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March 6, 2006

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

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

Dear Secretary Salas:

The California Independent System Operator Corporation ("CAISO")<sup>1</sup> submits an original and five copies of the instant filing in compliance with two Commission orders issued in the captioned dockets: the February 13, 2006 order, 114 FERC ¶ 61,135 ("February 13 Order"), and the February 23, 2006 order, 114 FERC ¶ 61,194 ("February 23 Order").

In the February 13 Order, the Commission directed the CAISO to raise "soft" cap for bids in the CAISO's Ancillary Service capacity markets from \$250/MWh to \$400/MWh, effective upon issuance of the February 13 Order.<sup>2</sup> February 13 Order at Ordering Paragraph (B). The Commission also directed the CAISO to make a compliance filing within 20 days of the date of issuance of the February 13 Order revising its Tariff to incorporate that \$400/MWh soft bid cap. *Id.* The CAISO hereby provides changes to Section 39.2 of its Simplified

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

<sup>2</sup> A soft bid cap is one that permits Market Participants to submit bids above the bid cap with adequate justification, but without setting the Market Clearing Price. February 13 Order at P 2 n.3.

and Reorganized ("S&R") Tariff to comply with the Commission's directive to modify its Tariff.<sup>3</sup>

In the February 23 Order, the Commission clarified that the cap on Adjustment Bids used in the CAISO's Congestion Management markets is a "hard" \$400/MWh bid cap,<sup>4</sup> effective as of January 13, 2006 (*i.e.*, the date on which the initial order in the captioned dockets was issued),<sup>5</sup> and directed the CAISO to make a compliance filing revising its Tariff to incorporate that \$400/MWh hard bid cap. February 23 Order at Ordering Paragraph (A). The CAISO hereby provides changes to Section 39.2 of the S&R Tariff to comply with the Commission's directive to modify its Tariff.

The tariff changes directed in the February 23 Order are incorporated into the revised sheet provided in Attachment A to the instant filing, and are shown in black-line format in Attachment B to the instant filing. The tariff changes directed in the February 13 Order are incorporated into the revised sheet provided in Attachment C to the instant filing, and are shown in black-line format in Attachment D to the instant filing.<sup>6</sup>

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<sup>3</sup> Section 39.2 of the S&R Tariff corresponds to Section 28.1.2 of the conformed CAISO Tariff that was superseded when the Commission accepted the S&R Tariff effective as of March 1, 2006. See *California Independent System Operator Corp.*, 114 FERC ¶ 61,199 (2006). Until now, the CAISO has made changes in the captioned dockets to the conformed CAISO Tariff only. The changes contained in the instant filing are to the S&R Tariff in order to harmonize this filing with the currently effective tariff.

<sup>4</sup> A "hard" bid cap is one that forbids Market Participants from exceeding the cap under any circumstances. February 13 Order at P 2 n.3.

<sup>5</sup> *California Independent System Operator Corp.*, 114 FERC ¶ 61,026 (2006) ("January 13 Order").

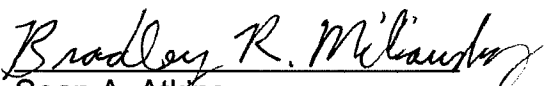
<sup>6</sup> The "baseline" text shown in Attachments B and D to the instant filing is the text provided in the CAISO's February 2, 2006 compliance filing in the captioned dockets, which was submitted to comply with the January 13 Order.

The Honorable Magalie R. Salas  
March 6, 2006  
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Two additional copies of this filing are enclosed to be date-stamped and returned to our messenger. If there are any questions concerning the filing, please contact the undersigned.

Respectfully submitted,

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**ATTACHMENT A**

implementation and effect of such measure on the state of the ISO Markets and shall periodically report on them to the CEO and the ISO Governing Board.

**39 RULES LIMITING CERTAIN ENERGY AND ANCILLARY SERVICE BIDS.**

**39.1 Damage Control Bid Cap.**

Notwithstanding any other provision of this ISO Tariff, Damage Control Bid Cap provisions of Sections 39.2 and 39.3 shall apply to the ISO's Energy and Ancillary Service capacity markets.

