



California ISO
Your Link to Power

California Independent
System Operator

January 31, 2008

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

**Re: Amendments to Enable the Implementation of the Congestion
Revenue Right Contingency Plan**

**California Independent System Operator Corporation
Docket No. ER08-____-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"), 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 CAISO Tariff (the "CRR Contingency Plan Amendment" or "Amendment").¹ The CAISO submits this filing in order to provide for the treatment of Congestion Revenue Rights ("CRRs") and Firm Transmission Rights ("FTRs") in light of a delay of uncertain length of the implementation date of the CAISO's Market Redesign & Technology Upgrade ("MRTU") program, which is currently scheduled to be implemented as of the April 1, 2008 Trading Day.² The CAISO respectfully requests that the Commission approve the Amendment to be effective on April 1, 2008.

¹ Capitalized terms not otherwise defined herein have the meanings set forth in the Master Definitions Supplement, Appendix A to the CAISO Tariff, and in Part G (Definitions) of Appendix BB to the CAISO Tariff.

² The implementation of MRTU is also referred to as the start or launch of MRTU or as MRTU "go-live". In the Tariff language proposed herein, implantation of MRTU is reflected as date on which the CAISO Tariff to be used under MRTU ("MRTU Tariff") becomes effective.

Two extra copies of this filing are also enclosed. Please stamp these copies with the date and time filed and return them to the messenger.

I. BACKGROUND

Over the last several years, the CAISO has developed through an extensive stakeholder process a structure under MRTU for creating and releasing CRRs,³ which will replace the FTRs⁴ that are used under the CAISO's current market design.⁵ The currently effective CAISO Tariff provides for releases of FTRs through an FTR auction under Section 36 of the CAISO Tariff. In addition, Appendix BB to the CAISO Tariff includes currently effective language that enables the CAISO to implement and release CRRs in preparation for operations under MRTU through both a CRR Allocation and a CRR Auction. Market Participants that obtain FTRs and CRRs may hold them or may, subject to the relevant CAISO Tariff provisions, transfer them to other Market Participants.⁶ Market Participants are also subject to creditworthiness requirements concerning FTRs and CRRs.⁷

³ A CRR is defined as a CRR Obligation or a CRR Option. CAISO Tariff, Appendix BB, Part H, § 36.2. A CRR Obligation "entitles its holder to receive a CRR Payment if the Congestion in a given Trading Hour is in the same direction as the CRR Obligation, and requires the CRR Holder to pay a CRR Obligation charge if the Congestion in a given Trading Hour is in the opposite direction of the CRR." *Id.*, § 36.2.1. A CRR Option "entitles its CRR Holder to a CRR Payment if the Congestion is in the same direction as the CRR Option, but requires no CRR Obligation charge if the Congestion is in the opposite direction of the CRR." *Id.*, § 36.2.2. CRRs can either be positively valued, in which case they are expected to yield a stream of Congestion revenue to the CRR Holder, or negatively valued, in which case they are expected to result in a stream of Congestion charges to the CRR Holder. CRRs can have different lengths of term and are differentiated by time of use (*i.e.*, on-peak and off-peak). *Id.*, §§ 36.2.5-36.2.7.

⁴ An FTR is defined 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." CAISO Tariff, Appendix A (definition of FTR).

⁵ FTRs enable Market Participants to manage exposure to congestion on Inter-Zonal Interfaces and in the current market design in production. CRRs will enable Market Participants to manage exposure to congestion costs in the nodal Locational Marginal Price ("LMP") market to be employed under MRTU.

⁶ See CAISO Tariff, § 36 (provisions concerning FTRs); *id.*, Appendix BB (provisions concerning CRRs).

⁷ See CAISO Tariff, § 12.

On January 26, 2007, the CAISO completed its auction of the FTRs to be in effect over the time period from April 1, 2007 through March 31, 2008.⁸ On December 3, 2007, the CAISO completed its first annual CRR Allocation and on December 19, 2007, the CAISO completed its first annual CRR Auction, thus releasing the CRRs planned to be in effect following the anticipated start of MRTU. On January 4, 2008, the CAISO settled the outcome of the first annual CRR Auction. In anticipation that the CAISO would commence operations under MRTU on the April 1, 2008 Trading Day, the CAISO did not conduct an annual FTR auction for the April 1, 2008-March 31, 2009 time period.

On December 13, 2007, the CAISO issued a contingency plan ("CRR Contingency Plan") outlining generally what actions it would take in the event that implementation of MRTU was delayed beyond the proposed date of April 1, 2008.⁹ The December 13 CRR Contingency Plan outlined the parameters the CAISO would consider and certain alternatives the CAISO could employ depending on the announcement of a delay of MRTU and the length of such a delay. Specifically, the CRR Contingency Plan provided: 1) for adjustments to CRR holdings, CRR Auction settlement, and other applicable CRR requirements to reflect the delay, and 2) that the CAISO would make FTRs available in order to enable Market Participants to manage congestion costs during the period that the current market design was extended.

On December 31, 2007, the CAISO announced a delay of the start of Market Simulation Update 2 in light of difficulties experienced in implementing that next important market simulation process. The CAISO announced that its highest priority is ensuring that MRTU performs properly prior to the go-live date and that it is committed to ensuring that Market Simulation Update 2 provides Market Participants with a fully functional, rich, and nearly flawless simulation to facilitate Market Participants' MRTU readiness preparations. The CAISO continues to be actively engaged with its major vendors to work towards that vision, but despite its best efforts, had been unable to achieve the level of system stability and performance that it believes Market Participants expect. In its MRTU monthly report filed on January 14, 2008, the CAISO informed the Commission and Market Participants of the delay in schedule for MRTU go-live.

The CAISO has since announced that April 1, 2008 is no longer a viable start date for MRTU and is now working towards stabilizing its system to resume its market software testing and simulations with Market Participants. The CAISO continues to assess the schedule of the overall project, including the projected

⁸ FTRs are auctioned annually for the time period from April 1 of one year through March 31 of the following year. *Id.*, § 36.2.3.

⁹ The December 13, 2007 version of the CRR Contingency Plan is provided in Attachment C hereto.

go-live date, giving due consideration to observed system performance and stakeholder feedback. The CAISO has also announced that it will not determine a new MRTU go-live date until Market Participants have had an opportunity to test the final MRTU functionality and provide feedback to the CAISO.

Stakeholder Process

Shortly after its evaluation of a delay in the start of MRTU, the CAISO began evaluating internally the feasibility of implementing the CRR Contingency Plan and what modifications might be appropriate.

On January 18, 2008, the CAISO issued a market notice stating that, due to an anticipated delay to the scheduled start of MRTU, the CAISO planned to begin implementing aspects of the CRR Contingency Plan that was posted on December 13, 2007. The market notice also explained that, prior to beginning this process, the CAISO would solicit stakeholder comments on the CRR Contingency Plan, and explained that, by January 22, 2008, the CAISO would post on its Website a revised version of the CRR Contingency Plan that was substantially similar to the version posted on December 13. Further, the market notice stated that the CAISO would hold a stakeholder conference call on January 25, 2008 to discuss the revised version of the CRR Contingency Plan.¹⁰ On January 22, 2008, the CAISO issued a market notice rescheduling the conference call for January 24, 2008.

Despite the time limitations for a stakeholder process, the CAISO received numerous comments from stakeholders regarding its proposed CRR Contingency Plan. Over 100 representatives of stakeholders participated in the January 24 conference call. At the CAISO's request, stakeholders also provided written comments and questions to the CAISO regarding the CRR Contingency Plan both before and after the conference call; the CAISO posted these comments and questions on its Website.¹¹ Indeed, stakeholder participation was instrumental in fashioning the CRR Contingency Plan. In response to stakeholder input, the CRR Contingency Plan provided in this Amendment is essentially the same as the proposal posted on December 13, 2007, and again on January 22, 2007, with respect to the "unwinding" (*i.e.*, adjustment of term and resettlement) of CRRs described further below, and is substantially improved with respect to releasing new FTRs in a manner that CAISO management believes is responsive to expressed stakeholder preferences and concerns.

¹⁰ The January 22, 2008 revised version of the CRR Contingency Plan is provided in Attachment D hereto.

¹¹ A matrix reflecting the nature of the written comments and questions from stakeholders is provided in Attachment E hereto. The comments and questions themselves are posted on the CAISO Website at <http://caiso.com/1bb4/1bb4745611d10.html>.

On January 28, 2008, CAISO management provided a memorandum to the CAISO Governing Board requesting that the Board (1) approve the final version of the CRR Contingency Plan as the most workable option among the various options CAISO management could take, (2) approve the quantities of FTRs for the annual FTR auction for 2008-2009 proposed in the memorandum, and (3) authorize CAISO management to make all necessary and appropriate filings with the Commission.¹² On January 29, 2008, the CAISO Governing Board approved all of these requests.¹³

II. DESCRIPTION OF THE CRR CONTINGENCY PLAN

The CRR Contingency Plan as proposed herein specifically enables the CAISO to: 1) adjust the term of the annual CRRs released both through the CRR Allocation and CRR Auction processes for the months in 2008 that MRTU is not in effect; 2) resettle the CRR Auction payments and charges for parties who acquired CRRs in the first annual CRR Auction; and 3) make available FTRs for April 2008 and any additional months prior to the start of MRTU. The CRR Contingency Plan was developed specifically to accommodate any start date for MRTU and was fashioned to ensure that once MRTU goes live, the CAISO can seamlessly transition to the CRR congestion management system and terminate the effectiveness of any outstanding FTRs.

A. Reduction of the Term of CRRs Released in the First Annual CRR Allocation and CRR Auction

Until MRTU is implemented, released CRRs will not be effective. Because the Integrated Forward Market ("IFM") will not be operational to generate the LMPs upon whose congestion components the CRR settlements will be based, no CRR revenue will flow to and from the holders of CRRs. Therefore, as described herein, pursuant to the CRR Contingency Plan, the CAISO proposes to reduce the term of the Seasonal and Long Term CRRs that were allocated and auctioned in its first annual CRR Allocation and Auction for the hours in 2008 during which MRTU will not be in effect.¹⁴

Because at this time the CAISO does not know the length of the delay of implementation of MRTU, the CAISO is proposing to adopt as part of its CRR

¹² The January 28, 2008 memorandum to the CAISO Governing Board is provided in Attachment E hereto.

¹³ The CAISO Governing Board's approval is provided in Attachment F hereto.

¹⁴ For example, if MRTU were to be implemented on May 1, 2008, the CAISO would reduce the term of Seasonal and Long Term CRRs only for the month of April 2008. If MRTU were to be implemented on June 1, 2008, the CAISO would reduce the term of the Seasonal and Long-Term CRRs only for the months of April 2008 and May 2008.

Contingency Plan the requirement that, if the CAISO has not yet announced the expected start date of MRTU as of April 1, 2008, the CAISO will reduce the terms of the released CRRs on a month-to-month basis until such time as the CAISO announces the expected start date of MRTU. Once the CAISO determines and announces the start date of MRTU, the CAISO will determine the number of months that MRTU will not be in effect during 2008 and will reduce the terms of the affected CRRs accordingly.¹⁵ If, by April 1, 2008, the CAISO has announced the expected effective date of MRTU, the CAISO will reduce the term of affected CRRs based on the number of months of the anticipated delay.

Seasonal and Long Term CRRs that were allocated through the annual CRR Allocation process were not obtained at any cost to the CRR Holders. Therefore, the reduction of the term of these CRRs does require the resettlement of any auction payments or charges settled and invoiced with CRR Holders as is required for CRRs released through the CRR Auction, as further described below. Any reduction to the term of these instruments will, however, impact the evaluation of the CRR Holders' Estimated Aggregate Liability ("EAL") and, as provided below, will be considered as the CAISO determines creditworthiness requirements for each CRR Holder. While no further tariff changes are necessary to the CAISO credit policy to accomplish this change, the CAISO will not adjust the EAL to reflect the reduced term of the CRRs until after the CAISO has obtained Commission approval to reduce the terms of the CRRs as proposed herein. As explained above, this reduction of terms would occur on or after April 1, 2008.

