



California Independent
System Operator Corporation

April 25, 2007

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

**Re: California Independent System Operator Corporation
Docket No. ER06-615-006**

Dear Secretary Bose:

Enclosed for filing in the above-referenced docket is the California Independent System Operator Corporation's Motion for Leave to File Answer and Answer to Motions to Intervene, Comments, and Protests.

Thank you for your assistance in this matter.

Respectfully submitted,

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**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

**California Independent System
Operator Corporation**)

Docket No. ER06-615-006

**MOTION FOR LEAVE TO FILE ANSWER AND ANSWER TO MOTIONS TO
INTERVENE, COMMENTS AND PROTESTS OF THE CALIFORNIA
INDEPENDENT SYSTEM OPERATOR CORPORATION**

I. INTRODUCTION

Pursuant to Rules 212 and 213 of the Federal Energy Regulatory Commission’s (“FERC” or “Commission”) Rules of Practice and Procedure, 18 C.F.R. §§ 385.212 & 385.213 (2006), the California Independent System Operator Corporation (“CAISO”) respectfully submits this Motion For Leave to Answer and Answer To Motions To Intervene, Comments, and Protests in the above-referenced proceeding. The ISO requests waiver of Rule 213(a)(2) (18 C.F.R. § 385.213(a)(2)) to permit it to submit an answer to the protests. Good cause for this waiver exists here because the answer will aid the Commission in understanding the issues in the proceeding, provide additional information to assist the Commission in the decision-making process, and help to ensure a complete and accurate record in this case.¹

II. BACKGROUND

On March 20, 2007 the CAISO submitted its filing in compliance with paragraphs 380 and 381 of the Commission’s September 21, 2006 Order in the above-captioned proceeding (“March 20 Filing”).² The compliance filing involved the use of: (i) Ancillary Service Sub-Regions, and (ii) Reliability Must-Run (“RMR”) resources and market resources, respectively, in

¹ See, e.g., *Entergy Services, Inc.*, 101 FERC ¶ 61,289, at 62,163 (2002); *Duke Energy Corporation*, 100 FERC ¶ 61,251, at 61,886 (2002); *Delmarva Power & Light Company*, 93 FERC ¶ 61,098, at 61,259 (2000).

² *California Independent System Operator Corporation*, 116 FERC ¶ 61,274 at PP 380, 381 (September 21, 2006) (“September 21 Order”).

the CAISO's procurement of Ancillary Services under its Market Redesign and Technology Upgrade Tariff ("MRTU Tariff"). In response to the March 20 Filing, a number of parties submitted motions to intervene, comments, and protests.³

III. ANSWER.

A. **The Requirement to Explain the Cost Allocation Procedures When RMR Resources and Market Resources Supply Ancillary Services Does Not Conflict With the Commission's Approval of the Allocation of Ancillary Services Costs to Control Area Demand under the MRTU Tariff.**

SWP objects to the allocation of the costs associated with Ancillary Services ("AS") procurement to all Demand in the CAISO Control Area and requests that AS costs be allocated to Demand within a Sub-Region if AS Sub-Regions are used. SWP at 4-7. SWP's request for AS costs to be allocated on a sub-regional basis is in error for several reasons. First, the suggestion is directly contrary to the Commission's holdings in Paragraph 309 of the *September 21 Order* and Paragraph 91 of the Commission's Order on Rehearing.⁴ The Commission stated that it agreed that the procured ancillary services support the use of the entire CAISO Control Area, and "therefore we find that it is appropriate to allocate the costs associated with ancillary services procurement to all load in the CAISO Control Area."⁵

The Commission statements in Paragraph 381 of the *September 21 Order* are not in conflict with the Commission's statements in Paragraph 309 of the *September 21 Order* or Paragraph 91 of the *April 20 Order*. In Paragraph 381, the Commission accepted the CAISO's

³ The Northern California Power Agency ("NCPA") and the Sacramento Municipal Utility District ("SMUD") filed motions to intervene. The Southern California Edison Company ("SCE"), Williams Power Company, Inc. ("Williams"), Bay Area Municipal Transmission Group ("BAMx"), Pacific Gas and Electric ("PG&E"), California Department of Water Resources State Water Project ("SWP"), and the California Public Utilities Commission ("CPUC") filed motions to intervene, comments and/or protests.

