

January 7, 2011

VIA ELECTRONIC FILING

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

**Re: California Independent System Operator Corporation,
Docket No. ER06-615-____
Informational Filing of Negotiated Default Energy Bids
Request for Privileged Treatment Under 18 C.F.R Section 388.112**

Dear Secretary Bose:

Pursuant to Paragraph 1057 of the Federal Energy Regulatory Commission's ("FERC" or "Commission") September 21, 2006 order in Docket Nos. ER06-615-000, *et al.*¹ and Section 39.7.1.3.2 of its FERC Electric Tariff, the California Independent System Operator Corporation ("ISO") respectfully submits for filing an informational filing containing the formulas used to calculate Default Energy Bids ("DEBs") under the Negotiated Rate Option for certain suppliers participating in the ISO's markets for the month of December 2010 and going forward. As explained in greater detail below, the ISO is seeking privileged treatment of the attached formulas pursuant to 18 C.F.R. Section 388.112 because the ISO is obligated to keep bid data confidential under its tariff.

I. BACKGROUND

Under its market power mitigation procedures, the ISO calculates Default Energy Bids for all Generating Units and Participating Loads pursuant to one of three methodologies, at the election of the Scheduling Coordinators representing such resources: (1) the Variable Cost Option, under which the DEB is determined by adding the incremental fuel costs and variable operation and maintenance ("O&M") costs, along with a 10% Bid Adder; (2) the LMP Option, under which the DEB is set at the weighted average of the lowest quartile of locational marginal prices ("LMPs") at the Generating Unit PNode in periods when the unit was dispatched during the preceding 90 days; and (3) the Negotiated Rate Option, under

¹ 116 FERC ¶ 61,274 (2006) ("September 2006 Order").

which the DEB is derived through consultation between the Scheduling Coordinator and the ISO or an independent entity selected by the ISO. If a Scheduling Coordinator does not elect to use any of these three options or the ISO cannot obtain sufficient data to calculate a DEB using one of these three options, then the ISO may establish a temporary DEB based on certain types of data as provided in tariff Section 39.7.1.5. In the September 2006 Order, the Commission approved the ISO's proposal to provide the Negotiated Rate Option for calculating DEBs, finding that it provided market participants with greater flexibility to recover their variable operating costs when their market bids were subject to local market power mitigation. The Commission also directed the ISO to include in its tariff language a requirement to file these DEBs in an informational filing with the Commission. The ISO complied with this directive by adding to its tariff Section 39.7.1.3.2, which states that the ISO shall make an informational filing with FERC of any DEBs calculated pursuant to the Negotiated Rate Option, or any temporary DEBs, no later than seven (7) days after the end of the month in which the DEBs were established.

On May 7, 2009, the ISO made its first informational filing of Negotiated Rate Option DEBs pursuant to this requirement. In that filing, the ISO explained that these DEBs had been developed by Potomac Economics, the independent entity selected by the ISO to consult with Scheduling Coordinators in calculating the Negotiated Rate Option DEBs, pursuant to formulas that varied based on resource type. The ISO noted that modifications to these DEBs could be made if the ISO, Potomac Economics, and the individual Scheduling Coordinator agreed that revisions are necessary, and that additional formulas would be developed if other units opted to use the Negotiated Rate Option for determining their DEBs. The ISO stated that it would file any such revisions and new formulas with the Commission on the timeline provided in Section 39.7.1.3.2, but that the ISO would not re-file every month and would only file when it had changes to report.² The ISO also explained that providing the Commission with these formulas, rather than the individual numerical bids, satisfies the Section 39.7.1.3.2 filing requirement and provides a reasonable level of transparency to Market Participants.

On September 8, 2009, the ISO made its second informational filing under Section 39.7.1.3.2, consisting of one new Negotiated Rate Option DEB. On October 7, 2009, the ISO made its third informational filing under Section 39.7.1.3.2, consisting of eleven new Negotiated Rate Option DEBs as well as eight Negotiated Rate Option DEBs that have been revised based on new or modified information. On May 7, 2010, the ISO made its fourth informational filing under Section 39.7.1.3.2, consisting of one new Negotiated Rate Option DEB.

II. INFORMATIONAL FILING

In accordance with Section 39.7.1.3.2, this filing contains nine new Negotiated Rate Option DEBs. These new DEBs, which were implemented in December, 2010, have been

² Also, to the extent that a negotiated DEB is terminated prior to the end of an agreed-upon term, the ISO indicated that it would notify the Commission of such in accordance with the timeline in Section 39.7.1.3.2.

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VII. CONCLUSION

For the reasons set forth above, the ISO respectfully requests that the Commission accept this informational filing and accord the attachment to this filing confidential treatment under Section 388.112.

Respectfully submitted,

By: /s/ Sidney M. Davies

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CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon the parties listed on the official service list in the above-referenced 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, CA this 7th day of January, 2011.

/s/ Anna Pascuzzo

Anna Pascuzzo