

May 21, 2009

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

Re: Amendments to Enable Unwinding Firm Transmission Rights

**California Independent System Operator Corporation
Docket No. ER09-____-000**

Dear Secretary Bose:

Pursuant to Section 205 of the Federal Power Act (FPA), 16 U.S.C. § 824d, and Part 35 of the regulations of the Federal Energy Regulatory Commission (Commission or FERC), 18 C.F.R. Part 35, the California Independent System Operator Corporation (CAISO or ISO) respectfully submits for filing an original and five copies of an amendment to the ISO Tariff (the Amendment).¹ The ISO submits this amendment in order to provide for the unwinding of Firm Transmission Rights (FTRs) released for April 1, 2009 through March 31, 2010, which are no longer applicable with the implementation of the ISO's Market Redesign & Technology Upgrade (MRTU) on March 31, 2009. The ISO requests an effective date for these amendments of June 23, 2009, in order for the amendments to be effective as early as the day that the ISO issues its first invoices after the implementation of the MRTU (Trading Day April 1, 2009).

One extra copy of this filing is also enclosed. Please stamp this copy with the date and time filed and return them in the prepaid postage stamped envelope also enclosed.

I. BACKGROUND

On March 31, 2009, the ISO implemented its new market based on Locational Marginal Pricing and conducted its first Day-Ahead Market for a

¹ Capitalized terms not otherwise defined herein have the meanings set forth in the Master Definitions Supplement, Appendix A to the ISO Tariff in effect as of March 31, 2009.

Trading Day of April 1, 2009. Prior to the start of MRTU the ISO operated under its zonal market design as provided in its previously effective ISO Tariff. Under the zonal market design, FTRs were used by market participants to manage congestion. FTRs were defined in the previously effective ISO Tariff as a “contractual right, subject to the terms and conditions of the ISO Tariff, that entitles the FTR Holder to receive, for each hour of the term of the FTR, a portion of the Usage Charges received by the ISO for transportation of energy from a specific originating Zone to a specific receiving Zone and, in the event of an uneconomic curtailment to manage Day-Ahead Congestion, to a Day-Ahead scheduling priority higher than that of a Schedule using Converted Rights capacity that does not have an FTR.”

With the adoption of LMPs MRTU, the ISO has adopted Congestion Revenue Rights (CRR). Unlike FTRs, CRRs are purely financial instruments that are used by market participants to manage their exposure to the transmission usage charge, but do not afford holders of such rights any scheduling priority rights. FTRs are no longer applicable under the MRTU ISO Tariff.

Prior to MRTU go live, the ISO held the FTR auction on January 27th and 28th, 2009, consistent with the ISO Tariff in effect prior to March 31, 2009. The ISO completed its auction of the FTRs consistent with Section 36 of the previously effective ISO Tariff covering the time period of April 1, 2009, through March 31, 2010.² Under Section 44 of the ISO Tariff, the ISO had the authority to revert to the previously effective ISO tariff under zonal markets in the event that during the first thirty days after the start of MRTU the ISO was to determine that a hardware or software failure or other event compromised the ability of the ISO to reliably and accurately operate the CAISO Controlled Grid and CAISO Balancing Authority Area and settle the ISO's markets in accordance with the currently-effective ISO Tariff and Business Practice Manuals. In the event of such a reversion, market participants would require FTRs for operations during the zonal market previously in effect.

On February 23, 2009, the ISO settled the FTRs that were released for the monthly FTR term of April 2009, but delayed the actual settlement of the FTRs released for the rest of the 2009-2010 time period, May 2009 through March 2010.

II. PROPOSED ISO TARIFF CHANGES

With the start of ISO operations under MRTU and the expiration reversion period under section 44, the outstanding FTRs are no longer necessary and can be unwound. In addition, the ISO must re-settle the FTRs for the month of April

² The ISO auctioned FTRs that covered the following segments of the 2009-2010 annual period: April 1 to April 30, May 1 thru Sept 30, then Oct, Nov, Dec-January, Feb, March.

so that the ISO may reimburse Market Participants the funds they paid for these FTRs that were not necessary for the month of April 2009 since the ISO did not revert to the previously effective tariff during that time. For this purpose, the ISO is proposing the addition of Section 36.15 to its currently effective tariff amendment that enables the ISO to unwind all of the FTRs released from April 1, 2009 through March 31, 2010 as well as re-settle the FTRs for April 2009.

The proposed tariff language is similar to the tariff provisions in Section 45 of Part L, of Appendix BB of the previously effective ISO Tariff. The previously effective language was accepted by the Commission so that after the ISO commenced operations under the MRTU Tariff, for any FTRs that are still in effect at that time, the ISO would reduce the terms of any FTRs that were released for any hours from April 1, 2008 through March 31, 2009 for any month that the ISO is operating under the MRTU Tariff. At the time the ISO filed this language the ISO included this provision in Appendix BB and did not include it in the MRTU tariff. The MRTU tariff did not retain any part of Appendix BB because that appendix was included prior to MRTU go-live to include necessary provisions to effectuate the allocation and auction of CRRs prior to MRTU go live.