⁴ *California Independent System Operator Corporation*, 119 FERC ¶ 61,076 at P 91 (April 20, 2007) ("April 20 Order").

⁵ *September 21 Order* at P 309; see also *April 20 Order* at P 91.

proposal to use “a combination of RMR and market resources” to manage the procurement of ancillary services.⁶ Since the allocation of RMR costs and market resources costs under the MRTU Tariff differ,⁷ the Commission wanted: (i) the procedures for the use of RMR and market resources to supply ancillary services to be placed in the MRTU Tariff, and (ii) an explanation of the methods for allocating ancillary service costs when RMR and market resources are used.⁸ The Commission statements in Paragraph 381 are not in conflict with its holding in Paragraph 309 of the *September 21 Order* or Paragraph 91 of the *April 20 Order*.

Williams notes that it has opposed the allocation of AS costs to Control Area Demand in its rehearing request to the *September 21 Order* but recognizes that it is not an issue in the compliance filing.⁹ Williams at 9 (n. 23 and accompanying text). However, Williams goes on to state that:

Williams does not understand why, for example, merely creating an *eleventh* Ancillary Service region would suddenly cause the CAISO to reconsider its position that control-area-wide, peanut-buttered cost allocation is appropriate for the *existing ten* Ancillary Service regions.

Id. (emphasis in original). To the extent Williams is referring to the proposed MRTU Tariff provisions, it is confusing the CAISO’s response to the market power concerns expressed by stakeholders with the creation of a new (or “eleventh”) zone with the issue regarding allocation of AS costs. Proposed new tariff section 8.3.3.4 provides, in part, that if the CAISO considers adjusting the boundaries of the existing AS Regions or creating a new AS Region, it will conduct

⁶ *Id.* at P 381.

⁷ As the CAISO described in its Transmittal Letter, RMR costs are allocated to Responsible Utilities based on Participating Transmission Owner (“PTO”) Service Territories; non-RMR ancillary service procurement costs are paid by Scheduling Coordinators using a load-based obligation. Transmittal Letter at 2.

⁸ *September 21 Order* at P 381.

⁹ The Commission rejected Williams’ request for rehearing of the AS cost allocation methodology in Paragraph 91 of the *April 20 Order*.

an analysis to determine whether the adjustments being considered will create *market power issues* in either the new AS Region being considered or the pre-existing AS Regions. The CAISO committed in the tariff to include any analysis in the stakeholder process and that stakeholders will be able to comment on any new proposed market power mitigation measures proposed for procurement of AS. Williams is correct that in the Transmittal Letter to the March 20 Filing, the CAISO stated that if it proposed either to adjust the boundaries of the existing AS Regions or to create a new AS Region it would “consider” the merits of any stakeholder proposal to change the allocation of AS costs. The CAISO’s statement is simply an indication of its willingness to consider the merits of any proposal put forward by its stakeholders in the future; it was not meant as an indication that AS cost allocation to Control Area Demand is inappropriate or would necessarily change if the CAISO decided to consider a change to the boundaries of the existing AS Regions or to create a new AS Region.

SWP’s argument that because of the compliance filing the CAISO should allocate AS costs on a sub-regional basis indicates a misunderstanding of the purpose and use of AS Sub-Regions. The purpose of using of the Sub-Regions is to meet the reliability requirement to achieve an appropriate *dispersion* of Ancillary Services throughout the Control Area.¹⁰ Under the Western Electricity Coordinating Council (“WECC”) Minimum Operating Reliability Criteria (“MORC”) the CAISO is to use prudent operating judgment in distributing operating reserve taking into account several considerations.¹¹ It is important to note that as the Control Area Operator, the CAISO currently is subject to the WECC AS requirements and will continue

¹⁰ See Transmittal Letter to March 20 Filing at 4; and Attachment A to the March 20 Filing at proposed § 8.3.3.2.

