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August 30, 2010

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

Re: California Independent System Operator Corporation
Compliance Filing
Docket No. EL10-15-000

Dear Secretary Bose:

The California Independent System Operator Corporation ("ISO") hereby submits this filing to modify its tariff in compliance with the Federal Energy Regulatory Commission's ("Commission") "Order on Section 206 Investigation of Financial Security Deposit Provisions" 132 FERC ¶ 61,005, issued on July 1, 2010 ("July 1 Order").[1]

I. Background

On July 28, 2008, the ISO filed with the Commission its generator interconnection process reform (GIPR) tariff amendment, in which the ISO proposed a number of modifications to its then-existing interconnection process. The most significant revisions included modifications to its Large Generator Interconnection Procedures ("LGIP") to change from a serial study approach to a clustered study approach, reducing the number of interconnection studies from three to two (Phase I and Phase II studies), and increasing the financial commitments required from interconnection customers, particularly during the earlier stages of the interconnection process. This modified process was set forth in a new Appendix Y to the ISO's Tariff (the "GIPR LGIP"). The

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

Commission approved the GIPR amendment in an order issued on September 26, 2008.[2]

After implementation of the new GIPR LGIP, stakeholders expressed concerns that the amount of financial security required, and the amount subject to forfeit in the case of withdrawal, were too high and could create a barrier to viable projects to continue in the interconnection process. In response to these concerns, the ISO, on September 18, 2009, in Docket No. ER09-1722, filed a tariff amendment to modify the amount of security required during the interconnection study process, as well as the amount of security that would be subject to forfeit in the case of a customer's withdrawal from the queue.

In comments on this amendment Clipper Windpower Development Company, ("Clipper") argued that the ISO should have included provisions stating that customers who switched their deliverability status from full capacity to energy-only at the conclusion of the Phase I study would be required to post financial security based only on the costs of reliability network upgrades identified in the study, rather than being required to post security to cover the costs of both reliability and delivery network upgrades.

In its order accepting the September 18 amendment,[3] the Commission noted that Clipper was protesting tariff provisions that had already been accepted by the Commission and were not under review in the current filing. Nevertheless, the Commission found that requiring customers that switch from full capacity to energy-only deliverability to post security greater than the total amount of their responsibility for reliability upgrades may not be just and reasonable, and instituted the instant proceeding under section 206 of the Federal Power Act. The Commission directed the ISO to submit within 30 days of the November 19 Order a demonstration that its tariff provisions regarding the posting of financial security after a switch from full capacity to energy-only deliverability were just and reasonable. The ISO did so, and Clipper filed comments on that filing.

In the July 1 Order, the Commission determined that the ISO's interconnection financial security requirements were not just and reasonable as applied to customers who switch from full capacity to energy-only deliverability after the conclusion of the Phase I study. The Commission emphasized that such a requirement could result in a customer being required to post an amount of interconnection financial security that may exceed that customer's potential cost exposure upon completion of the interconnection process. The Commission therefore directed the ISO to reformulate its financial security deposit such that a customer switching from full capacity deliverability to energy-only deliverability at the conclusion of the Phase I interconnection study would have its deposit

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[2] *Cal. Indep. Sys. Operator Corp*., 124 FERC ¶ 61,292 (2008)
[3] *Cal. Indep. Sys. Operator Corp*., 129 FERC ¶ 61,124 (2009) ("November 17 Order")

requirements capped at the amount of the costs identified by the Phase I interconnection study for that customer's reliability network upgrades.

II. Tariff Revisions to Comply with the July 1 Order

Based on the Commission's directive in the July 1 Order, the ISO submits a proposed modification to Section 9.2 Appendix Y to its Tariff, which sets forth requirements relating to the posting of financial security for customers studied in an interconnection queue cluster (including projects in the ISO's "transition cluster").[4] Specifically, the ISO proposes to add a sentence to this section to specify that, for interconnection customers who exercise the option to switch from full capacity to energy-only deliverability within the timeframe set forth in the GIPR LGIP (*i.e*. within five business days of the Phase I interconnection study results meeting), the required financial security posting will be capped at an amount no greater than the total cost responsibility assigned to those customers for reliability network upgrades in the Phase I interconnection study.

III. Effective Date

The ISO requests that the Commission approve this compliance filing as submitted to be effective on July 1, 2010, the date of the Commission's order directing the tariff revision proposed herein.

IV. Service

The ISO has served this filing on all parties included on the Commission's official service list for this proceeding.

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[4] *See* Section 6 of Appendix 2 to Appendix Y, which specifies that the provisions of Section 9 of Appendix Y shall generally apply to projects in the transition cluster. Although that section also contains several exceptions relating to the provision of financial security by customers in the transition cluster, none of these exceptions apply to the circumstances at issue in this proceeding, and therefore, the ISO is not proposing any changes to Appendix 2 in the instant filing.

V. Conclusion

The ISO respectfully requests that the Commission accept the instant filing as complying with the directives of the July 1 Order. Please contact the undersigned with any questions concerning this filing.

Respectfully submitted,

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Attachment A – Clean Tariff

California Independent System Operator Corporation

Fifth Replacement FERC Electric Tariff

Section 206 Investigation of Financial Security Deposit Provisions Compliance Filing

EL10-15-000

Appendix Y LGIP For Requests In A Queue Cluster Window
Large Generator Interconnection Procedures (LGIP)
for Interconnection Requests in a Queue Cluster Window

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9.2 Initial Posting Of Interconnection Financial Security

On or before ninety (90) calendar days after publication of the final Phase I Interconnection Study report, Interconnection Customers shall post, with notice to the CAISO, two separate Interconnection Financial Security instruments.

First, the Interconnection Customer shall post an Interconnection Financial Security instrument in an amount equal to the lesser of (i) fifteen percent (15%) of the total cost responsibility assigned to the Interconnection Customer in the final Phase I Interconnection Study for Network Upgrades, (ii) $20,000 per megawatt of electrical output of the Large Generating Facility or the amount of megawatt increase in the generating capacity of each existing Generating Facility as listed by the Interconnection Customer in its Interconnection Request, including any requested modifications thereto, or (iii) $7,500,000, but in no event less than $500,000. However, if an Interconnection Customer switches its status from Full Capacity to Energy-Only Deliverability within five (5) Business Days following the Phase I Interconnection Study Results Meeting, as permitted in Section 7.1 of this LGIP, the required Interconnection Financial Security for Network Upgrades shall, for purposes of this section, be additionally capped at an amount no greater than the total cost responsibility assigned to the Interconnection Customer in the Phase I Interconnection Study for Reliability Network Upgrades.

The Interconnection Customer shall also post an Interconnection Financial Security instrument in the amount of twenty percent (20%) of the total cost responsibility assigned to the Interconnection Customer in the final Phase I Interconnection Study for Participating TO's Interconnection Facilities.

The failure by an Interconnection Customer to timely post the Interconnection Financial Security required by this LGIP Section 9.2 shall result in the Interconnection Request being deemed withdrawn and subject to LGIP Section 3.8. The Interconnection Customer shall provide the CAISO and the Participating TO with written notice that it has posted the required Interconnection Financial Security no later than the applicable final day for posting.

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Attachment B – Marked Tariff

California Independent System Operator Corporation

Fifth Replacement FERC Electric Tariff

Section 206 Investigation of Financial Security Deposit Provisions Compliance Filing

EL10-15-000

Appendix Y LGIP For Requests In A Queue Cluster Window
Large Generator Interconnection Procedures (LGIP)
for Interconnection Requests in a Queue Cluster Window

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