Because the CAISO allocates Long Term CRRs to load serving entities directly, participation in an auction is not required for load serving entities to receive Long Term CRRs.

B. OTHER ISSUES

1. Transmission Planning

The Commission requires that each transmission organization implement transmission system planning and expansion procedures to ensure that allocated long-term firm transmission rights remain feasible over their entire term.[71] Specifically, the Commission requested that each

[71] *See Order No 681* at P 23 (discussing changes to the NOPR related to transmission planning and expansion procedures), and P 453.

transmission organization include in its compliance filing an explicit statement of how its planning and expansion practices will take into account the need to accommodate allocated or awarded long-term firm transmission rights for their full terms, including the construction of transmission facilities (as well as a basis for allocating cost responsibility) that may be needed to support them.[72] Second, the Commission also requires that such transmission organizations make their planning and expansion procedures publicly available, including both the actual plans and any underlying information used to develop the plans.[73] Finally, the Commission noted that when a transmission customer enters into a long-term power supply arrangement and is willing to pay for any transmission expansion or upgrades which may be necessary in order to make long-term firm transmission rights feasible over the entire term of the contract, that expansion or upgrade must be incorporated into the transmission organization's planning process.[74]

In response to these directives, the CAISO has added a new section to the Transmission Expansion section of the CAISO Tariff explaining how the CAISO will ensure the continuing feasibility or allocated Long Term CRRs over the length of their terms.[75] The CAISO will test and evaluate the simultaneous feasibility of allocated Long Term CRRs in its transmission planning assessments.[76] The CAISO also will test and evaluate the continuing feasibility of allocated Long Term CRRs in acting on the following types of projects: (a) planned or proposed transmission projects; (b) generation or transmission retirements; (c) generator interconnections; and (d) the interconnection of new Load.[77] Pursuant to these evaluations, the CAISO will identify the need for any transmission additions or upgrades required to ensure the continuing feasibility of allocated Long Term CRRs over the length of their terms.

Moreover, in assessing the need for transmission additions or upgrades to maintain the feasibility of allocated Long Term CRRs, the CAISO will consider lower cost alternatives to the construction of transmission additions or upgrades. The alternatives to consider include: acceleration or expansion of existing projects; demand-side management; remedial action schemes; constrained-on Generation; interruptible Loads; or reactive support.[78] In addition, in cases where the infeasible megawatts are small in magnitude, the lower cost alternatives to consider can include ensuring against the risk of any potential revenue shortfall using the CRR Balancing Account and uplift mechanism in Section 11.2.4 of the proposed tariff provisions. In cases where the CAISO does include specific upgrades or expansions in its transmission plan to maintain the feasibility of allocated Long Term CRRs, the costs for such upgrades or expansions will be recovered through the cost allocation already provided in existing Section 24.7 of the MRTU Tariff. Finally, as part of the coordinated planning process, the Participating Transmission Owners and Market Participants shall provide the necessary assistance and

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[72] *Order No. 681* at P 454. The Commission clarified that it was not suggesting that it was imposing any "obligation to build" or other obligation that does not already exist under Order No. 888. Order No. 681 at P 453, n.138.

[73] *Order No 681* at P 454.

[74] *Order No 681* at P 456.

[75] *See* proposed tariff § 24.1.3 ("Maintaining the Feasibility of Allocated Long Term CRRs").

[76] *Id*.

[77] *Id*.

[78] *Id*.

information to the CAISO to allow it to assess the need for and to identify transmission additions or upgrades.[79]

With regard to the Commission's requirement to make its make its planning and expansion procedures publicly available, the CAISO satisfies this requirement. In late 2005, the CAISO initiated an effort to revamp its existing transmission planning process to facilitate greater transmission coordination between the CAISO, PTOs, the California Public Utilities Commission (CPUC), the California Energy Commission (CEC), and stakeholders. This revamped transmission planning process is an open and coordinated process that provides a centralized planning process for coordinating the transmission plans of the PTOs and facilitates the design of proposed solutions that maximize benefits for all CAISO market participants. The CAISO transmission plan is developed on an annual cycle, spans a minimum ten-year horizon, and is based on input and studies performed by the CAISO, PTOs, and the CEC. All documents reflecting the CAISO's transmission plan through this process are made available to all market participants. During the annual planning cycle, several public meetings are held to collect and coordinate study assumptions and stakeholder comments on the plans and results. Market participants, as well as neighboring control areas, participate in the CAISO transmission planning meetings where comments on the proposed transmission plan for facilities in the CAISO Controlled Grid are provided and addressed by the CAISO and PTOs before the CAISO transmission plan is finalized. The CAISO will include through this process an opportunity to comment on any studies and plans resulting from tests and assessments made for purposes of ensuring the feasibility of LT CRRs.