¹¹ See Western Electricity Coordinating Council Minimum Operating Reliability Criteria (April 2005) at 3-4 (Operating Reserve Distribution). The same concept is applicable to resources with Automatic Generation Control (“AGC”). *Id.* at 4.

to be subject to these requirements under MRTU. In other words, placing the delineation and explanation of the use of AS Regions and AS Sub-Regions in the MRTU Tariff and Business Practice Manuals (“BPMs”) formalizes and makes more transparent the procedures used by CAISO to meet the NERC and WECC dispersion requirements.¹²

One of the reasons why the Commission conditionally approved the allocation of AS costs to Control Area Demand under the MRTU Tariff is because the NERC and WECC AS requirements are demand-based Control Area requirements. For example, automatic generation control (AGC) is required to provide Regulation Up and Regulation Down capacity and the WECC criteria states that:

Each control area shall operate sufficient generating capacity under automatic control to meet its obligation to continuously balance its generation and interchange schedules to its load. It shall also provide its proper contribution to Interconnection frequency regulation.¹³

The same is true for Operating Reserves.¹⁴ In other words, the NERC and WECC AS requirements are Control Area wide requirements. The requirements do not vary as they relate to Demand; the same requirements apply to all Demand in the CAISO Control Area. In short, the AS requirements for a particular AS are “system” requirements and it is reasonable to allocate

¹² The requirement for appropriate dispersion of AS has been in the CAISO Tariff since 1998. *See* Section 8.2.4 of the Simplified and Restructured CAISO Tariff (formerly section 2.5.4 of the pre-existing CAISO Tariff).

¹³ Western Electricity Coordinating Council Minimum Operating Reliability Criteria (April 2005) at 4; *see also* § 8.2.3.1 of the MRTU Tariff stating that: “The CAISO shall maintain sufficient Generating Units immediately responsive to AGC in order to provide sufficient Regulation service to allow the CAISO Control Area to meet WECC and NERC control performance criteria by continuously balancing Generation to meet deviations between actual and scheduled Demand and to maintain interchange schedules.”

¹⁴ WECC MORC states that Contingency Reserve shall be at least the greater of: (1) The loss of generating capacity due to forced outages of generation or transmission equipment that would result from the most severe single contingency (at least half of which must be spinning reserve); or (2) The sum of five percent of the *load responsibility* served by hydro generation and seven percent of the *load responsibility* served by thermal generation (at least half of which must be spinning reserve). Western Electricity Coordinating Council Minimum Operating Reliability Criteria (April 2005) at 2 (emphasis added); *see also* § 8.2.3.2 of the MRTU Tariff. Due to the amount of the Demand in the CAISO Control Area, the WECC requirements in affect for the CAISO Control Area are the demand-based requirements.

costs of meeting these system requirements on a system basis to all Demand in the CAISO Control Area.

Finally, if SWP's statements and position were accepted it would violate cost causation principles, result in inappropriate cost shifting, and would raise the cost of meeting the AS requirements for the CAISO Control Area. SWP's fundamental error is its failure to recognize that the AS procured on a Sub-Region basis can serve to meet the AS requirements for the entire CAISO Control Area (or the "System Region") for the particular service.¹⁵

An example can illustrate the error in SWP's position. If there were transmission constraints that limited the deliverability of generation *into* an area within the CAISO Control Area, the CAISO might (depending on the amount of generation in the area and other considerations) try to ensure that a certain amount of AS (*e.g.*, Non-Spinning Reserves) are located within the area by using the appropriate AS Sub-Region and by establishing a minimum requirement for Non-Spinning Reserves for the Sub-Region.¹⁶ Once the Non-Spinning Reserve is procured within the Sub-Region, it can serve the need for Non-Spinning Reserve throughout the entire Control Area. The constraint in the example that led to the minimum requirement was a constraint delivering generation *to* the area; it was not a constraint that limited the delivery of the generation *from* the area. In this circumstance, if a contingency were to occur *outside* of the Sub-Region, the generation from within the Sub-Region would be able to meet the contingency

¹⁵ The minimum Ancillary Service limit in the Expanded System Region is the quantity of each Ancillary Service required to meet the WECC and NERC requirements for the CAISO Control Area.