Further, under the current CAISO Tariff, Out-of-Control Area Load Serving Entities ("OCALSEs") are required to prepay Wheeling Access Charges ("WAC") in order to be eligible to receive CRRs through the CRR allocation process.¹⁶ As a consequence of the reduction of the terms of the released CRRs pursuant to the CRR Contingency Plan, any pre-payment of WAC obligations that applies to OCALSES will also be readjusted and re-settled according to the new terms of the already released CRRs. At this time, however, the CAISO has not collected any such pre-payments and therefore does not anticipate that such adjustments will be necessary.

¹⁵ See Appendix BB, Part K, Section 44.1, as proposed in Attachment B hereto. The first monthly CRR release (CRR Auction and CRR Allocation) has not yet been conducted. Therefore, the delay of the MRTU launch will not impact Monthly CRRs. The Monthly CRR release will be conducted one to two months prior to the start of MRTU.

¹⁶ CAISO Tariff, Appendix BB, Part H, § 36.9.2.1. Under the CAISO Tariff that will be employed after MRTU goes into effect, the term OCALSE will be superseded by the term Out-of-Balancing Authority Area Load Serving Entities, because the latter term better accords with current industry usage. See CAISO Filing of Fourth Replacement Version of FERC Electric Tariff, Docket Nos. ER06-615-016 and ER08-367-000, Transmittal Letter at 23-24 (Dec. 21, 2007) ("December 21 Filing").

The CAISO does, however, anticipate the need to collect such pre-payments prior to the start of MRTU. Therefore, in this Amendment, the CAISO is also including in Appendix BB provisions previously filed in Section 11.2.5 of the MRTU Tariff that enable the CAISO to settle any pre-payment requirements for OCALSEs.¹⁷ While Section 11.2.5 has already been conditionally accepted by the Commission, acceptance of this provision in its entirety is subject to further Commission action on certain changes to this section the CAISO made on compliance in a July 20, 2007 filing¹⁸ and certain clean-up changes the CAISO made in the December 21 Filing. In this Amendment, the CAISO is proposing to supplement the language of Section 11.2.5 consistent with its CRR Contingency Plan so that it may adjust any pre-paid WAC amounts by OCALSEs for any allocated CRRs for the length of the delay in implementation of MRTU.

B. Re-Settlement of CRRs Released through the First Annual CRR Auction

As of April 1, 2008, the CAISO will begin to reduce the terms of all the CRRs released through the first annual CRR Auction that will not be in effect for the months in 2008 during which MRTU is not operational. While, as discussed above, no payments or charges were made with regard to the CRRs released through the CRR Allocation, the CAISO has already settled the outcome of the first annual CRR Auction. More specifically, the CAISO collected payments associated with Seasonal CRRs that were positively valued based on the market clearing price for each Seasonal CRR released through the CRR Auction. Similarly, the CAISO has paid for any Seasonal CRRs that were negatively valued based on the market clearing price for each Seasonal CRR released through the CRR Auction.

The CRR Contingency Plan provides that for any month that MRTU is not in effect in 2008, the CAISO will refund a proportional share of the payments made with the associated CRR Auction prices to the holders of positively-valued auctioned CRRs (plus interest as appropriate, as discussed below). Similarly, for the same time period that MRTU is delayed, holders of negatively-valued auctioned CRRs will be required to repay a proportional share of the associated auction prices that were paid to Market Participants awarded such CRRs in the auction (plus interest as appropriate, as discussed below).

¹⁷ The CAISO is also proposing to modify Sections 11.2.5, 11.2.5.1, and 11.2.5.3 to employ the defined term OCALSE, which is used under the current CAISO Tariff, in place of the term Out-of-Balancing Authority Control Area Load Serving Entity, which will be used in the MRTU Tariff.

¹⁸ See Amendments in Compliance with the Commission's July 6 Order in Docket Nos. ER07-869-001, ER07-475-002, and ER06-615-008 (July 20, 2007).

The resettlement of CRRs released through the CRR Auction will be calculated separately for on-peak and off-peak CRRs, by scaling the appropriate CRR Auction settlement in accordance with the following ratio:

[number of on-peak (or off-peak) hours in the delay period] divided
by [number of on-peak (or off-peak) hours in the term of the CRR].

The CAISO will pay or charge interest as of April 1, 2008, for any resettlement of the reduced-term CRR. Since the CRR Auction took place well in advance of the anticipated April 1, 2008 implementation date of MRTU, the economic impact of that gap in time should have been reflected in parties' bids for CRRs. Accordingly, the CAISO does not propose to pay or charge interest for any period up to April 1, 2008. Further, the CAISO believes that interest should not be paid for any month of MRTU delay, provided the CRRs are resettled on or before the first of any such month. In the event the CAISO cannot resettle affected CRRs by the first of any given month in the delay period, the CAISO believes that interest should be paid to holders of positively valued CRRs and charged to holders of negatively valued CRRs running from the first of the applicable month until such time as the CRR resettlements are invoiced. Finally, in the event the CAISO announces a new MRTU implementation date, the CAISO proposes to resettle the CRRs for the months prior to the new date without paying or charging interest unless, for whatever reason, the CAISO cannot resettle the CRRs until after the first day of the month.

In circumstances requiring the CAISO to pay and charge interest, the CAISO will apply the Interest rate employed by the Commission, as defined in Appendix A to the CAISO Tariff. An application of the Commission Interest rate, however, is likely to result in an application of a rate above the interest rate earned on the funds held by the CAISO in the CRR Balancing Account. In order to maintain the CAISO's revenue neutrality, any difference in interest will be absorbed through the clearing of the CRR Balancing Account, where the CRR Auction revenues are held until the CRR Balancing Account is settled at the end of the trading month once the CAISO begins operations under MRTU.

The CAISO proposes to conduct any such re-settlement with the entity to whom those CRRs were originally released. The CAISO recognizes that CRR Holders may trade CRRs bilaterally with other CRR Holders, and that at some point prior to the start-up of MRTU the holders of such rights will be able to register these trades in the Secondary Registration System ("SRS"). Once CRRs are transferred through the SRS, however, the CAISO can no longer determine whether the traded CRRs were obtained through the annual CRR Auction or the CRR Allocation. Therefore, the CAISO must perform the resettlement of the reduced terms of the CRRs released through the CRR Auction with the CRR Holder that was originally awarded the affected CRRs.

Each Market Participant that obtains CRRs through a CRR Auction or a CRR Allocation is required to maintain an Aggregate Credit Limit (*i.e.*, the sum of the Market Participant's Unsecured Credit Limit and Financial Security) that is at least equal to its Estimated Aggregate Liability ("EAL"), including the credit requirement applicable to its CRR portfolio (whether positively valued or negatively valued).¹⁹ If a Market Participant's Aggregate Credit Limit exceeds its EAL, the CAISO may be required to return to the Market Participant any excess Financial Security held by the CAISO.²⁰ Since negatively valued CRR portfolios increase a Market Participant's EAL, it might seem that EAL should be adjusted whenever CRRs are unwound pursuant to the CRR Contingency Plan. However, since the adjustment of the term of a negatively valued CRR requires repayment of the value of the CRR for the months or months to be unwound, the CAISO believes it should not make adjustments to the EALs of Market Participants until such time as the CRRs are resettled and payment has been received.

C. Release of FTRs for Months in 2008 During Which MRTU is not in Effect

Until it begins operations under MRTU, the CAISO will continue to operate under its current zonal market design and associated market processes as provided in its currently effective CAISO Tariff. As described above, under the current zonal market design, FTRs are used for the purpose of managing congestion. The CAISO has already auctioned the FTRs that are in effect for the months of January through March 2008, and additional FTRs will be needed for any month after April 1, 2008 that MRTU is delayed. The CAISO has, therefore, launched a new FTR auction that, pursuant to the currently effective CAISO Tariff, will release FTRs from April 1, 2008 through March 31, 2009. As required by the currently effective CAISO Tariff, at the January 29, 2008, meeting of the CAISO Governing Board, the CAISO obtained Board approval of the quantity of FTRs to be auctioned for this time period.²¹

In the past, the FTR auction process has been conducted over a period of four months. Because the CAISO must make FTRs available by April 1, 2008, and because of the strong preference expressed by stakeholders for an auction-based approach for the release of FTRs, the CAISO has instituted the FTR auction for 2008-2009 on an expedited basis. The CAISO is able to expedite the FTR auction for 2008-2009 by basing the FTR quantities on the FTR quantities that were used in the FTR auction for 2007-2008. As of the date of this filing, the CAISO is evaluating these quantities further and may make adjustments based

¹⁹ CAISO Tariff, §§ 12.1, 12.6.3.1(a).

²⁰ *Id.*, § 12.3.

²¹ *See id.*, § 36.2.2.

on the current transfer capability of each Inter-Zonal Interface as required under the currently effective CAISO Tariff.²² However, the final FTR quantities will not exceed the amounts approved by the CAISO Governing Board. The CAISO will, one month prior to when the auction will actually be conducted, issue a market notice notifying Market Participants of the FTR quantities that will be made available, as required by the currently effective CAISO Tariff.²³ The CAISO is also able to expedite the FTR auction by eliminating the training for auction participants that was normally provided during past FTR auctions.

Because, at the time this Amendment is being filed, the CAISO does not know the start date for MRTU, the Amendment also includes language that enables the CAISO to reduce the term of the FTRs released in the FTR auction for whichever months in 2008 and 2009 the CAISO does operate under MRTU.²⁴ In addition, the CAISO will make FTRs in the FTR auction available in segments. For example, the CAISO proposes to auction FTRs for April 2008, May 2008, June through September of 2008, October 2008, November 2008, December 2008, and January through March 31 of 2009. Together, these measures will enable the CAISO to unwind FTRs for the months that MRTU is in effect without affecting the value of the FTRs when MRTU is not in effect. For example, in the event that MRTU starts in October, the FTRs can be reduced by unwinding and resettling the FTRs for November, December, and January through March 31, while leaving the value of the FTRs for April, May, and June through September untouched. After the CAISO has determined the start date of MRTU, which will also be the date that FTRs will no longer be in effect, the CAISO will accordingly reduce the terms of the outstanding FTRs, ensure that Market Participants are refunded the amounts they have paid for FTRs for the time period following the start of MRTU, and reduce the creditworthiness requirements applicable to Market Participants with regard to any post-MRTU FTRs.

While the CAISO has taken considerable measures to ensure that its FTR auction effort is fully resourced, the CAISO may face certain unknown difficulties in conducting the FTR auction over a period of two months as opposed to the typical four month period. Therefore, the CRR Contingency Plan includes a backstop measure in case the expedited FTR auction as described above is not completed by April 1 or May 1 of 2008.

Under the backstop measure, the CAISO would provide the parties that obtained FTRs for April 2007 from last year's auction an opportunity to renew

²² See Attachment A to the CAISO Governing Board memorandum provided in Attachment E hereto.

²³ See CAISO Tariff, §§ 36.2.2, 36.4.2.1.