**39.2 Maximum Bid Level.**

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

The maximum bid level applicable to Adjustment Bids used in the ISO's Congestion Management markets shall be \$400/MWh, and the ISO shall not accept Adjustment Bids in excess of that bid level.

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

**39.3 Negative Decremental Energy Bids.**

Negative decremental Energy bids into the ISO Markets less than -\$30/MWh (minus thirty dollars per MWh) shall not be eligible to set any Market Clearing Price and, if Dispatched, shall be paid as bid. If the ISO Dispatches a bid below -\$30/MWh, the supplier must submit a detailed breakdown of the component costs justifying the bid to the ISO and to the Federal Energy Regulatory Commission no later than seven (7) days after the end of the month in which the bid was submitted. The ISO will treat such information as confidential and will apply the procedures in Section 20.4 of this ISO Tariff with regard to requests for disclosure of such information. The ISO shall pay suppliers for amounts in excess of -\$30/MWh after those amounts have been justified.

**ARTICLE V – RESOURCE ADEQUACY**

**40 RESOURCE ADEQUACY.**

**40.1 Must-Offer Obligations.**

**40.1.1 Applicability.**

The requirements of Section 40.1 shall apply to (a) all Participating Generators, and (b) all persons,

**ATTACHMENT B**

**39 RULES LIMITING CERTAIN ENERGY AND ANCILLARY SERVICE BIDS.**

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The maximum bid level applicable to Adjustment Bids used in the ISO's Congestion Management markets shall be \$400/MWh, and the ISO shall not accept Adjustment Bids in excess of that bid level.

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



**ATTACHMENT C**

implementation and effect of such measure on the state of the ISO Markets and shall periodically report on them to the CEO and the ISO Governing Board.

**39 RULES LIMITING CERTAIN ENERGY AND ANCILLARY SERVICE BIDS.**

**39.1 Damage Control Bid Cap.**

Notwithstanding any other provision of this ISO Tariff, Damage Control Bid Cap provisions of Sections 39.2 and 39.3 shall apply to the ISO's Energy and Ancillary Service capacity markets.

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The maximum bid level applicable to Adjustment Bids used in the ISO's Congestion Management markets shall be \$400/MWh, and the ISO shall not accept Adjustment Bids in excess of that bid level.

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

**39.3 Negative Decremental Energy Bids.**

Negative decremental Energy bids into the ISO Markets less than -\$30/MWh (minus thirty dollars per MWh) shall not be eligible to set any Market Clearing Price and, if Dispatched, shall be paid as bid. If the ISO Dispatches a bid below -\$30/MWh, the supplier must submit a detailed breakdown of the component costs justifying the bid to the ISO and to the Federal Energy Regulatory Commission no later than seven (7) days after the end of the month in which the bid was submitted. The ISO will treat such information as confidential and will apply the procedures in Section 20.4 of this ISO Tariff with regard to requests for disclosure of such information. The ISO shall pay suppliers for amounts in excess of \$-30/MWh after those amounts have been justified.

**ATTACHMENT D**

**39 RULES LIMITING CERTAIN ENERGY AND ANCILLARY SERVICE BIDS.**

**39.1 Damage Control Bid Cap.**

Notwithstanding any other provision of this ISO Tariff, Damage Control Bid Cap provisions of Sections 39.2 and 39.3 shall apply to the ISO's Energy and Ancillary Service capacity markets.

**39.2 Maximum Bid Level.**

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

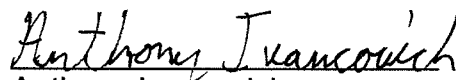
The maximum bid level applicable to Adjustment Bids used in the ISO's Congestion Management markets shall be \$400/MWh, and the ISO shall not accept Adjustment Bids in excess of that bid level.

The maximum bid level in the ISO's Ancillary Service capacity markets shall be \$25400/MWh. Market Participants may submit bids in the ISO's Ancillary Service capacity markets above \$25400/MWh, however, any accepted bids above this cap are not eligible to set the Market Clearing Price and are subject to cost-justification and refund.

## CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon each of the entities on the official service list for the captioned dockets in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, California on this 6<sup>th</sup> day of March, 2006.

  
Anthony Ivancovich

BAM