¹⁶ As noted in the March 20 Filing, the use of an Ancillary Service Sub-Region occurs when the CAISO establishes a non-zero minimum and/or maximum limit for that Sub-Region. *See* Transmittal Letter to March 20 Filing at 4; and Attachment A to March 20 Filing at proposed § 8.3.3.2.

outside of the Sub-Region which is why allocation of AS costs on a Control Area basis is appropriate.¹⁷

To do as SWP suggests, that is, to: (i) create a partition between the Demand in the Sub-Region and the Demand in the rest of the Control Area, and (ii) allocate the costs of AS procured within a Sub-Region only to the Demand within that Sub-Region, would violate cost causation principles. In the example set forth above, it would mean that load in the Sub-Region would be allocated the AS costs even though the contingency occurred (or was “caused”) outside of the Sub-Region.

In addition, if the CAISO were to do as SWP suggests and established a rule that the AS needs of the Demand in a Sub-Region can only be served by resources within the Sub-Region, it unnecessarily would raise the costs of meeting the AS requirements for the CAISO Control Area. Again, in the example set forth above, SWP’s position would have the CAISO procure both Non-Spinning Reserves for the Sub-Region and additional Non-Spinning Reserves outside of the Sub-Region. Stated differently, the fact that the Non-Spinning Reserves procured in the Sub-Region can serve the AS needs *outside of the Sub-Region* would be ignored if SWP’s suggestions were accepted. The result would raise the cost of meeting NERC and WECC reliability requirements for the CAISO Control Area.

For all of the reasons expressed above, the Commission should reject SWP’s suggestions to allocate the cost of meeting the CAISO Control Area need for ancillary services on a sub-regional basis.

¹⁷ After dispatching the resource, the CAISO would look to restore the Non-Spinning reserve (*e.g.*, by procuring Energy or additional Ancillary Services) and allow the dispatched resource to return to its Dispatch Operating Point.

B. CAISO’s Compliance Filing Does Not Require Additional Market Power Mitigation Measures For The Procurement of Ancillary Services.

PG&E and SWP suggest that the CAISO’s compliance proposal could create market power concerns. PG&E at 1-2; SWP at 2-4, 7-8. PG&E asks that the Commission direct the CAISO to not implement its compliance filing unless and until an assessment of the potential for market power abuse is conducted for “local ancillary service markets.” PG&E at 1. SWP states that more needs to be done to address market power concerns “*stemming from the CAISO’s proposal.*” SWP at 7 (emphasis added). SWP argues that if the CAISO uses AS Sub-Regions, it must develop an extremely robust market power mitigation scheme. SWP at 7-8. The CAISO understands and appreciates the expressed concerns regarding market power mitigation for the procurement AS but respectfully suggests that they either are outside the scope of the compliance filing or are more appropriately considered rehearing requests of certain Commission decisions in the *September 21 Order*.

In the *September 21 Order*, the Commission conditionally approved the market power mitigation measures regarding procurement of AS. The market power mitigation provisions consist of a combination of lowering the AS bid cap to \$250/MWh (from \$400/MWh) and relying on Reliability Must Run (“RMR”) resources to mitigate local reliability problems. The Commission stated that:

While there are no special mitigation measures for market power in ancillary services other than the bid cap (to be reduced from the current \$400/MWh to \$250/MWh under the MRTU Tariff), we believe the CAISO’s proposal to use a combination of RMR and market resources to manage ancillary services procurement is reasonable.¹⁸

¹⁸ *September 21 Order* at P 381 (citations omitted).

As noted in Section III.A., PG&E and SWP appear to not have a correct understanding of the purpose of using AS Sub-Regions. The use of AS Sub-Regions is a mechanism to meet an existing WECC reliability requirement (*i.e.*, the prudent dispersion of AS throughout the CAISO Control Area) and the compliance filing adds detail to the MRTU Tariff regarding how the CAISO will employ or use this mechanism. However, the Commission has conditionally approved the use of a \$250/MWh bid cap and the use of RMR resources to mitigate market power issues that might arise with the procurement of AS.