²⁴ See Appendix BB, Part L, Section 45, as proposed in Attachments A and B hereto.

those 2007 FTRs at a proportional share of the 2007 auction prices, subject to possible quantity limitations. For those months in which holders of 2007 FTRs are allowed to extend them to 2008, and for those transmission paths for which all of the 2008 maximum FTR quantities have not been taken up by renewal of 2007 FTRs, the CAISO proposes to release any remaining available FTR capacity to other interested and qualified parties through a simplified auction process that could be easily and quickly implemented. Before renewing the 2007 FTRs, however, the CAISO would calculate revised FTR maximum quantities for each FTR transmission path based on the same 99.5 percent availability criterion previously approved by the Commission, which has been used to determine maximum FTR quantities for previous FTR auctions.²⁵ In the event that the 2008 maximum FTR quantity for any transmission path is less than the quantity of 2007 FTRs released for that path, Market Participants that wish to renew their 2007 FTR auction awards would be limited to a *pro rata* share of the 2008 quantity for that path. Otherwise, Market Participants would be allowed to renew any quantity up to 100 percent of their 2007 FTR auction awards for each path. Market Participants would pay a *pro rata* price for the proportion of previously issued FTRs that they are allocated in this process.²⁶

In addition, the backstop mechanism would include a manual auction process with regard to residual FTR quantities not nominated pursuant to the procedures described above and to allocate any residual positive incremental grid capacity. The manual auction would be based on bid-in price quantity pairs for the available capacity. Bids would be rank ordered, a market clearing price would be established, and the capacity would be allocated accordingly.

III. PROPOSED CAISO TARIFF CHANGES

The proposed changes to the CAISO Tariff described below are all required to implement portions of the CRR Contingency Plan. These changes are contained in new Parts K and L of Appendix BB to the CAISO Tariff.

A. CAISO Tariff Changes Regarding CRRs

New Part K contains CAISO Tariff changes to enable the CAISO to: 1) settle any pre-payments made by an OCALSE that obtained CRRs through the

²⁵ *California Independent System Operator Corp.*, 88 FERC ¶ 61,156, at 61,526-27 (1999), *reh'g denied in relevant part*, 94 FERC ¶ 61,343, at 62,269-70 (2001).

²⁶ For example, assume that last year the term ran from April 1 to January 31, which is a total of 306 days. If FTRs were issued to the FTR Holders previously during that time, each FTR Holder would now pay a fraction of what it paid last time. That fraction would be equal to (i) the term of the new FTR in days (*e.g.*, an FTR for April has a term of 30 days) divided by the total number of days of the old season (306 days), multiplied by (ii) the price of the previously issued FTR.

CRR Allocation process for 2008 (as required in Section 36.9 of Appendix BB), and 2), in instances where the terms of the allocated CRRs were reduced prior to the start of MRTU, re-settle any such amounts consistent with the reduced terms of the allocated CRRs. Section 11.2.5 is included as filed in the MRTU Tariff and last modified in the December 21 Filing. The CAISO has modified Section 11.2.5.1 to state that, to the extent that an OCALSE has prepaid Wheeling Access Charges for CRRs that have been reduced in term, such Wheeling Access Charges will be refunded to the OCALSE to reflect the reduction in term of the applicable CRRs. The CAISO has also modified Sections 11.2.5, 11.2.5.1, and 11.2.5.3 to employ the defined term OCALSE, which is used under the current CAISO Tariff, in place of the term Out-of-Balancing Authority Control Area Load Serving Entity, which will be used under MRTU.

Section 44 of new Part L contains CAISO Tariff changes to implement components of the CRR Contingency Plan that are applicable to CRRs, as discussed in Sections II.A and II.B, above. Section 44.1 provides that the terms of Seasonal CRRs released in the annual CRR Allocation or CRR Auction for 2008 and Long Term CRRs released in the annual CRR Allocation will be reduced to eliminate those months of their terms prior to the date on which the CAISO begins operations under the MRTU Tariff. Section 44.2 concerns the adjustment of the CRR Auction settlement for CRRs with reduced terms. Section 44.2.1.1 sets forth the timing of reduction and resettlement prior to the time the CAISO establishes a start-up date for MRTU. Section 44.2.1.2 sets forth the timing of reduction and resettlement after the time the CAISO establishes the MRTU start-up date. Section 44.2.1.1 and Section 44.2.1.2 each specify that, to the extent that CRR Auction resettlements are invoiced after the start of any month that has been eliminated from a CRR term, the CAISO will calculate and include interest in the invoiced resettlement amounts as set forth in Section 44.2.2.

B. CAISO Tariff Changes Regarding FTRs

The CAISO includes, in new Section 45 of Part L, CAISO Tariff changes to implement additional measures concerning FTRs. Section 45.1 contains the FTR backstop measures described in Section II.C, above.

Section 45.2 provides that, after the CAISO commences operations under the MRTU Tariff, for any FTRs that are still in effect at that time, the CAISO will 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 CAISO is operating under the MRTU Tariff.

IV. EFFECTIVE DATE AND INITIAL IMPLEMENTATION OF CRR CREDIT REQUIREMENTS

The CAISO requests that the Commission make this Amendment effective on April 1, 2008. This effective date will ensure that, pursuant to the CAISO Tariff provisions contained in the Amendment, the CAISO is able to make FTRs available and to reduce the terms of and resettle CRRs for April 2008 and any additional months prior to MRTU launch.

V. 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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VI. SERVICE

The CAISO 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 CAISO is posting this transmittal letter and all attachments on the CAISO Website.

VII. ATTACHMENTS

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

Attachment A	Revised CAISO Tariff sheets that incorporate the Tariff changes contained in the January 2008 CRR Contingency Plan Amendment
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- Attachment B Black-lined sheets showing the CAISO Tariff changes contained in the January 2008 CRR Contingency Plan Amendment
- Attachment C CRR Contingency Plan dated December 13, 2007
- Attachment D Revised CRR Contingency Plan dated January 22, 2008
- Attachment E Memorandum to the CAISO Governing Board dated January 28, 2008 concerning the CRR Contingency Plan, the proposed quantities of FTRs for the 2008 annual FTR auction, and authorization for CAISO management to make a filing with the Commission (also includes matrix of stakeholder comments and questions)
- Attachment F Approval of the CAISO Governing Board dated January 29, 2008

VIII. CONCLUSION

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

Respectfully submitted,



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Attachment A – Clean Sheets
Congestion Revenue Rights Contingency Plan Amendment Filing
Currently Effective ISO Tariff

PART K. SETTLEMENT OF PREPAYMENTS BY OUT-OF-CONTROL AREA LOAD SERVING ENTITIES TO OBTAIN CRRS THROUGH THE CRR ALLOCATION PROCESS

The provisions below are included in this Appendix BB in order to enable the CAISO to: 1) settle any pre-payments made by an OCALSE that obtained CRRs through the CRR Allocation process for 2008 as required in Section 36.9 of this Appendix, and also, 2) in instances where the terms of the allocated CRRs were reduced prior to the start of MRTU re-settle any such amounts consistent with the reduced terms of the allocated CRRs.

11.2.5 Payment by Out-of-Control Area Load Serving Entity to Obtain CRRs Through the CRR Allocation Process.

11.2.5.1 Pursuant to Section 36.9, in addition to other requirements specified therein, an OCALSE will be eligible to participate in the CRR Allocation process if such entity has made a pre-payment to the CAISO and has met the requirements in Section 36.9. The prepayment amount shall equal the MW of CRR requested times the Wheeling Access Charge associated with the Scheduling Point corresponding to the CRR Sink times the number of hours in the period for each requested CRR MW amount. Except as provided in Section 39.9.2, such prepayment will be made three (3) Business Days in advance of the submission of CRR nominations for Monthly CRRs, Seasonal CRRs and Long Term CRRs to the CRR Allocation. Within thirty (30) days following the completion of the CRR Allocation process for Monthly CRRs, Seasonal CRRs and Long Term CRRs, the CAISO shall reimburse such OCALSE the amount of money pre-paid for any CRRs that were not allocated to the entity. To the extent that an OCALSE has prepaid Wheeling Access Charges, pursuant to Section 36.9 of this Appendix BB, for CRRs that have been reduced in term pursuant to Section 44.1, such Wheeling Access Charges shall be refunded to the OCALSE to reflect the reduction in term of the applicable CRRs.

11.2.5.3 Monthly Prepayment Option.

If the OCALSE qualified for the monthly prepayment option as specified in Section 36.9.2, the OCALSE shall make its payments consistent with the monthly prepayment schedule specified in the applicable Business Practice Manual.

PART L. CRR CONTINGENCY PLAN

Pursuant to the terms provided in this Part L of this Appendix, the CAISO shall: 1) reduce the terms of Seasonal CRRs and Long Term CRRs previously released through the annual CRR Allocation and Seasonal CRRs released through the CRR Auction to eliminate those months of their terms prior to when the CAISO will be operating under the MRTU Tariff as provided in Section 44.1; 2) resettle CRR Auction payments received or paid by the CAISO for positively or negatively valued CRRs, respectively, that were released through the annual CRR Auction as provided in Section 44.2; and 3) in the event that the CAISO cannot release Firm Transmission Rights through the FTR auction for the month of April or the month of May 2008, make FTRs available to eligible entities as further provided below in Section 44.2.

44 Reduction of CRR Terms and Resettlement of Reduced Term CRRs.

44.1 Reduction in Term of CRRs for 2008.

The terms of Seasonal CRRs released in the annual CRR Allocation or CRR Auction for 2008 and Long Term CRRs released in the annual CRR Allocation will be reduced to eliminate those months of their terms prior to the date on which the CAISO begins operations under the MRTU Tariff. For each CRR so reduced, the new term will begin at the start of the first hour of that CRR's time of use period in which the CAISO begins operations under the MRTU Tariff, and will end at that CRR's originally specified expiration. In the event that the CAISO begins operations under the MRTU Tariff after the originally specified expiration of a CRR, the term of that CRR will be reduced to zero.

44.2 Adjustment of the CRR Auction Settlement for CRRs with Reduced Terms.

For a CRR released in the CRR Auction for 2008 whose term is reduced pursuant to Section 44.1, the CAISO will calculate an adjustment to the CRR Auction Settlement by: 1) dividing the number of hours (on-peak or off-peak) that the term of the CRR was reduced by the number of hours (on-peak or off-peak) in the original term, and then 2) multiplying this ratio by the original CRR Auction Settlement amount for the CRR. To the extent that an adjustment to a CRR Auction Settlement is a positive amount, such amount will represent a payment due from the CAISO to the entity that received the CRR in the annual CRR Auction for 2008. To the extent that an adjustment to a CRR Auction Settlement is a negative amount, such adjustment shall represent a charge due to the CAISO from the entity who received the CRR in the CRR Auction for 2008.

44.2.1 Timing of Reduction, Resettlement and Invoicing.

44.2.1.1 Timing of Reduction and Resettlement Before CAISO Establishes Start-up Date for the MRTU Day-Ahead Market.

Commencing on April 1, 2008, and continuing until such time that the CAISO has announced the date on which it anticipates that it will begin operations under the MRTU Tariff through a CAISO Market Notice, the CAISO will, for each month during which the MRTU Tariff is not in effect: 1) for any CRRs released through the CRR Allocation and CRR Auction for 2008 that were originally scheduled to be in effect during that month, reduce the terms of such CRRs by one month as provided in Section 44.1, and 2) for any CRRs released through the CRR Auction for 2008 that were originally scheduled to be in effect during that month, adjust the CRR Auction Settlement as provided in Section 44.2. All adjustments to CRR Auction Settlements, as applicable, will apply to and will be netted for each CRR Holder that was originally awarded the CRRs in the first annual CRR Auction for 2008. The CAISO shall reflect any resulting payments or charges in a subsequent invoice per the ISO Payments Calendar as soon as practicable. To the extent that the CRR Auction resettlements as specified in this section are invoiced after the start of any month that has been eliminated from a CRR term, the CAISO will calculate and include interest in the invoiced Settlement adjustments, as set forth in Section 44.2.2. Interest on such adjustments will run from the first day of the applicable month until the day on which the invoice is issued.