The CAISO is also planning to produce in the next year, further documentation that provides the details of its transmission planning process and will make these documents available for review and comment to all market participants. The CAISO does not intend to file such documents with the Commission, but will evaluate whether additional changes may be required in the tariff to reflect the details of the transmission planning process.

With regard to the Commission's requirement that a transmission expansion or upgrade proposed by a transmission customer willing to pay for the expansion or upgrade (in order to make a Long Term CRR feasible over its term) must be incorporated into the transmission organization's planning process, there are several things to note. First, existing Section 24 of the CAISO Tariff addresses the cost responsibility for an entity willing to pay for a transmission expansion or upgrade. Second, Section 36.11 of the conditionally-approved MRTU Tariff (entitled "Merchant Transmission") provides for the allocation of Seasonal and Monthly CRRs to entities willing to pay for a transmission expansion or upgrade. The provisions in Section 36.11 provide for the allocation of CRRs (referred to as "MT CRRs") to entities willing to pay for a transmission expansion or upgrade.

In addition, the CAISO proposes new procedures within its planning efforts to address transmission customers requests for CRRs to support long-term power supply contracts when they are willing to pay for the upgrades needed to make those CRRs feasible. First, the CAISO and PTOs will incorporate into future year congestion studies any long-term power supply information that is voluntarily provided by load serving entities. The results of these posted

[79] *Id.*

studies could facilitate a load serving entity's decision to pursue customer funded transmission upgrades to create incremental CRRs for their own use. Additionally, the CAISO and the PTOs under the oversight of the CAISO, will identify the transmission upgrades that are necessary to ensure the feasibility of the quantity and location of Long Term CRRs requested by the transmission customer.

2. Exclusion of Trading Hubs as Sources for Long Term CRRs

Under the CAISO's Long Term CRR proposal, Trading Hubs cannot be used as source locations for Long Term CRRs. This rule is captured through revisions to tariff Section 36.8.4. This discrete but important issue was raised and discussed in the stakeholder process culminating in this filing. This issue came up in the CRR Dry Run currently in progress as part of MRTU implementation and has indicated some potentially problematic results.

In short, under the existing rules and procedures for allocation of Seasonal CRRs, the fact that load serving entities are nominating as seasonal CRR sources both EZGen Trading Hubs and the individual generator PNodes that comprise those Trading Hubs can lead to two potentially problematic results. First, CRR nominations from the specific generator PNodes associated with binding constraints will typically be reduced prior to CRR nominations from EZGen Hubs. This is because the proration algorithm reduces the most effective nominations in order to reduce the fewest MWs of nominations overall, and CRR nominations from the PNode associated with the constraint are typically more effective than CRR nominations from a Trading Hub. Second, once such a constraint becomes binding, which may occur at the outset of Tier 2 or even in Tier 1, no additional Trading Hub CRRs can be allocated unless that nominated CRR has a zero shift (or distribution) factor over the binding constraint. Indeed, the recent CRR Dry Run has shown that for some season/TOU combinations the reduction of Trading Hub CRR nominations has been substantial in Tier 2.[80]

While the CAISO and the participants are still assessing whether some modifications to the allocation rules are warranted to mitigate these types of results, the CAISO believes that it would be prudent and appropriate to exclude Trading Hubs as allowable CRR sources in the nomination of Long Term CRRs.[81]

3. Seams Issues With Neighboring Control Areas

In its Final Rule, the Commission directed each transmission organization to explain in its compliance filing: (i) how its proposal addresses issues with respect to potential seams between transmission organizations, and (ii) why it has or has not elected to revise its seams

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[80] Dr. Lorenzo Kristov discusses this issue thoroughly in his Direct Testimony. *See* Exh. No. ISO-1 at 53-56.