The compliance filing neither changed the conditionally-approved market power mitigation mechanisms for procurement of AS, nor did it alter or exacerbate any market power issues that might exist with the procurement of AS within the CAISO Control Area. If the conditionally-approved market power mitigation mechanisms for procurement of AS prove to be insufficient, new or additional market power mechanisms should be developed. However, the CAISO respectfully requests that the Commission reject SWP's and PG&E's allegations that the March 20 Filing requires the development of additional market power mitigation measures.

C. The Commission Should Reject Williams' Allegations Regarding RMR Resources and the Use of "Unused Day-Ahead Bids."

In the *September 21 Order*, the Commission directed the CAISO to: (i) include in the MRTU Tariff the procedures for the use of RMR and market resources in procuring AS, and (ii) clearly describe the allocation of AS costs with the use of RMR and market resources in the CAISO's procurement of AS.¹⁹ In the March 20 Filing, the CAISO explained that the existing MRTU Tariff provisions and the RMR Contract adequately distinguish between the use of RMR

¹⁹ *September 21 Order* at P 381.

resources and the use of market resources in procuring AS and further explained the cost allocation procedures that are used when RMR resources supply AS.²⁰

Williams objects to the CAISO's proposed elimination of a phrase in Section 41.5.3 of the MRTU Tariff. *See Williams* at 3-8. The phrase proposed for elimination provides that before the CAISO can call upon RMR Units to provide AS after the issuance of Day-Ahead Schedules, the CAISO must have determined that "all additional Day-Ahead Ancillary Services Bids (including any unused Bids that can be used to satisfy that particular Ancillary Services requirement) have been selected."²¹ The specific language proposed for elimination is anachronistic under MRTU. The intended purpose of the language—dispatch of RMR Units under the RMR Contract for AS after all market Bids are exhausted—is preserved.

As Williams knows well: (i) the CAISO currently has Day-Ahead and Hour-Ahead AS markets, and (ii) an Hour-Ahead AS market is not included in the MRTU market design. Moreover, the CAISO is not committed, under the current market design, to procuring 100% of the AS requirements in the Day Ahead, but can split its procurement between the Day-Ahead and Hour-Ahead markets. In contrast, under MRTU, the CAISO will procure 100% of its forecasted AS requirements in the Integrated Forward Market ("IFM") which is part of the MRTU Day-Ahead Market ("DAM").²² If the CAISO fails to procure 100% of its AS needs in the DAM, or if system conditions change in real time, the CAISO will procure any additional or incremental

²⁰ *See* Transmittal Letter to March 20 Filing at 8-10.

²¹ *See* Attachment B to the March 20 Filing at § 41.5.3; *see also Williams* at 5.

²² *See* Section 31.3 of the MRTU Tariff.

AS in the Real Time Market (“RTM”).²³ In the former case, there will be no “unused” Day Ahead AS Bids. In the latter case, the CAISO will have procured 100% of its Day Ahead requirements and, accordingly, there is need for any more Day Ahead AS Bids.

In addition, under MRTU, no unused Day Ahead AS Bids will be saved or carried over to a subsequent market. However, any market participant that submits a Bid to supply AS in the IFM and whose Bid is not accepted, is free to submit a Bid in the RTM to supply AS.²⁴ Furthermore, any AS bid accepted in the IFM is committed to supply AS capacity in real time. Any incremental AS needs in the RTM will be met through a combination of new AS Bids submitted for the RTM plus AS capacity committed in the Day-Ahead *before* the CAISO has the right to call on AS from RMR Units under the RMR Contract. Williams is attempting to keep anachronistic language in the MRTU Tariff that no longer serves the intended purpose and which is inconsistent with the MRTU market design; the attempt is inappropriate and should be rejected by the Commission.

Williams tries to buttress its position by asserting that the CAISO actions are “inconsistent with the RMR Contract.” Williams at 5. The Commission should reject these arguments as well. Williams quotes Section 4.1(c)(ii) of the RMR Contract which provides that:

If, after the close of the day-ahead market for a Trading Day, but before ISO issues *final hour-ahead schedules* for the first hour of the Trading Day, ISO determines it needs additional Ancillary Services for the Trading Day, ISO shall use unused, available day-ahead market bids for Ancillary Services for the Trading Day in merit order (and in the appropriate zone, if ISO is procuring

²³ An additional detail to CAISO’s procurement of AS under the MRTU Tariff is that the CAISO will procure additional or incremental AS from resources outside of the CAISO Control Area in the Hour-Ahead Scheduling Process (“HASP”). However, this detail is not germane to the issues raised by Williams or the CAISO’s response to those issues.