45 Firm Transmission Rights Additional Measures.

45.1 Backstop Measures.

In the event that the FTR auction for 2008-2009 cannot be completed in time to make FTRs available by April 1, 2008, the CAISO will offer entities who received FTRs in the previous FTR auction for April 2007 the opportunity to renew such FTRs for April 2008. Similarly, if the FTR auction for 2008-2009 also cannot be completed in time to make FTRs available for May 1, 2008, the CAISO will offer entities who received FTRs in the previous FTR auction for May 2007 the opportunity to renew such FTRs for May 2008. Before renewing such FTRs, however, the CAISO will calculate revised FTR maximum quantities for each applicable FTR transmission path based on the 99.5 percent availability criterion approved by the Commission in *California Independent System Operator Corp.*, 88 FERC ¶ 61,156 (1999). In the event that the maximum FTR quantity for any applicable transmission path is determined to be less than the quantity of the FTRs released for that path for the April 2007 and May 2008 terms, parties who wish to renew their FTRs will be limited to a *pro rata* share of the revised quantity available for that path.

Otherwise, parties will be permitted to renew up to 100 percent of their awarded FTRs for April 2007 and May 2007. Any available incremental capacity that is not nominated will be made available to through a manual auction conducted by the CAISO that will be based on submitted bids and a market clearing price.

45.2 Reduction of Terms of Firm Transmission Rights when MRTU Tariff is in Effect.

After the CAISO commences operations under the MRTU Tariff, for any FTRs that are still effect at such time, the CAISO shall reduce the terms of any FTRs that were released for any hours beginning at 12:00 a.m., on April 1, 2008 and ending at 11:00p.m., on March 31, 2009 p.m., for any month that the CAISO is operating under the MRTU Tariff. The CAISO shall also refund to the FTR Holders the 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.

Attachment B – Blacklines
Congestion Revenue Rights Contingency Plan Amendment Filing
Currently Effective ISO Tariff

ISO TARIFF APPENDIX BB

* * *

PART K. SETTLEMENT OF PREPAYMENTS BY OUT-OF-CONTROL AREA LOAD SERVING ENTITIES TO OBTAIN CRRS THROUGH THE CRR ALLOCATION PROCESS

The provisions below are included in this Appendix BB in order to enable the CAISO to: 1) settle any pre-payments made by an OCALSE that obtained CRRs through the CRR Allocation process for 2008 as required in Section 36.9 of this Appendix, and also, 2) in instances where the terms of the allocated CRRs were reduced prior to the start of MRTU re-settle any such amounts consistent with the reduced terms of the allocated CRRs.

11.2.5 Payment by Out-of-Control Area Load Serving Entity to Obtain CRRs Through the CRR Allocation Process.

11.2.5.1 Pursuant to Section 36.9, in addition to other requirements specified therein, an OCALSE will be eligible to participate in the CRR Allocation process if such entity has made a pre-payment to the CAISO and has met the requirements in Section 36.9. The prepayment amount shall equal the MW of CRR requested times the Wheeling Access Charge associated with the Scheduling Point corresponding to the CRR Sink times the number of hours in the period for each requested CRR MW amount. Except as provided in Section 39.9.2, such prepayment will be made three (3) Business Days in advance of the submission of CRR nominations for Monthly CRRs, Seasonal CRRs and Long Term CRRs to the CRR Allocation. Within thirty (30) days following the completion of the CRR Allocation process for Monthly CRRs, Seasonal CRRs and Long Term CRRs, the CAISO shall reimburse such OCALSE the amount of money pre-paid for any CRRs that were not allocated to the entity. To the extent that an OCALSE has prepaid Wheeling Access Charges, pursuant to Section 36.9 of this Appendix BB, for CRRs that have been reduced in term pursuant to Section 44.1, such Wheeling Access Charges shall be refunded to the OCALSE to reflect the reduction in term of the applicable CRRs.

11.2.5.3 Monthly Prepayment Option.

If the OCALSE qualified for the monthly prepayment option as specified in Section 36.9.2, the OCALSE shall make its payments consistent with the monthly prepayment schedule specified in the applicable Business Practice Manual.

PART L. CRR CONTINGENCY PLAN

Pursuant to the terms provided in this Part L of this Appendix, the CAISO shall: 1) reduce the terms of Seasonal CRRs and Long Term CRRs previously released through the annual CRR Allocation and Seasonal CRRs released through the CRR Auction to eliminate those months of their terms prior to when the CAISO will be operating under the MRTU Tariff as provided in Section 44.1; 2) resettle CRR Auction payments received or paid by the CAISO for positively or negatively valued CRRs, respectively, that were released through the annual CRR Auction as provided in Section 44.2; and 3) in the event that the CAISO cannot release Firm Transmission Rights through the FTR auction for the month of April or the month of May 2008, make FTRs available to eligible entities as further provided below in Section 44.2.

44 Reduction of CRR Terms and Resettlement of Reduced Term CRRs.

44.1 Reduction in Term of CRRs for 2008.

The terms of Seasonal CRRs released in the annual CRR Allocation or CRR Auction for 2008 and Long Term CRRs released in the annual CRR Allocation will be reduced to eliminate those months of their terms prior to the date on which the CAISO begins operations under the MRTU Tariff. For each CRR so reduced, the new term will begin at the start of the first hour of that CRR's time of use period in which the CAISO begins operations under the MRTU Tariff, and will end at that CRR's originally specified expiration. In the event that the CAISO begins operations under the MRTU Tariff after the originally specified expiration of a CRR, the term of that CRR will be reduced to zero.

44.2 Adjustment of the CRR Auction Settlement for CRRs with Reduced Terms.

For a CRR released in the CRR Auction for 2008 whose term is reduced pursuant to Section 44.1, the CAISO will calculate an adjustment to the CRR Auction Settlement by: 1) dividing the number of hours (on-peak or off-peak) that the term of the CRR was reduced by the number of hours (on-peak or off-peak) in the original term, and then 2) multiplying this ratio by the original CRR Auction Settlement amount for the CRR. To the extent that an adjustment to a CRR Auction Settlement is a positive amount, such amount will represent a payment due from the CAISO to the entity that received the CRR in the annual CRR Auction for 2008. To the extent that an adjustment to a CRR Auction Settlement is a negative amount, such adjustment shall represent a charge due to the CAISO from the entity who received the CRR in the CRR Auction for 2008.

44.2.1 Timing of Reduction, Resettlement and Invoicing.

44.2.1.1 Timing of Reduction and Resettlement Before CAISO Establishes Start-up Date for the MRTU Day-Ahead Market.

Commencing on April 1, 2008, and continuing until such time that the CAISO has announced the date on which it anticipates that it will begin operations under the MRTU Tariff through a CAISO Market Notice, the CAISO will, for each month during which the MRTU Tariff is not in effect: 1) for any CRRs released through the CRR Allocation and CRR Auction for 2008 that were originally scheduled to be in effect during that month, reduce the terms of such CRRs by one month as provided in Section 44.1, and 2) for any CRRs released through the CRR Auction for 2008 that were originally scheduled to be in effect during that month, adjust the CRR Auction Settlement as provided in Section 44.2. All adjustments to CRR Auction Settlements, as applicable, will apply to and will be netted for each CRR Holder that was originally awarded the CRRs in the first annual CRR Auction for 2008. The CAISO shall reflect any resulting payments or charges in a subsequent invoice per the ISO Payments Calendar as soon as practicable. To the extent that the CRR Auction resettlements as specified in this section are invoiced after the start of any month that has been eliminated from a CRR term, the CAISO will calculate and include interest in the invoiced Settlement adjustments, as set forth in Section 44.2.2. Interest on such adjustments will run from the first day of the applicable month until the day on which the invoice is issued.

44.2.1.2 Timing of Reduction and Resettlement After CAISO Establishes the Date on which it Will Begin Operations under the MRTU Tariff.

As of April 1, 2008, and after such time that the CAISO has through a CAISO Market Notice announced the anticipated date of on which it will begin operations under the MRTU Tariff, the CAISO shall determine the number of months that remain in 2008 prior to the announced start-up date and for which CRR term reduction and CRR Auction resettlement have not already been performed, and will perform the term reduction and CRR Auction resettlement for this time period as a whole in a one-time process. The CAISO shall reduce the terms of CRRs as provided in Section 44.1 and calculate CRR Auction resettlements as provided in Section 44.2 for the full remaining time period. These CRR Auction resettlements will be reflected in a subsequent invoice per the ISO Payments Calendar as soon as practicable after the date on which the CAISO announces the date on which it will begin operations under the MRTU Tariff. To the extent that the CRR Auction resettlements as specified in this section are

invoiced after the start of any month that has been eliminated from a CRR term, the CAISO will calculate and include interest in the invoiced resettlement amounts, as set forth in Section 44.2.2. Interest on such adjustments will run from the first day of the applicable month until the day on which the invoice is issued.

44.2.2 Interest on Payments and Charges for Reduced Terms of CRRs Released Through the CRR Auction.

Interest on any adjustments to CRR Auction Settlements will be calculated at the rate specified in the regulations of FERC at 18 C.F.R. §35.19(a)(2)(iii). Interest on a positively valued CRR will represent interest owed to the entity to whom the affected CRR was originally released in the CRR Auction for 2008. Interest on a negatively valued CRR will represent interest due from the entity who obtained the CRR in the 2008 CRR Auction.

45 Firm Transmission Rights Additional Measures.

45.1 Backstop Measures.

In the event that the FTR auction for 2008-2009 cannot be completed in time to make FTRs available by April 1, 2008, the CAISO will offer entities who received FTRs in the previous FTR auction for April 2007 the opportunity to renew such FTRs for April 2008. Similarly, if the FTR auction for 2008-2009 also cannot be completed in time to make FTRs available for May 1, 2008, the CAISO will offer entities who received FTRs in the previous FTR auction for May 2007 the opportunity to renew such FTRs for May 2008. Before renewing such FTRs, however, the CAISO will calculate revised FTR maximum quantities for each applicable FTR transmission path based on the 99.5 percent availability criterion approved by the Commission in *California Independent System Operator Corp.*, 88 FERC ¶ 61,156 (1999). In the event that the maximum FTR quantity for any applicable transmission path is determined to be less than the quantity of the FTRs released for that path for the April 2007 and May 2008 terms, parties who wish to renew their FTRs will be limited to a *pro rata* share of the revised quantity available for that path. Otherwise, parties will be permitted to renew up to 100 percent of their awarded FTRs for April 2007 and May 2007. Any available incremental capacity that is not nominated will be made available to through a manual auction conducted by the CAISO that will be based on submitted bids and a market clearing price.

45.2 Reduction of Terms of Firm Transmission Rights when MRTU Tariff is in Effect.

After the CAISO commences operations under the MRTU Tariff, for any FTRs that are still effect at such time, the CAISO shall reduce the terms of any FTRs that were released for any hours beginning at 12:00 a.m., on April 1, 2008 and ending at 11:00p.m., on March 31, 2009 p.m., for any month that the CAISO is operating under the MRTU Tariff. The CAISO shall also refund to the FTR Holders the 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.

* * *

ATTACHMENT C

CRR/FTR Contingency Plan if MRTU Market Launch Delayed

Because the first auction of CRRs is being conducted several months prior to the start of MRTU, some participants have inquired about how the CAISO will, in the event of a delay of MRTU market launch: (1) adjust CRR holdings, auction prices, credit requirements, etc., to reflect the delay; and (2) make available FTRs consistent with the current market design to enable Market Participants to manage congestion costs during the period that the current market design is extended. The following is the CAISO contingency plan for these events:

A. CRR Auction

1) Annual CRR Auction

- The annual CRR Auction is scheduled to close and be conducted during the December 11-13 time period. The annual CRR Auction clears CRRs by season and by time of use (peak versus off-peak) for 2008 starting from April 1, 2008. Therefore for the first season (January to March 31st) there will be no allocation or auction of CRRs.
- At this time the CAISO does not anticipate that there will be a delay of the market launch of MRTU currently scheduled for the April 1, 2008 Trade Day.
- In the event that the CAISO determines at a later time that a delay of the start of MRTU is necessary after the annual CRR Auction clears, the CAISO would pro-rate the awarded value of the CRRs cleared from the auction and if the auction has already cleared in settlements, refund the value of the pro-rationed amounts to the CRR Holders. For the case where a CRR holder was paid for acquiring a negative-valued CRR in the auction, the CRR holder will be required to repay a pro-rata share of the auction price proportional to the period of the delay.
- The pro-ration would be calculated separately for on-peak and off-peak CRRs in accordance with the ratio:
 - [number of on-peak (or off-peak) hours in the delay period] divided by [number of on-peak (or off-peak) hours in the term of the CRR].



