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June 29, 2007

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

**Re: California Independent System Operator Corporation
Docket Nos. ER07-613-004 and ER07-1077-000
Errata to June 2007 Congestion Revenue Rights Credit Policy
Amendment**

Dear Secretary Salas:

On June 22, 2007, the California Independent System Operator Corporation ("CAISO") submitted an amendment to the ISO Tariff, the June 2007 Congestion Revenue Rights Credit Policy Amendment ("Amendment"), in the captioned dockets.¹ Shortly after the CAISO filed the Amendment, a Market Participant contacted the CAISO to inform it that some of the proposed ISO Tariff language in the Amendment did not appear to accord with the Market Participant's understanding of what the Amendment was intended to accomplish. Upon further review of the Amendment, the CAISO determined that it was appropriate to clarify the ISO Tariff language to ensure that the filed Tariff language implemented the proposed Congestion Revenue Rights ("CRR") credit requirements as intended.² These clarifications are provided in the instant filing.

The clarifications concern four subjects: the calculation of the Credit Amount required to hold a CRR with a term of one year or less (Section 12.6.3.2 of the ISO Tariff), the calculation of the Credit Amount required to hold a Long

¹ Capitalized terms not otherwise defined herein have the meanings set forth in the Master Definitions Supplement, Appendix A to the ISO Tariff, in the Amendment, and in the instant filing.

² See Amendment, Transmittal Letter at 4-11.

Term CRR (Section 12.6.3.3 of the ISO Tariff), the calculation of Credit Margin (Section 12.6.3.4 of the ISO Tariff), and related changes to defined terms (Appendix A to the ISO Tariff).

The CAISO has modified Section 12.6.3.2 to state that the credit requirement for holding a CRR with a term of one year or less will be equal to the negative of the most recent CRR Auction Price of such CRR plus the Credit Margin for such CRR. The Tariff language as originally filed inaccurately suggested that this credit requirement was equal to the negative of the most recent Expected CRR Congestion Revenue for such CRR plus the Credit Margin for such CRR.

The CAISO has modified Section 12.6.3.3 to state that one component of the credit requirement for holding a Long Term CRR will be the negative of the most recent CRR Auction Price of a CRR with the same source and sink as the Long Term CRR but with only a one-year term. The Tariff language as originally filed inaccurately suggested that this component was the negative of the one-year Expected CRR Congestion Revenue of the CRR with the same source and sink as the Long Term CRR but with only a one-year term. The CAISO has also clarified the last sentence of Section 12.6.3.3 to state that, in conducting calculations pursuant to the section, the number of years remaining in the term of a Long Term CRR will be rounded up to the nearest whole number, except when the whole number is one, in which case the credit requirement will be determined pursuant to Section 12.6.3.2. The Tariff language as originally filed was less clear, stating that the number of years remaining in the term of a Long Term CRR were rounded up to the nearest whole number, except that the whole number would not be zero until the term of the Long Term CRR had expired.

The CAISO has modified Section 12.6.3.4 to state that the Credit Margin (expressed in dollars per MW) for a CRR is equal to the Expected Congestion Revenue minus the Fifth Percentile Congestion Revenue of such CRR. Both values will initially be based on the probability distribution of Congestion revenue of such CRR calculated using historical Locational Marginal Price data, when available, and proxy values, including data taken from Locational Marginal Price studies conducted by the CAISO. The Tariff language as originally filed was less clear, stating that the Credit Margin for a CRR was equal to the "Expected CRR Congestion Revenue" minus the "Fifth Percentile CRR Congestion Revenue," and that the Credit Margin was initially to be based on variability of historical Locational Marginal Price data, when available, and proxy values, including Locational Marginal Price study data.