[81] For the Seasonal and Monthly CRRs (unrelated to the instant filing), the CAISO will review this issue carefully and make further recommendations within the context of the stakeholder process and the CAISO's report on the CRR Dry Run, which will be filed at FERC in March. The CAISO will schedule activities in the coming weeks for stakeholders to participate in this evaluation and provide input to the CAISO's recommendations for the CRR Dry Run report.

agreements.[82] In its Order on Rehearing, the Commission further clarified that transmission organizations should explain how its proposal addresses potential seams issues between itself and neighboring non-transmission organization transmission providers, as well as between itself and neighboring transmission organizations.[83] Unlike the ISO/RTOs in the east, all of the CAISO's neighbors are non-transmission organization transmission providers. In addition, the CAISO did not identify any specific seams issues in the stakeholder process between it and its neighboring non-transmission organizations.

The CAISO notes, however, that under the MRTU docket, the CAISO is obligated to work with its neighboring control areas to identify and resolve seams issues. The CAISO has already launched an extensive effort to meet with each of its control areas to engage in a dialogue to explore potential seams and resolution of such seams. The CAISO proposes to continue to address any seams issues related with the proposed Long Term CRRs through that same process.

C. REMAINING WORK TO IMPLEMENT CRRS, INCLUDING LONG TERM CRRS

While the CAISO believes its Long Term CRR proposal as filed today is a complete proposal that complies with the requirements of the Final Rule, the CAISO recognizes that its work in designing and implementing CRRs, including Long Term CRRs is not complete. The CAISO summarizes below specific matters it will be re-evaluating through its analysis of the CRR Dry Run results. Consistent with the MRTU September 21 Order, the CAISO will file a report on the CRR Dry Results one month after the completion of the CRR Dry Run. The CAISO is in the process of completing the CRR Dry Run and intends to file the report no later than the start of the second quarter of 2007. The CAISO has already reported and the Commission has acknowledged that certain aspects of the conditionally-approved CRR proposal will be further evaluated in light of the outcome of the CRR Dry Run. The CAISO lists below the CRR issues that it will be considered further over the upcoming months.

1. Credit Requirements for CRRs and Long Term CRRs.

The CAISO has already has provided in Section 12 of the conditionally-approved MRTU Tariff the provisions that will apply to all Candidate CRR Holders and CRR Holders, which now the CAISO proposes would include Candidate CRR Holders and CRR Holders of Long Term CRRs through its amendment of the definitions for CRR Holders and Candidate CRR Holders. The CAISO is currently developing the details of the methodology it will use for determining the estimated aggregate liability for such entities, which it is proposing will reside in the Business Practice Manual for Creditworthiness. Through that process, the CAISO will be considering any special provisions that would apply with the introduction of Long Term CRRs.

2. Procedures for Tracking Load Migration.

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82 *See Order No. 681* at P 107.

83 *See Order No. 681-A* at P 41.

In light of its commitment to track load migration in the context of CRR holdings, the CAISO recognizes that additional procedures will be required to adequately track the migration of load. The CAISO intends to develop these details through its development of the Business Practice Manuals for CRRs as such provisions will reside in that manual. The CAISO will be developing a work plan including a stakeholder process to address this issue and will notify its stakeholders of the process.

3. CRRs for Transmission Upgrades and Expansion in Compliance with Guideline 3.

As discussed above, the CAISO will soon be commencing its stakeholder process to develop the details associated with the methodology for determining the quantity and geographic sources and sinks for incremental CRRs that result from transmission expansions and upgrades. The CAISO will make any necessary filings with the Commission to supplement the tariff with any necessary details in a timely manner to meet the requirement by the Commission that such CRRs be made available before CRRs are allocated.

4. Issues Related with the Use of Trading Hubs.

As discussed above, through preliminary results of the CRR Dry Run process, the CAISO has identified certain issues with the use if Trading Hubs in the allocation of CRRs. The CAISO will continue to evaluate these results and will continue to work with its stakeholders to explore any measures necessary to mitigate any uneconomic and inefficient results.