The ISO now proposes to include the similar language in its currently effective tariff so that it has the authority to also unwind and resettle any outstanding FTRs for 2009-2010. Specifically, proposed Section 36.15 provides that:

The CAISO shall reduce the terms of any Firm Transmission Rights that were released under Section 36 of the CAISO Tariff in effect prior to March 31, 2009, for any hours beginning at hour beginning 12:00 a.m. on April 1, 2009 and ends with the hour beginning at 11:00 p.m., on March 31, 2010 for any month that the CAISO is operating with Congestion Revenue Rights as provided in Section 36 of the CAISO Tariff in effect after March 31, 2009. The CAISO shall also refund to the FTR Holders the FTR auction Settlement amounts associated with the reduced terms of the FTRs proportionately. The CAISO shall reflect any resulting payments in a subsequent invoice per the ISO Payments Calendar as soon as practicable. The amount of interest to be paid to each party that was awarded FTRs in the FTR auction that are reduced in term shall be determined so that for each month for which the FTR auction is resettled the CAISO will realize neither a shortfall nor a surplus of funds and all affected FTR Holders will receive the same effective interest rate for the month. Thus the effective interest rate paid to the affected FTR Holders shall be based on the interest rate

the CAISO has earned on amounts held in the monthly FTR auction accounts.³

The CAISO posted proposed tariff language on April 20, 2009. The ISO received no comments from stakeholders regarding the proposed language. The ISO believes that the lack of comments to the proposed language is attributable to the fact that the proposed tariff language incorporates the same unwinding and resettlement tariff language accepted by the Commission.

III. EFFECTIVE DATE AND INITIAL IMPLEMENTATION

The ISO requests that the Commission make this Amendment effective on June 23, 2009. This effective date will ensure that, pursuant to the ISO Tariff provisions contained in the Amendment, the ISO is able to unwind the FTRs released for April 1, 2009 to March 31, 2010 and resettle FTRs as early as the date on which the first invoice is due to be issued on June 24, 2009. Good cause exists for granting this waiver because this enables the ISO to return funds to former FTR holders for the month of April 2009 for which the ISO already collected payments as early as possible.

IV. 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:

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³ The ISO also collected collateral as required by Section 12 of the previously effective ISO tariff from participants that obtained FTRs through the FTR auction for the 2009-2010 period. The ISO may return this collateral under the current provisions of the ISO tariff that allows it to evaluate the collateral requirements based on a market participants expected financial exposure based on their market activity. See Section 12.1.3.1.1 Calculation of the Estimated Aggregate Liability Amount. Because FTRs are no longer going to be in effect, the ISO may under Section 12.1.3.1.1 readjust the Estimated Aggregate Liabilities of market participants and return any collateral related to FTR holdings.

V. SERVICE

The ISO has served copies of this transmittal letter and all attachments on the California Public Utilities Commission, the California Energy Commission, the California Electricity Oversight Board, and all parties with effective Scheduling Coordinator Service Agreements under the ISO Tariff. In addition, the ISO is posting this transmittal letter and all attachments on the ISO Website.

VI. ATTACHMENTS

The following documents, in addition to this transmittal letter, support the instant filing:

Attachment A	Revised ISO Tariff sheets
Attachment B	Black-lined sheets

VII. CONCLUSION

For all the foregoing reasons, the Commission should approve the Amendment as filed. Please feel free to contact the undersigned with any questions concerning this matter.

Respectfully submitted,



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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 captioned proceeding, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, CA this 21st day of May, 2009.


Jane Ostapovich

Attachment A – Clean Sheets
FTR Auction Revenue Amendment
Fourth Replacement CAISO Tariff

ER09-____-000

May 22, 2009

36.15 Firm Transmission Rights Reduction of Terms.

The CAISO shall reduce the terms of any Firm Transmission Rights that were released under Section 36 of the CAISO Tariff in effect prior to March 31, 2009, for any hours beginning at hour beginning 12:00 a.m. on April 1, 2009 and ends with the hour beginning at 11:00 p.m., on March 31, 2010 for any month that the CAISO is operating with Congestion Revenue Rights as provided in Section 36 of the CAISO Tariff in effect after March 31, 2009. The CAISO shall also refund to the FTR Holders the FTR auction Settlement amounts associated with the reduced terms of the FTRs proportionately. The CAISO shall reflect any resulting payments in a subsequent invoice per the ISO Payments Calendar as soon as practicable. The amount of interest to be paid to each party that was awarded FTRs in the FTR auction that are reduced in term shall be determined so that for each month for which the FTR auction is resettled the CAISO will realize neither a shortfall nor a surplus of funds and all affected FTR Holders will receive the same effective interest rate for the month. Thus the effective interest rate paid to the affected FTR Holders shall be based on the interest rate the CAISO has earned on amounts held in the monthly FTR auction accounts.

Attachment B - Blacklines

FTR Auction Revenue Amendment

Fourth Replacement CAISO Tariff

ER09-____-000

May 22, 2009

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36.15 Firm Transmission Rights Reduction of Terms.

The CAISO shall reduce the terms of any Firm Transmission Rights that were released under Section 36 of the CAISO Tariff in effect prior to March 31, 2009, for any hours beginning at hour beginning 12:00 a.m. on April 1, 2009 and ends with the hour beginning at 11:00 p.m., on March 31, 2010 for any month that the CAISO is operating with Congestion Revenue Rights as provided in Section 36 of the CAISO Tariff in effect after March 31, 2009. The CAISO shall also refund to the FTR Holders the FTR auction Settlement amounts associated with the reduced terms of the FTRs proportionately. The CAISO shall reflect any resulting payments in a subsequent invoice per the ISO Payments Calendar as soon as practicable. The amount of interest to be paid to each party that was awarded FTRs in the FTR auction that are reduced in term shall be determined so that for each month for which the FTR auction is resettled the CAISO will realize neither a shortfall nor a surplus of funds and all affected FTR Holders will receive the same effective interest rate for the month. Thus the effective interest rate paid to the affected FTR Holders shall be based on the interest rate the CAISO has earned on amounts held in the monthly FTR auction accounts.

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