- The CRR Annual Auction is currently scheduled to go through cash clearing on January 3, 2008. In the event that an MRTU delay is announced after the cash clearing of the auction, the CAISO will also be required to rerun the settlements based on the pro-rated value of the CRRs. In the event that a MRTU delay is announced before the cash clearing of the CRR Auction, the CAISO will only settle on the pro-rated amounts.
- In the event that the CAISO has paid out on the negatively valued CRRs, an adjustment will have to be made based on the pro-ration and the CRR Holder will be invoiced.
- Secondary Registration/ bilateral trades are not affected by the announcement of a MRTU delay. The CAISO has no ability to prevent parties from negotiating any trades for CRRs they hold or they anticipate obtaining. However, the CAISO settles all CRRs with the holder of record as registered in the Secondary Registration System. However, CAISO will be publishing shortly an updated CRR "Go-Live" Road Map Document that revised the participants ability to register their CRR trades on the SRS until mid-February due to software delivery issues.
- Market Participants that intend to participate in the annual CRR Auction have already provided security to meet the creditworthiness requirements to participate in the CRR Auction. The CAISO understands that this is a concern by participants and that a delay in the CRR Auction and a delay in the MRTU launch could result in the CAISO holding security for a longer period than anticipated and, if there is a delay in the launch of MRTU, then there may be a potential delay in the return on investment. In the event a delay of MRTU is announced before the close of the CRR Auction, the CAISO will provide notice to all participants and conduct any necessary reevaluations of their credit requirements on a case-by-case basis after consultation with the participant. In the event that a MRTU delay is announced after the CRR Auction has been cleared, the CAISO will reassess any collateral requirements based on the prorated values of the CRRs.

2) Monthly CRR Auction

- The first CRR monthly auction will be conducted in mid-March 2008. If a delay of MRTU is announced prior to that time, the CAISO will reschedule that auction. If a delay is announced after the monthly auction, the CAISO will take similar steps as described above for the annual auction.

B. CRR Allocation

- Because the CRR Allocation does not require payment for participation and no credit requirements are imposed on holders of allocated CRRs until after the CRR auction is held, the CAISO does not believe any necessary measures are required for pro-ration of allocated CRR values at this time, except to invalidate any allocated CRRs prior to the new MRTU go-live date for the period of time that MRTU market launch is delayed.
- Prepayment of Wheeling Access Charges. In the event that the MRTU delay is announced prior to the settlement of the pre-payment of WAC by Out of Control Area LSEs, the CAISO will make any adjustments for the pre-paid amounts based on the extent of the delay.
- The credit requirements for all CRRs will be valued approximately mid-February 2008. If a delay is announced prior to this time, the evaluation will be delayed accordingly. If a delay is announced subsequent to this scheduled valuation, the CAISO will conduct a re-evaluation of those amounts.

C. Firm Transmission Rights

- The CAISO has already auctioned the FTRs that are in effect over the months of January through March 2008.
- The actions the CAISO will take with respect to FTRs depend on the length of the delay.



- In the event that the MRTU delay is only for one or two months (*i.e.*, does not run through summer), the CAISO will offer the option to holders of FTRs for 2008 to extend their awarded FTRs for the delay period at a price equal to the clearing price of the relevant FTRs in the most recent FTR auction, pro-rated for the term of the delay. (*i.e.* for a one-month delay until May 1, 2008, CAISO would use the clearing price from March 2008 to value the FTRs for April 2008.)
- In the event that the MRTU delay spans past the summer the CAISO will take the following actions:
 - the CAISO will offer the option to holders of FTRs for 2008 to extend their awarded FTRs for the delayed first two months (April and May) at the pro-rated price described above;
 - The CAISO will then conduct a new FTR Auction for the remaining summer months. Only holders of already awarded FTRs or entities that already are qualified to participate in the CRR Auction or Allocation will be permitted to participate in the additional FTR auction as the CAISO does not have the ability to train and register new participants.

ATTACHMENT D



CAISO Proposal
CRR/FTR Contingency Plan with MRTU Market Launch Delayed
January 22, 2008

Introduction

At this time the California Independent System Operator (CAISO) anticipates a delay of the market launch of MRTU currently scheduled for the April 1, 2008 Trading Day. While the CAISO has not yet determined a start date for MRTU, it has determined that it is necessary to take immediate actions to implement certain tariff provisions and procedures that will address issues related to the Congestion Revenue Rights (CRRs) that have already been released in the annual CRR Allocation and Auction and to make available Firm Transmission Rights (FTRs) for April 2008 and any additional months prior to the MRTU launch. The CAISO is therefore putting forth the CRR Contingency Plan described below to be used specifically to: (1) adjust CRR holdings, auction settlement, credit requirements, etc., to reflect the delay; and (2) make available FTRs consistent with the current market design to enable Market Participants to manage congestion costs during the period that the current market design is extended.

Stakeholder Discussion and Tariff Amendment Processes

Under normal circumstances, the CAISO provides a fairly lengthy stakeholder process to provide several opportunities for Market Participants to review and comment on any proposed tariff amendment before taking any proposed policies to its Board of Governors for approval and before filing the associated tariff language. With respect to the issues presented by the MRTU schedule delay, the CAISO must act quickly to file with FERC by January 31, 2008, in order to obtain an order on or before March 31, 2008. Although the time is limited, the CAISO believes it is crucial to obtain stakeholder input to ensure that Market Participants' needs and concerns are reasonably addressed under the circumstances.

Accordingly, the CAISO will discuss this contingency plan on a January 24, 2008 conference call starting at 1:00 PM PST; call-in details are available on the Calendar page of the CAISO web site. CAISO encourages participants to submit comments no later than January 25, 2008, 5:00 PM Pacific Time. Participants who are able to submit comments and questions prior to the January 24 conference call are encouraged to do so, to enable the CAISO to be better prepared to address all concerns that are raised. Comments should be submitted electronically to: crrdata@caiso.com.

CAISO Management will request a decision by the CAISO Board of Governors approving the plan on January 29, 2008.

The CAISO greatly appreciates stakeholders' prompt attention to this matter.

Proposal

The proposal presented below is largely similar to the options the CAISO previously posted on December 11, 2007. The proposal is designed to deal with the fact that at this time the CAISO has not determined a new MRTU launch date. Therefore the measures proposed below are intended to be flexible to be compatible with whatever MRTU launch date is eventually decided.

A. CRRs Already Released through the Annual CRR Auction

- The CAISO has already conducted its annual CRR Auction for 2008 and has settled the results of this auction.
- The CAISO proposes to reduce the term of the released annual CRRs in proportion to the delay in the MRTU launch, and to refund a proportional share of the associated CRR auction prices plus Interest to the holders of positively-valued auctioned CRRs.
- Holders of negatively-valued auctioned CRRs will be required to repay a proportional share of the associated auction prices that were paid to parties awarded such CRRs in the auction, plus Interest.

- The CAISO will net these previously-settled auction amounts for each CRR auction participant and will provide payment or impose charges to settle the appropriate net amounts.
- The CRR auction price adjustments will be calculated separately for on-peak and off-peak CRRs, by scaling the appropriate CRR auction price in accordance with the ratio:
 - $\frac{\text{[number of on-peak (or off-peak) hours in the delay period]}}{\text{[number of on-peak (or off-peak) hours in the term of the CRR]}}$
- The proposed auction price adjustment will be paid or charged to the parties that received CRRs in the annual CRR Auction. CRR Auction participants and other parties considering bilateral trades of CRRs should be aware of this impending auction settlement adjustment when arranging their CRR trades.
- Adjustment of Credit Requirements. Market Participants that participated in the annual CRR Auction have already provided security to meet the creditworthiness requirements to participate in the CRR Auction. The CAISO is in the process of reassessing any collateral requirements based on the adjusted values of the CRRs as described above, and will include the effect of such adjusted collateral requirements in the routine weekly process of calculating Estimated Aggregate Liabilities (EAL). In this process, CAISO will inform Market Participants about revised collateral requirements by either requesting additional collateral, or informing Market Participants about available excess collateral for return. As noted below, adjustments to credit and collateral requirements will apply to holders of both allocated and auctioned CRRs.
- The first monthly CRR release (CRR Allocation and Auction) has not yet been conducted. Therefore the delay of the MRTU launch does not impact Monthly CRRs. The Monthly CRR release will be conducted one to two months prior to the start of MRTU. The CAISO will announce the new CRR Monthly timeline once the new MRTU launch date is announced.

B. CRR Allocation

- Because the CRR Allocation does not require payments or charges to CRR recipients, there is no need for CRR settlement adjustments analogous to the adjustments described above for auctioned CRRs. The terms of the allocated CRRs will, of course, be adjusted to reflect the period of time that MRTU market launch is delayed. Such adjustment of CRR terms does not require any additional tariff changes.
- Collateral requirements for holding allocated CRRs, as with auctioned CRRs, will be reevaluated and adjusted through the weekly Estimated Aggregated Liability process noted above.
- Prepayment of Wheeling Access Charges. Out of Balancing Authority Area LSEs were required to prepay Wheeling Access Charges in order to be eligible to receive CRRs through the CRR allocation process. On a monthly basis the CAISO will make any adjustments for the pre-paid amounts based on the extent of the delay.

C. Firm Transmission Rights

- Because the CAISO's current zonal market design and associated market processes will be continued during the period of the MRTU launch delay, the CAISO expects that Market Participants will want to obtain FTRs for this period.
- The CAISO has already auctioned the FTRs that are in effect over the months of January through March 2008. Additional FTRs will therefore be needed at least for the month of April 2008 and possibly longer.
- At this time the CAISO has not yet determined the length of any potential delay in the start of MRTU, and therefore the CAISO has developed a proposal for an FTR release process that is compatible with both a pre-summer 2008 MRTU launch and a post-summer launch. The proposed plan accommodates the uncertainty about the eventual MRTU launch date so the CAISO may conduct an FTR release that can be flexibly adapted to conform to the ultimate length of the launch delay, without requiring a repeat of the efforts at a later time in the event of a delay beyond one or two months.

- In the event that by March 1, 2008 the CAISO either (1) announces that MRTU will launch no later than June 1, 2008, or (2) has not yet announced a new MRTU launch date, the CAISO will not be able to conduct a new FTR auction due to the timing requirements for conducting such an auction. Instead the CAISO will offer parties who acquired FTRs for the period April 2007 to January 2008 in the last auction the opportunity to renew those FTRs for 2008 for each month of the delay period, on a month by month basis as needed. Before renewing the 2007 FTRs, however, the CAISO will calculate revised FTR maximum quantities for each FTR transmission path based on the same 99.5 percent availability criterion in the current CAISO tariff that has been used to determine maximum FTR quantities for previous FTR auctions. In the event that the 2008 maximum FTR quantity for any transmission path is less than the quantity of 2007 FTRs released for that path, parties who wish to renew their 2007 FTR auction awards will be limited to a pro rata share of the 2008 quantity for that path. Otherwise, parties will be allowed to renew any quantity up to 100 percent of their 2007 FTR auction awards for each path.
- In the event that the CAISO announces before March 1, 2008, a delay of MRTU launch beyond September 2008, the CAISO is considering two possible options.
 - The simplest option would be to implement the same approach described above, possibly augmented by a simplified auction for residual FTR quantities noted below under “additional considerations.”
 - Alternatively, an early announcement of a deferment of MRTU launch to post summer 2008 would allow the possibility of conducting a new FTR Auction, if there would be sufficient benefits to such an approach. Under this approach the CAISO would auction FTRs that would be in effect as of June 1, 2008 until the end of 2008. If MRTU is then launched prior to the end of 2008, the CAISO would appropriately reduce the terms of the outstanding FTRs and refund their auction prices proportionately. For the months of April through May 2008, the CAISO will offer holders of FTRs for April through May 2007 the opportunity to renew those FTRs at a proportional share of the 2007 auction prices, subject to the possible quantity limitations described above.