5. Source Verification.

In response to the CAISO's recent decision to move of the historical period from the 2004 to 2005 period to a 2006 historical period, the CAISO will be evaluating with its stakeholders any measures that might be necessary as a result of that change. This evaluation will be informed by the CRR Dry Results. The detailed source verification rules adopted for conducting the CRR Dry Run were assumptions that need to be revaluated, in conjunction with analyzing the CRR Dry Run results, as the CAISO prepares to launch its first annual CRR Allocation and Auction process.

6. Transmission Planning Process Public Documentation.

The CAISO will be endeavoring over the next year to complete its documentation of the details of the transmission planning process. The CAISO will seek stakeholder review of such documentation and will be making all such documents available to on its website.

7. Modeling Outages.

The CAISO is under a compliance obligation in the MRTU proceeding to evaluate the modeling of transmission outages in the SFTs for allocating and auctioning CRRs. More specifically, the CAISO will be developing further the criteria for determining whether a transmission outage would have a "significant" impact on CRR revenue adequacy, and how to reflect the impact of unplanned outages on revenue adequacy through the development of its Business Practice Manual on CRRs.

8. Intertie Capacity Set Aside.

The CAISO is under a current compliance obligation in the MRTU proceeding to develop its rules for the 50% set aside of residual Intertie capacity for the CRR Auction.[84] In the process of complying with this obligation, the CAISO and its stakeholders will be working to examine the results of the CRR Dry Run and determine what impacts this set aside will have on the Long Term CRR program.

VII. SUPPORTING DOCUMENTS

This transmittal letter is intended to provide the Commission with an overview of the proposed revisions to the MRTU Tariff in compliance with the Final Rule. In addition to clean and redline tariff sheets and other CAISO materials, the CAISO provides the testimony of Dr. Lorenzo Kristov, the Principal Market Architect within the CAISO's Department of Market and Product Development; Dr. Susan Pope of LECG Consulting who has worked extensively on the development and refinement of systems for allocating, auctioning and settling financial transmission rights, including the CRR elements of the existing MRTU Tariff; and Dr. Roger Treinen who has been intimately involved with developing both the policy and system design of CRRs in under MRTU and the instant proposal for Long Term CRRs.

Exhibit ISO-1 is the Direct Testimony of Dr. Lorenzo Kristov. Dr. Kristov's testimony provides an overview of the Long Term CRR proposal, an explanation of the objectives and guiding principles of the effort to design the proposal, the process by which the proposal was developed, and the rationale behind the details and mechanics of the Long Term CRR proposal.

Exhibit ISO-2 is the Direct Testimony of Dr. Susan Pope. Dr. Pope provides a conceptual explanation of CRRs, a description of how the proposed definition and allocation of Long Term CRRs meets the Commission's requirements, an explanation of the economic rationale and benefits of a number of elements of the LT CRR proposal and how these elements work along with the CAISO's previously filed CRR rules to provide a complete and coherent plan for making Long Term CRRs available in compliance with the Final Rule.

Exhibit ISO-3 is the Direct Testimony of Dr. Roger Treinen. Dr. Treinen provides a description of the analysis that determined the average relationship between peak load and base load. The result of this analysis is used to support the limit on Long Term CRR nominations of 50 percent of a load serving entity's "Adjusted Load Metric."[85]

The documents submitted with, and in support of, this filing are as follows:

Attachment A -	Redline Tariff Sheets against November 20, 2006 compliance filing sheets in Docket No. ER06-615-000.

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[84] *See September 21 Order*, at P 830 (2006).

[85] *See* Testimony of Dr. Kristov for a discussion of Adjusted Load Metric, Exh. No. ISO-1 at p. 29-30.

Attachment B - Clean Tariff Sheets.

Attachment C - Exhibit No. ISO-1 - Testimony of Dr. Lorenzo Kristov.

Attachment D - Exhibit No. ISO-2 - Testimony of Dr. Susan Pope.

Attachment E - Exhibit No. ISO-3 - Testimony of Dr. Roger Treinen.

Attachment F - CAISO Whitepaper on Long-Term Transmission Rights.