²⁴ For example, Section 30.5.1(d) of the MRTU Tariff provides that: “Bids for Energy or capacity that are submitted to one CAISO Market, but are not accepted in that market are no longer a binding commitment and Scheduling Coordinators may submit Bids in a subsequent CAISO Market at a different price.”

Ancillary Services on a zonal basis) to fill its Ancillary Services needs before issuing a Dispatch Notice for Ancillary Services.

Id. (emphasis added). First, there will be no “final hour-ahead schedules” under the MRTU Tariff. Second, in describing its interpretation of Section 4.1(c(ii) of the RMR Contract (which as noted contains references that are no longer applicable under MRTU), Williams states that if the CAISO requires additional Ancillary Services after the DAM it must procure “such services first from its market and then from the RMR Contract.” Williams at 5-6. The “market first” aspect of AS procurement referred to by Williams is precisely what Section 41.5.3 of the MRTU Tariff (as proposed in the March 20 Filing) provides and, accordingly, the MRTU Tariff preserves the balance of benefits and burdens in the RMR Contract. For all of the aforementioned reasons, the Commission should reject Williams’ allegations regarding the use of “Unused Day-Ahead Bids” and its attempt to keep language in the MRTU Tariff that is inconsistent with the MRTU market design.

D. The Defined Ancillary Service Sub-Regions and Rules for Changing the Sub-Regions or Establishing New Sub-Regions are Reasonable and Should be Approved

SCE states that CAISO has left the definitions of the AS Sub-Regions in the Market Operations BPM and that because the Sub-Regions affect rates the definitions should be contained in the MRTU Tariff. SCE at 1-2. The proposed AS Sub-Regions are in the MRTU Tariff in proposed section 8.3.3. The main detail in the Market Operations BPM that is not in the MRTU Tariff is the delineation of the Intertie Scheduling Points that define the four “expanded” Sub-Regions (*i.e.*, the Expanded South of Path 15 Sub-Region, the Expanded South of Path 26 Sub-Region, the Expanded North of Path 15 Sub-Region, and the Expanded North of Path 26 Sub-Region). The CAISO notes that if it were to consider adjusting the boundaries of the Sub-Regions, it has committed to conduct a stakeholder process in proposed section 8.3.3.4 and that

any new Sub-Region or any change to an existing Sub-Region would require a tariff amendment. The commitment to file a tariff amendment for any new Sub-Region or any change to an existing Sub-Region should satisfy SCE's concerns.²⁵

SCE also states that the CAISO should "reference applicable NERC and/or WECC or other reliability criteria that it will be using to determine A/S regional and sub-regional requirements in its MRTU Tariff." SCE at 2. The requirements to which SCE refers are already contained in the MRTU tariff.²⁶

BAMx supports the initial use of existing zones for AS procurement. BAMx at 2. However, it is concerned that software difficulties, higher congestions costs, curtailments, and potentially unforeseen problems could make an increase in the number of regions and sub-regions detrimental or impractical. BAMx at 3. In the event the CAISO determines that new AS Regions or Sub-Regions are necessary, BAMx asks the Commission to require the CAISO to file its analysis and determination with the Commission. *Id.* If the CAISO establishes a new AS Region or Sub-Region it will file to amend section 8.3.3 to add a new AS Region or Sub-Region and the filing will contain appropriate supporting documentation and the results of the stakeholder process.

SWP asks that new AS Sub-Regions only be developed on one year's prior notice to market participants so as to reduce disruption to supply contracts and other market expectations. SWP at 2. The CAISO believes the process outlined in proposed section 8.3.3.4, which requires

²⁵ Regarding the list of Intertie Scheduling Points for each of the four Expanded Sub-Regions, the CAISO believes it is appropriate for these to reside in the Market Operations BPM. If the list of Intertie Scheduling Points were included in the tariff, the CAISO would have to file a Tariff amendment any time a new Intertie Scheduling Point is added to one of the four Expanded Sub-Regions.