- Additional considerations. The CAISO is still looking into the following considerations, and hopes to be able to discuss them on the January 24 conference call.
 1. If the decision is made to conduct a new FTR auction, is it feasible to conduct the entire training and qualification process for new auction participants, or must the CAISO limit auction participation, for example, to previous FTR auction participants and 2007 CRR auction and allocation participants?
 2. For those months in which holders of 2007 FTRs are allowed to extend them to 2008, and for those transmission paths for which all of the 2008 maximum FTR quantities have not been taken up by renewal of 2007 FTRs, is it feasible to release any remaining available FTR capacity to other interested and qualified parties through a simplified auction process that could be easily and quickly implemented?

ATTACHMENT E

Memorandum

To: ISO Board of Governors
From: Deborah Le Vine, Director, Market Services
Jim Detmers, Vice President, Operations
Date: January 28, 2008
Re: *Decision on Congestion Revenue Rights Contingency Plan*

This memorandum requires Board action.

EXECUTIVE SUMMARY

As a result of the delay of the start of the California ISO's Market Redesign and Technology Upgrade (MRTU), Management has put forth a Congestion Revenue Rights Contingency Plan (CRR Contingency Plan) to address the need to reduce the term of any Congestion Revenue Rights already released through the first annual CRR allocation and auction process, re-settle those CRRs released through the CRR auction held in December 2007, and make available Firm Transmission Rights (FTR) as of April 1, 2008. Firm Transmission Rights are a product that enables market participants to manage exposure to congestion on Inter-Zonal Interfaces and in the current market design in production. Firm Transmission Rights are auctioned annually for the auction period of April 1 through March 31. Congestion Revenue Rights are instruments that enable market participants to manage exposure to congestion costs in a nodal market as anticipated in MRTU. The CRR Contingency Plan as proposed herein specifically enables ISO to: 1) adjust the term of the annual CRRs released both through the CRR allocation and CRR auction processes for the months in 2008 that MRTU is not in effect; 2) resettle the CRR auction payments and charges for parties who acquired CRRs in the first annual CRR auction; and 3) make available FTRs for April 2008 and any additional months prior to the start of MRTU.

Specifically, Management is proposing to reduce the term of the released CRRs to eliminate those months for which they will not be in effective between April 1 and the launch of MRTU. Management proposes to refund a proportional share of the associated CRR auction prices plus interest, as appropriate, to the holders of positively-valued auctioned CRRs. Holders of negatively-valued CRRs released through the annual CRR auction will be required to repay a proportional share of the associated CRR auction prices that were paid to parties awarded such CRRs in the CRR auction, plus interest, as appropriate. In addition, the ISO will conduct an expedited FTR auction to cover an annual period from April 1, 2008 through March 31, 2009, as is required under the existing ISO Tariff for congestion management. Because in the past an FTR auction has required a four-month process to implement, there is a risk that the expedited FTR auction may not be complete by April 1 or May 1, of 2008. Therefore, Management is proposing that it commence the FTR auction for 2008-2009 as provided for in the currently-effective ISO Tariff, with certain simplified procedures, and adopt a backstop measure that together will ensure the release of FTRs as of April 2008. The backstop measure would consist of an opportunity for parties that obtained FTRs for April 2007 or May 2007 in the last FTR

auction to renew those FTRs for April or May 2008, at a price that is a share of the previous auction price; and thereafter FTRs would be released through the FTR Auction for 2008-2009.¹

In order to proceed with the FTR Auction for 2008-2009, as proposed herein, consistent with Section 36.2.2 of the currently-effective ISO Tariff, Management requests that the Board of Governors approve the FTR quantities that Management has determined are appropriate to release in the FTR Auction for 2008-2009, as described in this Memorandum and in the Attachment A to this Memorandum. Section 36.2.2 of the tariff states that, "The CAISO Governing Board shall, from time to time, approve the amount of FTRs to be auctioned for each FTR Market and the CAISO shall publish this information on the CAISO Home Page at least thirty (30) days prior to the auction." The FTR Auction for 2008-2009, which is scheduled for start in early March 2008, will release FTRs with a full term starting in the hour beginning at 12:00 a.m. on April 1, 2008 and ending with the hour beginning at 11:00 p.m. on March 31, 2009.

In light of the requirement that the ISO must obtain approval of elements of the CRR Contingency Plan both by the Board of Governors and the Federal Energy Regulatory Commission (the Commission or FERC) before implementing the plan, it was necessary to conduct an expedited stakeholder process in developing the CRR Contingency Plan. Despite the time limitations for a stakeholder process, Management is very appreciative of the stakeholder participation that did ensue and the stakeholder input was instrumental in fashioning the recommended CRR Contingency Plan. Management's proposed CRR Contingency Plan, which includes CRR Option 2 and FTR Option 1 as described below, is essentially the same as the proposal posted on December 13, 2007, and again on January 22, 2007, with respect to unwinding CRRs, and is substantially improved with respect to releasing new FTRs in a manner that Management believes is responsive to expressed stakeholder preferences and concerns.

Approval of the CRR Contingency Plan is necessary because the proposed measures allow the ISO to unwind the results of the annual CRR allocation and auction and settle the collection or return of any net CRR auction payment amounts for any month that MRTU is delayed. In addition, this proposed CRR Contingency Plan enables the ISO to proceed with the expedited FTR Auction for 2008-2009, or implement a backstop measure, that together will ensure FTRs are available as of April 1, 2008.

MOTION

Moved, that the ISO Board of Governors approve the Congestion Revenue Rights Contingency Plan as proposed in the memorandum and related attachments; and

That the ISO Board of Governors approve, as part of the CRR Contingency Plan, the proposed quantities of Firm Transmission Rights for the FTR Auction for 2008-2009, as described in the memorandum dated January 28, 2008 and related attachments; and

That the ISO Board of Governors authorizes Management to make all the necessary and appropriate filings with the Federal Energy Regulatory Commission to implement this proposal.

BACKGROUND

In preparation for the anticipated MRTU Go Live date of April 1, 2008, the ISO conducted its first annual CRR allocation and auction releasing CRRs to be in effect after the anticipated start of MRTU. CRRs were released to market participants through both an allocation and auction process and can be used to manage exposure to the cost of

¹ For example, if ABC Corp had 100 MW of FTRs on the Palo Verde Branch Group in April 2007, the company would be offered the ability to have 100 MW of FTRs on the Palo Verde Branch Group for April 2008 provided it paid the CAISO the April 2007 auction price.

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congestion associated with Locational Marginal Pricing. While the allocation process is limited to qualified load serving entities, at no cost to the load serving entities, the CRRs released through the CRR auction, which is open to all market participants that have registered with the ISO, are only obtainable at a market clearing price that is determined by the bids submitted to the CRR auction. The CRR auction yields positively valued CRRs, which are anticipated to yield a stream of congestion revenue to the CRR holder, and negatively valued CRRs, which are expected to result in a stream of congestion charges to the CRR holder. In anticipation that the ISO would commence operations under MRTU by April 1, 2008, when the previously auctioned FTRs were due to expire, Management did not conduct an FTR Auction for any months of beyond April 1, 2008. Once MRTU comes into effect, FTRs are no longer in effective and CRRs are available to manage exposure to congestion associated with the Locational Marginal Price (LMP).

Prior to the close of the bid submission for the CRR auction in December 2007, Management posted a CRR Contingency Plan to inform participants of the actions Management would take to address issues related to CRRs released through the first annual CRR auction if MRTU was not going live on April 1, and what actions Management would take to make FTRs available for the months of 2008 during which MRTU would not be in effect. Management's current proposal is essentially the same as the posted December version with respect to unwinding CRRs, and is substantially improved with respect to releasing new FTRs in a manner that Management believes is responsive to expressed stakeholder preferences and concerns.

OPTIONS TO ADDRESS THE ISSUE

In evaluating the options for dealing with the CRR rights that have been auctioned or allocated already, Management considered three possible solutions.

CRR Option 1: The first option explored involves reducing the term of the released annual CRRs released through the CRR allocation and auction for the months that MRTU is not in effect in 2008, but not unwinding the CRR Action payments made for negatively valued CRRs or charges assessed for positively valued CRRs. (*i.e.*, a 50 MW CRR purchased for on-peak in the spring season from (April 1 to June 30) can be used from the new Go Live date and the purchase amount is not adjusted.) As a consequence of the reduction of the term of all released CRRs, each CRR holder's collateral requirements would be re-adjusted to reflect the new CRR terms. Also as a consequence of the reduction of the terms of the released CRRs, any pre-payment of Wheeling Access Charge (WAC) obligation that applies to Out-of-Balancing Authority Area Load Serving Entities (OBAA LSEs) would also be readjusted and re-settled according to the new terms of the already released CRRs.

CRR Option 2 (Management Proposal): The second option explored involves reducing the term of the annual CRRs released through the CRR allocation and auction to reflect the delay in the start of MRTU, and for auctioned CRRs, refunding a proportional share of the associated CRR auction prices plus interest, as appropriate, to the holders of positively-valued auctioned CRRs. Holders of negatively-valued CRRs released through the annual CRR auction would be required to repay a proportional share of the associated CRR auction prices that were paid to parties awarded such CRRs in the CRR auction, plus interest, as appropriate. The ISO would net these previously-settled auction amounts for each CRR auction participant and would provide payment or impose charges to settle the appropriate net amounts. As of April 1, 2008, the ISO would begin to unwind all the CRRs released through the first annual CRR auction that will not be in effect for the months in 2008 during which MRTU is not operational. Once the length of the delay of MRTU is determined, the ISO would pro-rate and settle the applicable CRRs for the known duration of the delay. CRR Holders would be invoiced at the next issued invoice after FERC approval is obtained. To the extent the outcome of the pro-rata reduction is not settled until after April 1, 2008, would charge the FERC interest rate on all funds due to the ISO and

would apply the FERC interest rate on all funds due to participants by the ISO.² As in CRR Option 1, as a consequence of the reduction of the term of all released CRRs, each CRR holder's collateral requirements and pre-payment obligation of WAC for OBAA LSEs would be re-adjusted to reflect the new CRR terms.

Interest on any Refunds and Payments by the ISO: In its initial proposal posted on December 13, 2007, Management did not refer to the application of interest to holders of either positively or negatively valued CRRs when the ISO resettles CRRs. However, upon further consideration of the issues, Management determined that it would be appropriate to pay or charge interest but only in certain circumstances. Since the timing of the CRR auction was to occur well in advance of the April 1, 2008 implementation date of MRTU, the economic impact of that gap in time should have been reflected in parties' bids for CRRs. Accordingly, the ISO does not propose to pay or charge interest for any period up to April 1, 2008. Further, the ISO believes that interest should not be paid for any month of MRTU delay, provided the CRRs are resettled on or before the first of any such month. In the event the ISO cannot resettle the CRRs by the first of any given month, the ISO believes that interest should be paid to positively valued CRRs and charged to negatively valued CRRs from the first of any effective month until the CRRs are resettled. Finally, once the ISO announces a new MRTU Go Live date, the ISO proposes to resettle the CRRs for the months prior to the new date without paying or charging interest unless, for whatever reason, the ISO cannot resettle the CRRs until after the first of the month that the CRRs would have been active. In circumstances requiring the ISO to pay and charge interest, the Management believes the FERC interest rate should be applicable rate. An application of the FERC interest rate, however, is likely to result in an application of a rate above the interest rate earned on the funds held by the ISO in the CRR Balancing Account. Any difference in interest would be absorbed by the rest of the market through the clearing of the CRR Balancing Account, where the CRR auction revenues are held until the CRR Balancing Account is settled at the end of the trading month.