The CAISO has modified the definition of Expected Congestion Revenue (called "Expected CRR Congestion Revenue" in the June 22 filing) to mean "[t]he mean value based on the probability distribution of the historic Congestion revenue of a CRR." The CAISO has also modified the definition of Fifth

Percentile Congestion Revenue (called "Fifth Percentile CRR Congestion Revenue" in the Amendment) to mean "[t]he fifth percentile value based on the probability distribution of the historic Congestion revenue of a CRR." The CAISO has also made minor conforming changes to the definition of Credit Margin.

The clarifications described above are reflected in the clean ISO Tariff sheets included in Attachment A to the instant filing and are shown in red-line format in Attachment B to the instant filing. The clean Tariff sheets show the same effective date – August 22, 2007 – as the effective date shown on the Tariff sheets included in the Amendment as originally filed. To the extent necessary, the CAISO respectfully requests, pursuant to Section 35.11 of the Commission's regulations, 18 C.F.R. § 35.11, that the Commission waive its notice requirements in order to permit the clean Tariff sheets included in the instant filing to become effective as of that date. The provisions in the instant filing are intended to become effective at the same time as the provisions in the Amendment that are not affected by the instant filing. Granting the requested waiver, therefore, is appropriate.

The CAISO would have no objection to the Commission's extending by one week the date by which interventions and comments are due on the Amendment as clarified herein. One week is the span of time between the filing of the Amendment and the submittal of the instant filing.

Two additional copies of this filing are enclosed to be date-stamped and returned to our messenger. If there are any questions concerning the filing, please contact the undersigned.

Respectfully submitted,



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Attachment A – Clean Sheets

Errata to Congestion Revenue Rights Credit Amendment Filing

12.6.3.2 Calculation of the Credit Amount Required to Hold a CRR With a Term of One Year or Less.

Each CRR Holder that holds a CRR with a term of one year or less shall be subject to a credit requirement (\$/MW) equal to the negative of the most recent CRR Auction Price of such CRR plus the Credit Margin for such CRR.

12.6.3.3 Calculation of the Credit Amount Required to Hold a Long Term CRR.

Each CRR Holder that holds a Long Term CRR shall be subject to a credit requirement (\$/MW) equal to (i) the negative of the most recent CRR Auction Price of a CRR with the same source and sink as the Long Term CRR but with only a one-year term, multiplied by the number of years remaining in the term of the Long Term CRR, plus (ii) the Credit Margin calculated for the one-year CRR multiplied by the square root of the number of years remaining in the term of the Long Term CRR. In conducting calculations pursuant to this Section 12.6.3.3, the number of years remaining in the term of a Long Term CRR shall be rounded up to the nearest whole number, except when the whole number is one, in which case the credit requirement shall be determined pursuant to Section 12.6.3.2.

12.6.3.4 Calculation of Credit Margin.

The Credit Margin (\$/MW) for a CRR is equal to (i) the Expected Congestion Revenue minus (ii) the Fifth Percentile Congestion Revenue of such CRR. Both values will be based on the probability distribution of Congestion revenue of such CRR calculated using historical Locational Marginal Price data, when available, and proxy values, including data taken from Locational Marginal Price studies conducted by the ISO, until such time as historical Locational Marginal Price data is available, with the details of such calculation published in a Business Practice Manual. The ISO may reassess its determinations regarding the Credit Margin determination at any time and shall require additional Financial Security if the reassessment results in an increase in a CRR Holder's Estimated Aggregate Liability that is not covered by a CRR Holder's Aggregate Credit Limit (consisting of the CRR Holder's Unsecured Credit Limit and/or Financial Security).