²⁶ See MRTU Tariff § 8.2.3.1 and § 8.2.3.2.

a full stakeholder process that would take into consideration any timing affects, will give market participants adequate notice of the creation of a new AS Sub-Region.

SWP also alleges that the CAISO will be able to make “sudden and frequent changes in zones and regions” and that this “can wreak havoc with the contracts that rely on a continuing ability to deliver or receive power or Ancillary Services at a given location.” SWP at 8. As noted in section III.A., SWP’s comments indicate a misunderstanding regarding the purpose and use of AS Sub-Regions which is to meet a reliability requirement to achieve appropriate *dispersion* of AS throughout the CAISO Control Area. SWP appears to believe that the use of AS Sub-Regions: (i) will create hard partitions between the Demand in a Sub-Region and the Demand in the rest of the Control Area, and/or (ii) is accompanied by a rule that only resources within a Sub-Region can provide AS to that Sub-Region. As explained previously, this is not the case. Any qualified entity can supply AS in the CAISO’s markets subject to: (i) the CAISO actually needing the supply, and (ii) the ability of the AS to be delivered to the System Region or Sub-Region. These requirements to accept bids to supply AS (*i.e.*, fulfilling a need and deliverability) exist today, will continue to exist under MRTU, and are not affected by the compliance filing in this proceeding.

F. The CAISO’s Procurement of Ancillary Services Is Consistent with Resource Adequacy Rules

The CPUC asks that the CAISO’s procurement of AS recognize the impact of system and local resources provided by the CPUC’s Resource Adequacy (“RA”) program and that the CAISO should consider procurement of AS through the CPUC’s RA Program or other market mechanisms. CPUC at 3-6. The CAISO agrees with the CPUC that the RA program will help a great deal to ensure that there are adequate resources within the State of California to satisfy the NERC and WECC reliability requirements that govern the CAISO’s procurement of AS. The

central change with the MRTU market *vis-à-vis* procurement of AS is that the bids to supply AS will be co-optimized with the bids to supply Energy. However, there is currently no requirement on the suppliers of RA capacity to bid to supply (or self-supply) AS under the MRTU market design.

One additional feature that would help ensure that the CAISO will be able to procure 100% of its AS requirements in the DAM, would be to modify the current requirements on RA capacity to include an express requirement that RA capacity submit AS Bids for all AS certified capacity. This would allow the CAISO to co-optimize 100% of the RA capacity for either Energy or AS. Currently, the RA obligation is to make 100% of the RA capacity available as either Energy or AS Bids in the Day Ahead Market, or a combination. If an RA resource fails to make 100% of its RA capacity available in the Day Ahead Market, the MRTU software inserts Energy Bids for the remaining capacity, but does not insert AS Bids for any remaining AS-certified RA capacity. The latter feature requires a software change and therefore cannot be implemented as part of MRTU Release 1.

The CAISO has, however, identified this feature as an enhancement to be developed in conjunction with Scarcity Pricing, which the Commission requires the CAISO to implement within 12 months of MRTU start-up. The CPUC indicated that they welcome “the opportunity to discuss the expansion of the market solutions for the procurement of AS through its RA Program”, CPUC at 4-5, and the CAISO plans on discussing the additional feature (*i.e.*, a requirement that RA capacity submit AS Bids for all AS certified capacity) with the CPUC and other stakeholders.

IV. CONCLUSION.

For the reasons expressed herein, the CAISO respectfully requests that the Commission accept the CAISO's compliance filing as proposed and as discussed herein.

Respectfully submitted,

/s/ Sidney M. Davies

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Dated: April 25, 2007

CERTIFICATE OF SERVICE

I hereby certify that I have this day electronically served a copy of the foregoing document on each party named in the official service list in this proceeding.

Dated at Folsom, CA this 25th day of April, 2007.

/s/ Sidney M. Davies
Sidney M. Davies