Clearing Credit Requirements Related to Valuation of CRRs: The ISO's credit policy as reflected in Section 12 of the currently effective ISO Tariff requires market participants to have a combination of collateral and Unsecured Credit Limit to cover their Estimated Aggregate Liability (EAL). At the same time, market participants are entitled to the return of excess collateral above their EAL. Negatively valued CRR portfolios increase a Market Participant's EAL and, therefore, EAL should be adjusted whenever the CRR instruments are adjusted. However, since the adjustment of the term of negatively valued CRRs requires repayment of amount of value of the CRR for the months in question, Management proposes not to adjust the EALs until such time as the CRRs are resettled and payment has been received. This recommendation also avoids any issues with how to value CRRs pending a FERC order on the CRR Contingency plan.

CRR Option 3: Finally, Management considered reducing the term of the released annual CRRs in proportion to the delay in the start of MRTU, and refunding a share of the associated CRR auction prices plus interest, as appropriate, for auctioned CRRs as in CRR Option 2, but calculating the auction resettlement in a manner that reflects expected differences in the values of each CRR over its term. For example, a seasonal CRR that is defined for the months April, May and June may be expected to have a higher magnitude revenue stream in June than in April due to the higher levels of load and hence higher congestion expected in June. Although Management recognized that such an approach might be justified in concept, in practice there would not be a way to perform such a calculation to reach a reliable and non-controversial result based on the absence of any market data.

² The CRR auction price adjustments will be calculated separately for on-peak and off-peak CRRs, by scaling the appropriate CRR auction price in accordance with the ratio: [number of on-peak (or off-peak) hours in the delay period] divided by [number of on-peak (or off-peak) hours in the term of the CRR for that season]. The proposed auction price adjustment will be paid or charged to the parties that were initially issued the affected CRRs in the annual CRR auction. CRR auction participants and other parties considering bilateral trades of CRRs should be aware of this impending auction settlement adjustment when arranging any CRR trades.

Management also considered three options for ensuring the Firm Transmission Rights are still available to cover the time frame before MRTU goes into effect.

FTR Option 1: The first option Management explored was to fully extend the FTRs released for the March 2007 to April 2008 period to the remaining months of 2008. Management would offer holders of FTRs for April through May 2007 the opportunity to renew the 2007 FTRs at a proportional share of the 2007 auction prices, subject to the possible quantity limitations. For those months in which holders of 2007 FTRs would be allowed to extend them to 2008, and for those transmission paths for which all of the 2008 maximum FTR quantities have not been taken up by renewal of 2007 FTRs, the ISO would release any remaining available FTR capacity to other interested and qualified parties through a simplified auction process that could be easily and quickly implemented. Before renewing the 2007 FTRs, however, the ISO would calculate revised FTR maximum quantities for each FTR transmission path based on the same 99.5 percent availability criterion as previously approved by FERC to determine maximum FTR quantities for previous FTR auctions. In the event that the 2008 maximum FTR quantity for any transmission path is less than the quantity of 2007 FTRs released for that path, parties who wish to renew their 2007 FTR auction awards would be limited to a *pro rata* share of the 2008 quantity for that path. Otherwise, parties would be allowed to renew any quantity up to 100 percent of their 2007 FTR auction awards for each path. Parties would pay a *pro rata* price for the proportion of previously issued FTRs that they are allocated in this process. For example, last year the term ran from April 1st to January 31st, which is 306 days. If FTRs were issued to the FTR holders previously during that time, the FTR holder would now pay a fraction of what they paid last time equal to the length of the new FTR in days (*e.g.*, an April FTR would have 30 days) as a fraction of the total number of days of the old season (306 days), multiplied by the price of the old FTR. This option would also include a manual auction for residual FTR quantities and to allocate any residual positive incremental grid capacity. The manual auction would be as proposed in FTR Option 3 below.

FTR Option 2 (Management Proposal): The second option considered was conducting an expedited FTR Auction for 2008-2009. The FTR Auction would be for the April 1, 2008 through March 31, 2009 time period, as provided in the currently effective Tariff. The FTRs would be made available in segments as was done last year. If MRTU is then launched prior to the expiration of the issued FTRs, the ISO would appropriately reduce the terms of the outstanding FTRs and refund their auction prices proportionately. ISO would provide time for a mock auction and would not hold the one-week training course. However, all FTR bidders would continue to have access to the necessary technical equipment to participate in the electronic auction. As provided in the currently effective ISO Tariff, certified Scheduling Coordinators or entities that have met financial requirements equivalent to the financial certification criteria required of all Scheduling Coordinators, would be eligible to participate in the expedited FTR Auction for 2008-2009. As shown in Attachment A to this Memorandum, the FTR quantities are based on the 2007-2008 FTR Quantities. However, it is likely that there will be some downward adjustments once the ISO completes its analysis of the current transfer capability of each Inter-Zonal Interface as required under the currently effective ISO Tariff. While Management has recently identified resources to make the implementation of this option feasible, because of the shortness of time between now and April 1, 2008, a backstop measure would be available in the event that the expedited FTR Auction for 2008-2009 cannot be implemented in time for April or May 2008. For the remainder of the term, FTRs would be released through the FTR Auction for 2008-2009. The backstop measure would consist of the methodology described in FTR Option 1.

FTR Option 3: The third option considered was to conduct a manual auction. The manual auction would be based on bid-in price quantity pairs for the available capacity. It would not use the traditional FTR auction software used in the past. Bids would be rank ordered, a market clearing price would be established and the capacity would be allocated accordingly.

ATTRIBUTES FOR COMPARING OPTIONS

Any measures and procedures considered must be feasible for implementation by April 1, 2008. In addition, because the ISO must obtain authority to implement these measures by the Commission in time for implementation on April 1, 2008, limited time is available for development of the measures before January 30, 2008, which is the date by which ISO must submit its application to the Commission in compliance with the notice requirements under the Federal Power Act and the Commission regulations in order to obtain an order in time to implement such measures by April 1, 2008. Also, to actually conduct an FTR auction, as required by the ISO Tariff, ISO must obtain approval of the FTR quantities that will be made available at the FTR auction, which would have to be obtained at the January 29, 2008 Board of Governors meeting given that no other meeting is scheduled in time to provide the notice as required under the Tariff prior to the start of the FTR auction. At the time that the ISO was considering these measures, Management has not determined the start date of MRTU beyond April 1, 2008. Because the term of the delay is unknown, the measures must be able to conform to any length of the delay. Any measures to deal with the delay require the dedication of ISO resources that are also necessary for implementation of MRTU, including the implementation of the monthly CRR allocation and auction for when MRTU is launched. Any measures adopted should not require the duplication of efforts in the event of a delay beyond a single month.

PROS AND CONS OF EACH OPTION

Congestion Revenue Rights Released through the Annual CRR Auction for 2008.

CRR Option 1 is not viable because it does not provide a remedy for market participants that paid for the value of a CRR obtained in the CRR auction for which the market participant anticipated they would receive a stream of revenue associated with the hourly clearing of the LMP markets under MRTU as of April 1, 2008. The product that was sold to participants in the CRR auction has changed in light of the fact that MRTU will not go live on April 1, 2008. Therefore, the value paid for the product is lost to holders of such rights, as is the value paid by the ISO to market participants that received negatively valued CRRs. CRR Option 1 could be implemented as of April 1, 2008, subject to the Board of Governors and Commission approval of CRR Option 1.

CRR Option 2 could also be easily implemented on April 1, 2008, subject to Board of Governors and Commission approval, and would allow the ISO to return value paid for the CRRs that were released through the CRR auction and the ISO to recover the value paid for the negatively valued CRRs that will no longer provide revenue to the ISO for its settlement of CRRs. While CRR Option 3 provides the same remedy as does CRR Option 2, CRR Option 3 would require the design of a more sophisticated rate structure to implement the refund process. Either CRR Options 2 or 3 require approval by the Board of Governors and also approval by the Commission since these remedies are not already reflected in the ISO's Tariff, nor were they previously approved by the Board of Governors. In light of the limited time available to design the pro-rata formulation, CRR Option 2 is more favorable as it does not require the calibration and stakeholder process for developing the weighting factors that would be required under CRR Option 3. Moreover, ISO has determined that the benefits of the finer tuning under CRR Option 3 are not significant enough to warrant the development of the more complicated methodology since under CRR Option 2 each month that is delayed will be provide a close valuation of the CRR for that month based on the hours for each month.

Release of FTRs for Remaining Months of 2008 during which MRTU is not in Effect.

FTR Option 1 provides the most easily implemented methodology for ensuring that FTRs will be made available to market participants as of April 1, 2008. FTR Option 1 also provides a reasonable approximation of a load serving entity's needs for 2008 since while load does migrate and resources do change, the ISO has not generally observed large variations over time. Therefore, FTR Option 1 provides a reasonable opportunity for load serving entities to

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manage their exposure to congestion in 2008. FTR Option 1 is limited, however, by the probability that market participants that did not obtain FTRs in the last FTR auction would not be able to obtain FTRs for the months in 2008 during which MRTU is not in effect. The benefits of FTR Option 1 are also limited because of the possibility that a particular load serving entity's load and resource requirements may have changed so significantly over the past year that last years FTRs would no longer meet its needs. The residual auction could mitigate for this in the event other load serving entities do not nominate the capacity, but under FTR Option 1, there is a risk that a particular load serving entity will not have access to the capacity that it needs based on its requirements for 2008. ISO must also obtain Commission approval of tariff language associated with this FTR Option 1 before it could become effective.

FTR Option 2 provides the most opportunity for market participants to obtain coverage that best meets their needs for 2008. FTR Option 2, however, is limited by the fact that it normally takes approximately four months to conduct an FTR auction as the ISO has done in the past. FTR Option 2 has the advantage over FTR Option 1 of not requiring further tariff changes in order for the ISO to begin implementation of the FTR auction, provided that the ISO obtains approval of the amount of FTRs to be made available in the 2008 FTR auction as described in the Attachment to this Memorandum. Management anticipates that expedited FTR Auction proposed in FTR Option 2 can be implemented by April 1, 2008 based on the following requirements: 1) a reduction of the timeline by not requiring and providing training to market participants that intend to participate in the FTR auction, and 2) using the verified FTR quantities determined last year as described above. In addition, Management has retained the services of qualified employees and contractors that have previously conducted the FTR auction, which will enable management to continue to focus towards implementation of CRRs for MRTU and also conduct the expedited FTR auction over the next two months. In response to the strong preference for an FTR Auction for 2008-2009, immediately following the stakeholder conference call, Management explored further its ability to conduct the expedited FTR auction and has retained the services of qualified persons to conduct the expedited FTR auction as well as has made available the technological resources. Management believes that under these circumstances, the implementation of the monthly CRR processes in time for an MRTU start is not jeopardized. However, Management continues to recognize that there is risk with this effort given that normally the FTR auction is conducted over a period of at least four months. Therefore, the backstop measures continue to be important for the ISO to ensure that FTRs are available as of April 1, 2008.

Management considered the manual auction as proposed in FTR Option 3 because a manual auction would require the assignment of fewer resources towards conducting the auction than a full FTR auction. FTR Option 3, however, is less attractive because it would require further development of the methodology to be used to conduct the auction and approval of such methodology by the Commission before its results become effective. Given the shortness of time to ensure that FTRs are available by April 1, 2008, FTR Option 3 is inferior to FTR Options 1 and 2 because the next two months would be spent on the refinement of the design of the manual auction through the process at the risk of not having FTRs available as of April 1, 2008.

POSITIONS OF THE PARTIES

Congestion Revenue Rights Released through the Annual CRR Auction for 2008.