<u>Control Area Operator</u>	The person responsible for managing the real-time operations of a Control Area.
<u>Converted Rights</u>	Those transmission service rights as defined in Section 16.21A.1 of the ISO Tariff.
<u>Core Reliability Services - Demand Charge</u>	A component of the Grid Management Charge that provides for the recovery of the ISO's costs of providing a basic, non-scalable level of reliable operation for the ISO Control Area and meeting regional and national reliability requirements. The formula for determining the Core Reliability Services – Demand Charge is set forth in Appendix F, Schedule 1, Part A of this Tariff.
<u>Core Reliability Services – Energy Export Charge</u>	A component of the Grid Management Charge that provides for the recovery of the ISO's costs of providing a basic, non-scalable level of reliable operation for the ISO Control Area and meeting regional and national reliability requirements. The formula for determining the Core Reliability Services – Energy Exports Charge is set forth in Appendix F, Schedule 1, Part A of this Tariff.
<u>CPUC</u>	The California Public Utilities Commission, or its successor.
<u>Credit Margin</u>	The quantity equal to Expected Congestion Revenue minus Fifth Percentile Congestion Revenue.
<u>Credit Rating Default Probability</u>	The 5 Year Median Default Probability based on a rating agency's credit rating as listed in the Credit Rating Default Probabilities table in Section A-2.2 of the ISO Credit Policy & Procedures Guide.
<u>CRR Auction Price</u>	The positive or negative price to pay or be paid for a CRR at auction.
<u>CRR Holder</u>	As defined in Appendix BB.
<u>Critical Protective System</u>	Facilities and sites with protective relay systems and Remedial Action Schemes that the ISO determines may have a direct impact on the ability of the ISO to maintain system security and over which the ISO exercises Operational Control.
<u>CTC (Competition Transition Charge)</u>	A non-bypassable charge that is the mechanism that the California Legislature and the CPUC mandated to permit recovery of costs stranded as a result of the shift to the new market structure.

<u>Existing Contract Import Capability</u>	The quantity of Available Import Capability reserved for Existing Contracts and Transmission Ownership Rights held by Load Serving Entities that serve Load within the ISO Control Area under Step 3 of ISO Tariff Section 40.5.2.2.1.
<u>Existing High Voltage Facility</u>	A High Voltage Transmission Facility of a Participating TO that was placed in service on or before the Transition Date defined in Section 4.2 of Schedule 3 of Appendix F.
<u>Existing Rights</u>	Those transmission service rights defined in Section 16.2.1.1 of the ISO Tariff.
<u>Expected Congestion Revenue</u>	The mean value based on the probability distribution of the historic Congestion revenue of a CRR.
<u>Facility Owner</u>	An entity owning transmission, Generation, or distribution facilities connected to the ISO Controlled Grid.
<u>Facility Study</u>	An engineering study conducted by a Participating TO to determine required modifications to the Participating TO's transmission system, including the cost and scheduled completion date for such modifications that will be required to provide needed services.

Facility Study Agreement An agreement between a Participating TO and either a Market Participant, Project Sponsor, or identified principal beneficiaries pursuant to which the Market Participants, Project Sponsor, and identified principal beneficiaries agree to reimburse the Participating TO for the cost of a Facility Study.

Fed-Wire The Federal Reserve Transfer System for electronic funds transfer.

FERC The Federal Energy Regulatory Commission or its successor.

FERC Annual Charges Those charges assessed against a public utility by the FERC pursuant to 18 C.F.R. § 382.201 and any related statutes or regulations, as they may be amended from time to time.

FERC Annual Charge Recovery Rate The rate to be paid by Scheduling Coordinators for recovery of FERC Annual Charges assessed against the ISO for transactions on the ISO Controlled Grid.

FERC Annual Charge Trust Account An account to be established by the ISO for the purpose of maintaining funds collected from Scheduling Coordinators for FERC Annual Charges and disbursing such funds to the FERC.

FERC Must-Offer All entities defined by Section 40.7.1 of this ISO Tariff.

Generator

Fifth Percentile Congestion Revenue The fifth percentile value based on the probability distribution of the historic Congestion revenue of a CRR.

Final Approval A statement of consent by the ISO Control Center to initiate a scheduled Outage.

