California ISO
Your Link to Power

California Independent
System Operator Corporation

May 7, 2009

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 original and five copies of an informational filing containing the formulas used to calculate Default Energy Bids ("DEB") under the Negotiated Rate Option for certain suppliers participating in the ISO's markets for the month of April, 2009 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 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 can not 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.

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

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.

II. INFORMATIONAL FILING

In accordance with Section 39.7.1.3.2, this filing contains the formulas for DEBs for units that elected the Negotiated Rate Option that were developed by Potomac Economics, the independent entity selected by the ISO to consult with Scheduling Coordinators in calculating these DEBs, for use during the month of April 2009 and going forward.

The approach taken by Potomac Economics in developing these Negotiated Rate DEBs was to calculate the DEBs using formulas that varied based on resource type: (1) gas-fired, (2) pumped storage, (3) geothermal, (4) use-limited hydroelectric and (5) other use-limited resources. Depending on the resource type, different inputs for the formulas were utilized:

- Gas-Fired: For gas-fired generation, Potomac implemented a methodology similar to the one for calculating DEBs under the Variable Cost Option, with slight modifications that allow input values to vary from tariff defaults for such things as O&M values and locational fuel codes. This methodology also enables the modeling of multiple unit configurations (including dual-fueled resources) and emissions-limited opportunity cost calculations.

- Geothermal: For geothermal units, Potomac calculated the negotiated DEBs by determining variable operating expenses including fuel and O&M costs (e.g. steam replacement costs and royalty payments per unit of output to land owners).

- Pumped Storage: For economic pumped storage resources,[2] Potomac calculated negotiated DEBs based on a peaking proxy price from the daily natural gas index and pumped storage efficiency factors.

- Use-Limited Hydroelectric: Potomac calculated negotiated DEBs for use-limited hydroelectric resources based upon projected physical availability and generation over the water year, month, or hydro season.

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[2] Less than 50 percent efficient pumped storage resources were modeled as use-limited hydroelectric resources according to their specific downstream water requirements.

- Other Use-Limited: For other use-limited resources, negotiated DEBs were based on opportunity costs which were determined by maximizing the potential value of generation over the term of the energy limitation. In the event that an energy-limited resource also has variable operating expenses, the higher of the variable operating expenses and opportunity cost sources was used to establish the negotiated DEB.

After calculating the DEBs, Potomac Economics provided the formula documents to the Scheduling Coordinators for these units and discussed with the Scheduling Coordinators whether these DEBs were appropriate. All of the Scheduling Coordinators agreed that the enclosed formulas are appropriate.

The enclosed documents set forth the methodologies used to calculate the specific negotiated DEBs for the applicable units for the month of April 2009, and will be used to calculate future month DEBs for these units, with the understanding that modifications can be made if the ISO, Potomac Economics, and an individual Scheduling Coordinator agree that revisions are necessary. Moreover, additional formulas will be developed if other units opt to use the Negotiated Rate Option for determining their DEBs. The ISO will file any revisions and new formulas with the Commission on the timeline provided in Section 39.7.1.3.2.[3] However, the ISO does not believe it necessary to re-file every month those formulas that have not changed, and therefore does not plan to do so. Also, the ISO submits that providing the Commission with these formulas satisfies the Section 39.7.1.3.2 filing requirement, and that it is not necessary to file the individual numerical bids. Moreover, as with the Variable Cost Option and LMP-based option, the negotiated DEBs have dynamic components that result in dynamic DEBs that can vary on a daily basis. Therefore, it is not possible to file the actual DEBs.

In addition, the methodologies summarized above, contain an appropriate level of detail to provide a reasonable level of transparency to Market Participants and provide a level of detail reasonably comparable to the methodologies set forth in the tariff for calculating DEBs under the other options. Finally, not only is there no requirement that the ISO file the individual DEBs calculated under the other options, as discussed below, Bids are deemed confidential under the ISO Tariff. It therefore follows that the ISO should not be required to file the individual negotiated DEBs.

III. REQUEST FOR CONFIDENTIAL TREATMENT

Section 20.2 of the ISO Tariff requires that the ISO treat individual bids from Scheduling Coordinators as confidential. Pursuant to this Section, the ISO has labeled the Negotiated DEB formula documents included with this filing as confidential because, although they do not contain specific numeric bids, the methodologies set forth in these documents can be used to determine the bids that the ISO will use for these units when

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[3] Also, to the extent that a negotiated DEB is terminated prior to the end of an agreed-upon term, the ISO will notify the Commission of such in accordance with the timeline in Section 39.7.1.3.2.

applying market mitigation measures. Moreover, many of the documents contain proprietary information regarding specific Generating Units, such as unit efficiency factors, scaling factors, and O&M costs. For these reasons, the Commission should accord these attachments privileged treatment pursuant to 18 C.F.R. Section 388.112.

IV. CONTENTS OF FILING

This filing comprises:

This Transmittal Letter

Attachment A — Negotiated DEB Formula Documents

V. COMMUNICATIONS

Correspondence and other communications regarding this filing should be directed to:

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VI. SERVICE

The CAISO has served a copy of this filing letter on all parties on the official service list for FERC Docket No. ER06-615.

VII. CONCLUSION

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

*/s/ Michael Kunselman*__________________________

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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 Washington, D.C. this 7th day of May, 2009.

/s/ Daniel Klein
Daniel Klein