Attachment G - CAISO Board Documents

In addition to the supporting documents listed above, the CAISO also is including the opinion of the Market Surveillance Committee regarding the CAISO's proposal for informational purposes and for the convenience of the Commission.[86]

VIII. DESCRIPTION OF TARIFF CHANGES

Because the Commission required the CAISO to integrate long-term transmission rights into its MRTU market, the revised tariff sheets accompanying this filing are redlined against the MRTU Tariff sheets filed on February 9, 2006 filed in the MRTU Docket No. ER06-615-000 and as further amended on November 20, 2006 and December 20, 2006 as part of the CAISO's first compliance filing in accordance with the MRTU Order. The CAISO incorporated its proposed long-term transmission rights program within the framework of the conditionally-approved CRR program under the MRTU Tariff.

The bulk of the tariff changes are to Section 36 of the MRTU Tariff. There are also significant changes to Section 11 which contain the MRTU settlement rules. These changes include the mechanics of the full funding mechanism and other financial considerations of Long Term CRRs. In addition, Section 24 of the tariff has been updated to capture how the CAISO's transmission planning process will incorporate and take account of the Long Term CRR program.

IX. EFFECTIVE DATE AND PART 35 COMPLIANCE

Given the scheduled start date for the MRTU markets and the Commission's deadline for a compliance filing in this proceeding, the CAISO is requesting waiver of the notice requirements in section 35.3(a) of the Commission regulations[87] to permit an effective date of the Long Term CRR tariff provisions of July 1, 2007. In addition, to ensure that the CAISO can implement any ordered changes to its proposal and still be able begin the first annual CRR allocation and auction process, the CAISO respectfully requests that the Commission act on this

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86 *See* Appendix A to the CAISO's submittal. The Market Surveillance Committee is independent from the CAISO; the members of the Market Surveillance Committee are not employees or agents of the CAISO, nor should they be understood to be employees or agents of the CAISO. *See* CAISO Tariff, Appendix P2, section P2.2.1.

87 18 C.F.R. § 35.3(a) (2006)

filing by May 1, 2007.[88] The requested effective date and Commission action date will allow the CAISO to implement Long Term CRRs in a timely manner before MRTU start-up.

Although the clean MRTU Tariff sheets provided in Attachment B to this transmittal letter contain header and footer information, the CAISO requests waiver of the requirements of Order No. 614[89] and section 35.9 of the Commission's regulations[90] to the extent the information does not comport full with these requirements. Waiver is necessary because the MRTU Tariff that serves as the basis for the tariff sheets will be amended in between the filing date and the proposed January 31, 2008 MRTU start date. Prior to start-up of MRTU, the CAISO will submit tariff sheets containing the MRTU Tariff provisions approved by the Commission that fully comply with Order No. 614.

The CAISO also requests waiver of section 35.13 of the Commission's regulations, 18 C.F.R. § 35.13, to the extent applicable to this filing and requests waiver of any other applicable requirement of 18 C.F.R. Part 35 for which waiver is not specifically requested, if necessary, in order to permit Commission acceptance of this filing. The CAISO respectfully requests that the revised tariff sheets attached hereto be approved, without modification, suspension, or hearing, to go into effect on July 1, 2007.

X. SERVICE

This filing has been served on all parties on the Secretary's official service list for Docket Nos. RM06-8-000 and ER06-615-000.

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[88] CAISO notes that data collection and verification for the first annual CRR allocation and auction process is scheduled to begin on March 1, 2007.

[89] *Designation of Electric Rate Schedule Sheets*, FERC Stats. & Regs., Regs. ¶ 31,096 [Preambles 1996-2000] (2000).

[90] 18 C.F.R. § 35.9 (2006)

XI. COMMUNICATIONS

Communications regarding this filing should be addressed to the following individuals whose names should be placed on the official service list established by the Secretary with respect to this submittal:[91]

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XII. CONCLUSION

For all the reasons stated herein, the CAISO respectfully requests that this compliance filing be accepted without modification and the revised tariff sheets included in this filing also be approved, without modification, suspension, or hearing to go into effect on July 1, 2007 as requested.

Respectfully Submitted,

Anna McKenna RHS

Anna McKenna
Counsel for the
California Independent System Operator Corporation

[91] The CAISO respectfully requests waiver of Rule 203(b)(3), 18 C.F.R. § 385.203(b)(3), to permit each of the persons listed above to be included on the service list for this proceeding.