Final Day-Ahead Schedule The Day-Ahead Schedule which has been approved as feasible and consistent with all other Schedules by the ISO based upon the ISO's Day-Ahead Congestion Management procedures.

Final Hour-Ahead Schedule The Hour-Ahead Schedule of Generation and Demand that has been approved by the ISO as feasible and consistent with all other Schedules based on the ISO's Hour-Ahead Congestion Management procedures.

Final Invoice The invoice due from a RMR Owner to the ISO at termination of the RMR Contract.

Final Schedule A Schedule developed by the ISO following receipt of a Revised Schedule from a Scheduling Coordinator.

Attachment B - Blacklines

Errata to Congestion Revenue Rights Credit Amendment Filing

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12.6.3.2 Calculation of the Credit Amount Required to Hold a CRR With a Term of One Year or Less.

Each CRR Holder that holds a CRR with a term of one year or less shall be subject to a credit requirement (\$/MW) equal to the negative of the most recent Expected-CRR Auction Price Congestion Revenue ~~offer~~ such CRR plus the Credit Margin for such CRR.

12.6.3.3 Calculation of the Credit Amount Required to Hold a Long Term CRR.

Each CRR Holder that holds a Long Term CRR shall be subject to a credit requirement (\$/MW) equal to (i) the negative of the most recent one-year Expected-CRR Auction Price Congestion Revenue of the same CRR with the (same source and sink) as the Long Term CRR but with only a one-year term, multiplied by the number of years remaining in the term of the Long Term CRR, plus (ii) the Credit Margin calculated for the one-year CRR multiplied by the square root of the number of years remaining in the term of the Long Term CRR. In conducting calculations pursuant to this Section 12.6.3.3, the number of years remaining in the term of a Long Term CRR shall be rounded up to the nearest whole number, except whenthat the whole number shall not be zero is one, until the term of the Long Term CRR has expired in which case the credit requirement shall be determined pursuant to Section 12.6.3.2.

12.6.3.4 Calculation of Credit Margin.

The Credit Margin (\$/MW) for a CRR is equal to (i) the net projected revenue of the CRR for the term of the CRR as calculated by the ISO based on CRR Auction Prices (i.e., Expected CRR Congestion Revenue) minus (ii) the calculated amount associated with the CRR that performs at the fifth percentile level with regard to a probabilistic determination of the Expected CRR Congestion Revenue (i.e., Fifth Percentile CRR Congestion Revenue) of such CRR. The Credit Margin ~~Both values~~ will be based on variability the probability distribution of Congestion revenue of such CRR calculated using historical Locational Marginal Price data, when available, and proxy values, including data taken from Locational Marginal Price studiesy data conducted by the ISO, until such time as historical Locational Marginal Price data is available, with the details of such calculation published in a Business Practice Manual. The ISO may reassess its determinations regarding the Credit Margin determination at any time and shall require

additional Financial Security if the reassessment results in an increase in a CRR Holder's Estimated Aggregate Liability that is not covered by a CRR Holder's Aggregate Credit Limit (consisting of the CRR Holder's Unsecured Credit Limit and/or Financial Security).

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ISO TARIFF APPENDIX A
Master Definitions Supplement

Credit Margin

The quantity equal to Expected CRR-Congestion Revenue minus Fifth Percentile CRR-Congestion Revenue.

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**Expected CRR
Congestion Revenue**

The net projected mean value based on the probability distribution of the historic Congestion revenue of a CRR for the term of the CRR as calculated by the ISO based on CRR Auction Prices.

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**Fifth Percentile CRR
Congestion Revenue**

The calculated amount associated with a CRR that performs at the fifth percentile value based on the probability distribution of the historic Congestion revenue of a CRR level with regard to a probabilistic determination of the Expected CRR Congestion Revenue.

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CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all parties on the official service list compiled by the Secretary in the above-captioned proceeding, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, California this 29th day of June, 2007.

Sidney M. Davies ^{BAM}
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