The majority of participants that submitted comments and participated in the stakeholder conference call supported the pro-rata adjustment of the term of the released annual CRRs for the months in 2008 that MRTU is not in effect and the resettlement of the auction payments and charges for parties who acquired CRRs in the first annual CRR auction. Participants requested further clarity in the plan on what interest would be assessed on the resettlement amounts, for what time periods, and timing of the payments, which Management has provided above as described under CRR Option 2. Participants also favored, as provided in CRR Option 2, the application of the interest rate on the resettlement amounts and that any shortfalls due to an inability to apply the interest on the negatively valued CRRs should be borne by the whole market and not just the holders of the positively valued CRRs.

Release of FTRs for Remaining Months of 2008 during which MRTU is not in Effect.

In response to the CRR Contingency Plan posted on January 22, 2008, and during the stakeholder conference call held on January 24, 2008, the majority of participants expressed a strong preference for an auction approach for the release of FTRs for the months during which MRTU will not be in effect. Participants argued that an FTR auction will be the most efficient and equitable approach for the release of FTRs. Participants also argued that the extension approach in FTR Option 1 could have adverse impacts since the FTRs were valued last year and would not reflect the commercial conditions in 2008, and would be discriminatory since provides an advantage to current holders of FTRs.

Participants argued that the plan should ensure that if the maximum FTR quantities for 2008 are greater than they were for 2007, they would be made available. In the event that the ISO could not implement a full auction, certain participants noted that a manual auction, as reflected in FTR Option 3 above, with an ability to release FTRs based on a market approach would be preferable to the extension of the previously allocated FTRs as reflected in FTR Option 1. Others did not support a manual auction at all because of the lack of vetting and testing of such an auction, and therefore argued that in the event that a full blown auction cannot be conducted, that the ISO should adopt the extension of FTRs from prior years for the applicable months.

Certain participants expressed a preference to ensure that all of the ISO's efforts towards implementing MRTU as opposed to developing or implementing other FTR auctions and therefore adopt the most straightforward method for handling FTRs for 2008. Other participants argued that the extension of FTRs from previous years could only be supported in the event that the MRTU delay did not go beyond June 2008; otherwise the only acceptable option is the FTR auction.

Management had not had the opportunity to put forth FTR Option 2 as it is reflected in this memorandum during the stakeholder conference call because at that time Management had not been able to retain the resources required to make FTR Option 2, successful as discussed above. However, in response to the strong preference for the FTR auction as summarized above, Management endeavored further to find a solution that would satisfy the concerns identified by participants. The success of FTR Option 2 hinges on the ability for management to conduct the FTR auction in the two months before April 1 and on its ability to have available trained individuals as discussed above. A backstop measure is therefore crucial because in the event the FTR auction is not complete in time for April or May of 2008, Management requires a mechanism to make FTRs available. FTR Option 1 is the most reasonable backstop measure given that the manual auction would require the expenditure of more resources to implement. Rather than implement the manual auction, Management believes its efforts should be concentrated towards implementing the FTR auction as described in FTR Option 2 and then use the most simplified mechanism to make FTRs available for April and at most May should the FTR auction not be completed on time.

FINANCIAL IMPLICATIONS

As an FTR auction was not contemplated for 2008, it was not budgeted. The additional estimated cost to expedite the process is \$200,000 of O&M from Market Services that was not budgeted: \$120,000 for additional costs associated with the need to retain additional contractor resources and \$80,000 for the estimate of overtime cost for ISO staff.

MANAGEMENT RECOMMENDATION

Management proposes the adoption of CRR Option 2 and FTR Option 2 as the CRR Contingency Plan.

ATTACHMENT A

BACKGROUND

An FTR is a right that has both financial and physical attributes. FTR holders share in the distribution of Usage Charge revenues received by the ISO in the Day-Ahead and Hour-Ahead Markets associated with Inter-Zonal Congestion during the term of the FTR. FTRs also entitle the holder to scheduling priorities in the Day-Ahead Market for the transmission of energy across a congested Inter-Zonal interface. As a result of the financial and physical attributes of FTRs, holders of these instruments enjoy a degree of certainty with respect to the delivery of energy and costs associated with its delivery. In addition, Participating Transmission Owners are entitled to receive all revenue raised in the annual FTR auction in proportion to their respective ownership interests in the paths on which FTRs are sold. This auction revenue is applied toward each PTOs Transmission Revenue Requirement.

It should be noted that the term of the FTRs to be released in the FTR Auction for 2008-2009 overlaps with the anticipated implementation of MRTU. Consequently the ISO will include a buyer beware clause in the FTR auction documentation. If MRTU is then launched prior to the expiration of the issued FTRs, the ISO would appropriately reduce the terms of the outstanding FTRs and refund their auction prices proportionately.

Basic Methodology for Determining FTR Quantities to Release in the FTR Auction

For the FTR Auction for 2008-2009, the ISO has produced proposed FTR quantities based on FTR Quantities from the FTR Auction for 2007-2008. These values are detailed in the table below. As has occurred in previous years the ISO will treat these approved values as a maximum and will reduce the quantities available if further analysis indicates that such reduction is necessary. In previous years such downward adjustments were the exception rather than the rule. However, given the preliminary nature of these figures, the ISO anticipates that such adjustments will be more likely for the FTR Auction for 2008-2009. In any case, the final quantities auctioned in the FTR Auction for 2008-2009 will not exceed the board-approved numbers.

The methodology for determining the FTR Quantities that was used in the FTR auction for 2007-8 is consistent with the approach described in Section 36 of the ISO Tariff. This methodology is described below.

- The full Operating Transmission Capability (OTC) in the Day Ahead market is determined for each hour during the historical reference period, which is the most recent prior twelve month period, typically November of the previous year through October of the current year.
- The Existing Transmission Contract (ETC) values corresponding to the hourly Day Ahead OTC values are then determined.
- The ETC values are subtracted from the OTC values to arrive at the Available Transmission Capability (ATC) values for each Branch Group.
- The ATC values are ordered in descending order and the ATC value at the 99.5 percent confidence level is determined. This value is the ATC that is available, based on the historical reference period data, in the Day Ahead Market 99.5 percent of the time.
- The proposed FTR release quantity is computed by subtracting the converted ETC amounts turned over to the ISO from New Participating Transmission Owners, if any, from the ATC values at the 99.5 percent confidence level. This is done pursuant to Tariff section 36.3.

Other Considerations

From time to time planned maintenance outages and other outages of a unique nature occur on transmission paths in which FTRs are sold. For past Auctions, the ISO calculated the FTR release quantities at the 99.5

percent confidence level after these outage hours were removed from the data. The number of outage hours excluded from the calculations was then disclosed to market participants prior to the Auction.

The table below lists the transmission paths on which the ISO proposes to release FTRs, along with the proposed sale quantities for each FTR Branch Group to be auctioned

Path Number	Branch Group Name	From Zone	To Zone	2008 Proposed Release Amounts
1	BLYTHE_BG	SP15	LC2	133
2	BLYTHE_BG	LC2	SP15	180
3	CFE_BG	SP15	MX	408
4	CFE_BG	MX	SP15	400
5	CTNWDRDMT_BG	NP15	SMD3	336
6	CTNWDRDMT_BG	SMD3	NP15	336
7	CTNWDWAPA_BG	NP15	SMD2	1,167
8	CTNWDWAPA_BG	SMD2	NP15	1,167
9	ELDORADO_BG	SP15	AZ2	739
10	ELDORADO_BG	AZ2	SP15	739
11	IID-SCE_BG	II1	SP15	600
12	IID-SDGE_BG	SP15	II2	57
13	IID-SDGE_BG	II2	SP15	62
14	MEAD_BG	SP15	LC1	767
15	MEAD_BG	LC1	SP15	598
16	NOB_BG	SP15	NW3	418
17	NOB_BG	NW3	SP15	418
18	PACI_BG	NP15	NW1	961
19	PACI_BG	NW1	NP15	883
20	PALOVRDE_BG	SP15	AZ3	1,943
21	PALOVRDE_BG	AZ3	SP15	1,943
22	PARKER_BG	LC3	SP15	160
23	PATH15_BG	ZP26	NP15	3,571
24	PATH26_BG	ZP26	SP15	2,127
25	RNCHLAKE_BG	NP15	SMDE	963
26	RNCHLAKE_BG	SMDE	NP15	1,044
27	SILVERPK_BG	SP15	SR3	10
28	SILVERPK_BG	SR3	SP15	10
29	TRACYCOTP_BG	NP15	SMDH	83
30	TRACYCOTP_BG	SMDH	NP15	36
31	TRACYPGAE_BG	NP15	SMDL	1,879
32	TRACYPGAE_BG	SMDL	NP15	1,879
33	VICTVL_BG	SP15	LA4	560
34	VICTVL_BG	LA4	SP15	1,375
			Total	27,952

ATTACHMENT B

Stakeholder Outreach Activities and Response to Comments for the CRR Contingency Plan

ISO posted draft documents on the following dates:

CRR Contingency Plan – Posted December 13, 2007

Revised CRR Contingency Plan – January 22, 2008

Stakeholders submitted one (1) round of written comments to the ISO on the following date:

Round One – January 25, 2008

Stakeholder comments are posted at:

<http://www.caiso.com/1bb4/1bb4745611d10.html>

Other stakeholder efforts include:

List conference calls- Jan 24,2008 (> 150 phone participants)

Summary of Stakeholder Comments on Congestion Revenue Rights Plan

January 28, 2008

Management Proposal	TEMUS	Citadel, City of Riverside, DC Energy, PG&E, SCE, SDG&E, WPTF	Barclay	Management Response
Hold an FTR Auction for April 1, 2008 through March 31, 2009, plus backstop FTR Auction using same software and mechanisms used in prior years to release FTRs	Would oppose - Simple renewal by extending the end data of March focus on getting MRTU started	Would Support FTR Auction Citadel – support the auction so long as it does not divert resources from MRTU	Would support FTR Auction - pro-rata renewal process would be acceptable only for limited term	Proposal developed to respond to expressed preference by majority of participants for a FTR Auction as opposed to renewal of last year's FTRs. Backstop measure based on renewal but for limited terms (May and April); responsive to comments renewal acceptable if limited.
Management Proposal				
CRR Proposal - Reduce terms of CRRs as of April 1 for every month that MRTU is delayed Resettle auction CRRs as of April 1 - pay back payments made for portions of positively valued CRRs and collect payments for portions of negatively valued CRRs of reduced terms - Only apply FERC interest rate for interest on payments and charges if settlement occurs after the first of any month that the CRR would have been in effect	No Opposition	Citadel, PG&E, SCE, SDG&E Support	Barclays, City of Riverside, DC Energy, TEMUS, WPTF No Comment Strategic requested more time to review.	Management Response Although many stakeholders support the unwinding of the CRR Auction they requested the plan include additional details on timing of resettlements and application of interest – Management provided additional detail in proposal

ATTACHMENT F

Board of Governors 1/28-29/08 Decision on Congestion Revenue Rights Contingency Plan

Moved, that the ISO Board of Governors approve the Congestion Revenue Rights Contingency Plan as proposed in the memorandum, dated January 28, 2008, and related attachments; and

That the ISO Board of Governors approve, as part of the CRR Contingency Plan, the proposed quantities of Firm Transmission Rights for the FTR Auction for 2008-2009, as described in the memorandum dated January 28, 2008 and related attachments; and

That the ISO Board of Governors authorizes Management to make all the necessary and appropriate filings with the Federal Energy Regulatory Commission to implement this proposal.

Moved: Doll Second: Page

Board Action:	Passed	Vote Count:
Capuano	Y	5-0-0
Doll	Y	
Gage	Y	
Page	Y	
Willrich	Y	

Motion Number: 2008-01-G2

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all of the parties listed in the attached filing as receiving service, 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 this 31st day of January, 2008.

Sidney Davies ^{BPM}

Sidney Davies