

January 11, 2007

Attn: Commission's Docket Office
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

RE: Docket No. A.05-04-015 - In the Matter of the Application of Southern California Edison Company (U 338-E) for a Certificate of Public Convenience and Necessity Concerning the Devers-Palo Verde No. 2 Transmission Line Project.

Dear Clerk:

Enclosed for filing please find an original and five copies of the Comments of The California Independent System Operator on the Proposed Decision Granting a Certificate of Public Convenience and Necessity in the above-referenced docket.

Please date stamp one copy and return to California ISO in the self-addressed stamped envelope provided.

Thank you.

Sincerely,



Grant A. Rosenblum
Senior Counsel - Regulatory

**BEFORE THE PUBLIC UTILITIES COMMISSION OF
THE STATE OF CALIFORNIA**

In the Matter of the Application of Southern California
Edison Company (U 338-E) for a Certificate of Public
Convenience and Necessity Concerning the Devers-Palo
Verde No. 2 Transmission Line Project.

Application 05-04-015
(Filed April 11, 2005)

**COMMENTS OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
ON THE PROPOSED DECISION GRANTING A CERTIFICATE OF PUBLIC
CONVENIENCE AND NECESSITY**

January 11, 2007

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**BEFORE THE PUBLIC UTILITIES COMMISSION OF
THE STATE OF CALIFORNIA**

In the Matter of the Application of Southern California Edison Company (U 338-E) for a Certificate of Public Convenience and Necessity Concerning the Devers-Palo Verde No. 2 Transmission Line Project.

Application 05-04-015
(Filed April 11, 2005)

**COMMENTS OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
ON THE DRAFT DECISION GRANTING A CERTIFICATE OF PUBLIC
CONVENIENCE AND NECESSITY**

In accordance with Rule 14.3 of the Commission’s Rules of Practice and Procedure, the California Independent System Operator Corporation (“CAISO”) respectfully submits its comments on Administrative Law Judge (“ALJ”) TerKeurst’s draft decision entitled “Opinion Granting a Certificate of Public Convenience and Necessity,” mailed December 22, 2006, in the above-referenced proceedings (“Draft Decision”).

The CAISO supports the Draft Decision’s conclusion to grant a certificate of public convenience and necessity to Southern California Edison (“SCE”) to construct the Devers – Palo Verde No. 2 (“DPV2”) transmission line project. The CAISO further commends much of ALJ TerKeurst’s analysis of the highly technical evidence supporting the conclusion, consistent with that reached by the CAISO, that DPV2 will provide economic and other benefits to the California ratepayers. However, the CAISO seeks to correct several inaccuracies in the Draft Decision as follows:

Mitigation of Market Power

The Proposed Decision acknowledges that the CAISO's results illustrate the value of DPV2 in mitigating the ability of suppliers to exercise market power, but nevertheless expresses a "reluctance" to rely on the CAISO's method to forecast strategic bidding due to several concerns. A couple of these concerns are unfounded.

First, the Proposed Decision questioned the value of the historic data underlying the CAISO's bidding algorithms given that the conditions of the anticipated LMP market will likely be different because of strengthened market power mitigation, resource adequacy, and other contracting requirements. (Proposed Decision at 33.) The CAISO's price-cost markup regression analysis utilizes historic data from both the crisis year of 2000 and 2003, which reflected substantial market stability due, in large part, to the high level of load covered by Department of Water Resources bilateral contracts. Contrary to the presumption of the Proposed Decision, the inclusion of data from the energy crisis does not taint the quality of the regression analysis for dissimilar market conditions. The use of a wide range of potential market conditions is critical for the development of a robust regression equation. The mark-up derived from the regression equation is a function of resource scarcity, amount of load hedged under long-term contracts, and pivotal suppliers. If, for example, the resource scarcity situation is not expected in the future, the regression will not result in mark-ups comparable to those experienced in 2001. Thus, the Proposed Decision reflects a misunderstanding as to the effect of the historic data used in the CAISO's bidding algorithms.

Second, the Proposed Decision asserts that the CAISO did not verify the predictive ability of its market power model. This is inaccurate. As set forth in Section 4.3.1.4 of the Path 26 Team Report (Attachment A to Exhibit 11), the CAISO assessed the different specifications of its regression model against actual data for summer dates in 2003. The CAISO's verification of its efforts was, therefore, robust.

Network Model

The Proposed Decision improperly confuses two different concepts resulting in the implication of a deficiency in the CAISO's use of a network model relative to a transportation model. Specifically, the Proposed Decision states that "the potential greater accuracy of the CAISO's detailed modeling of power flows appears to be overshadowed by the degree of imprecision in its calculation and allocation of congestion costs between Arizona and southern California." (Proposed Decision at 24.) The network model or physical flow base model used by the CAISO is critical to obtain accurate commitment, dispatch, and transmission flow. The allocation of congestion revenue can be done, assuming either an LMP or contract market, but this operation has nothing to do with the underlying network model. The same post processing uncertainty with respect to congestion rent calculation exists whether the network or transportation model is used.

As noted, the CAISO supports the determination in the Proposed Decision to grant a certificate of public convenience and necessity for DPV2. However, the CAISO believes the Commission should remedy the foregoing misconceptions in its Final Decision.

January 11, 2007

Respectfully Submitted:

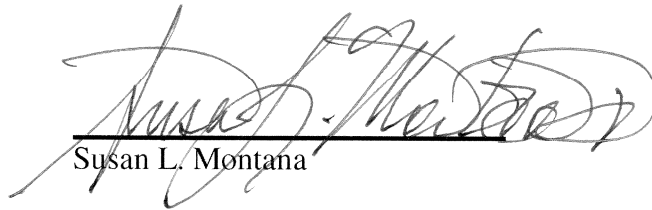
By:  _____

Grant A. Rosenblum
Attorney for
California Independent System Operator

CERTIFICATE OF SERVICE

I hereby certify that I have served, by electronic and United States mail, a copy of the foregoing Comments of The California Independent System Operator on the Proposed Decision Granting a Certificate of Public Convenience and Necessity to each party in Docket No. A.05-04-015.

Executed on January 11, 2007 at Folsom, California.



Susan L. Montana

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