

ALSTON & BIRD LLP

The Atlantic Building
950 F Street, N.W.
Washington, DC 20004-1404

202-756-3300
Fax: 202-654-4875

Bradley R. Miliauskas

Direct Dial: 202-756-3405

Email: bradley.miliauskas@alston.com

August 16, 2006

VIA ELECTRONIC FILING

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. ER06-700-____

Dear Secretary Salas:

Attached please find the Motion for Leave to File Answer and Answer to Protests, and Answer to Comments, of the California Independent System Operator Corporation, submitted today in the captioned docket.

Please contact the undersigned with any questions regarding this matter.

Respectfully submitted,

/s/ Bradley R. Miliauskas
Bradley R. Miliauskas
Alston & Bird LLP
The Atlantic Building
950 F Street, N.W.
Washington, DC 20004-1404

Counsel for the California Independent
System Operator Corporation

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

**California Independent System) Docket No. ER06-700-____
Operator Corporation)**

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

On July 11, 2006, the California Independent System Operator Corporation (“CAISO”)¹ submitted a compliance filing and status report (“July 11 Compliance Filing”) in the captioned proceeding, in compliance with the Commission’s “Order Conditionally Accepting Tariff Revisions Governing Credit Policy,” 115 FERC ¶ 61,170, issued on May 12, 2006, in the captioned docket (“Credit Policy Order”). The Commission established an August 1, 2006, comment date with regard to the July 11 Compliance Filing. In response, two parties in this proceeding filed comments and two parties filed protests.²

Pursuant to Rules 212 and 213 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. §§ 385.212, 385.213, the CAISO respectfully requests leave to file an answer, and files its answer to the protests of and comments on

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

² Comments were submitted by the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (“Six Cities”), and the Northern California Power Agency (“NCPA”). Protests were submitted by the Cities of Redding and Santa Clara, California, and the M-S-R Public Power Agency (“Cities/M-S-R”), and the Transmission Agency of Northern California (“TANC”). The substantive discussion in the TANC protest is largely a verbatim recitation of certain arguments made in the Cities/M-S-R protest.

the July 11 Compliance Filing.³ As explained herein, the July 11 Compliance filing is in compliance with the Credit Policy Order. Moreover, the CAISO has offered ample justification for the Commission to accept the “Alternative Set of Changes” contained in Attachment B to the July 11 Compliance Filing, in which the CAISO proposes to add additional tariff language to Section 12 of the ISO Tariff and remove the Credit Guide from the tariff, instead of the “First Set of Changes” contain in Attachment A to the July 11 Compliance Filing, which provides the Credit Guide as an attachment to the ISO Tariff.

I. BACKGROUND

In the Credit Policy Order, the Commission directed the CAISO to make revisions to the ISO Tariff and the ISO Credit Policy & Procedures Guide (“Credit Guide”), file the Credit Guide as an attachment to the ISO Tariff, and explain what provisions, if any, it recommends removing from the tariff.⁴ Pursuant to these directives, the CAISO provided two sets of changes in the July 11 Compliance Filing. The first set of changes (“First Set of Changes”) included the specific revisions to the ISO Tariff mandated in the Credit Policy Order and included an updated version of the Credit Guide as an attachment to the ISO

³ The CAISO requests waiver of Rule 213(a)(2) (18 C.F.R. § 385.213(a)(2)) to permit it to make this 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 the case. See, e.g., *Entergy Services, Inc.*, 101 FERC ¶ 61,289, at 62,163 (2002); *Duke Energy Corp.*, 100 FERC ¶ 61,251, at 61,886 (2002); *Delmarva Power & Light Co.*, 93 FERC ¶ 61,098, at 61,259 (2000).

⁴ Credit Policy Order at PP 22, 32, 34-36, 42-44, 46-47. The Commission also directed the CAISO to add Section A-3 of the Credit Guide, describing the eight-step process by which Unsecured Credit Limits are calculated, to Section 12.1.1 of the ISO Tariff. *Id.* at P 22.

Tariff. The second set of changes (“Alternative Set of Changes”) included specific revisions to the ISO Tariff mandated in the Credit Policy Order but also responded to the Commission’s express invitation to explain which provisions of the Credit Guide the CAISO believes should not be included in the ISO Tariff. In addition, the CAISO provided the Declaration of Philip R. Leiber, Treasurer & Director of Financial Planning for the CAISO (“Declaration”), in support of both sets of changes. The CAISO explained that the two sets of changes are mutually exclusive, *i.e.*, if the Commission accepts the Alternative Set of Changes it should not accept the First Set of Changes, and vice versa.

In the July 11 Compliance Filing, the CAISO described in detail why the Commission should accept the Alternative Set of Changes rather than the First Set of Changes. The CAISO explained that including all of the Credit Guide as part of the ISO Tariff (rather than only those portions the CAISO proposes to add to the ISO Tariff under the Alternative Set of Changes) would create a substantial burden and would prevent the CAISO from updating the detailed procedures implementing its approved credit procedures, because the provisions of the Credit Guide not proposed for inclusion in the ISO Tariff contain implementation details that will need to be adjusted – as frequently as monthly in the case of rating agency default probability data – in response to changing market conditions and the experience the CAISO gains in applying its credit policies. These pragmatic concerns are described at length in the Declaration.

II. ANSWER

A. The Filing of the Alternative Set of Changes Fully Complies With the Commission's Invitation to Explain What Provisions of the Credit Guide Should Not Be In the ISO Tariff.

Cities/M-S-R and TANC argue that the Alternative Set of Changes does not comply with and is a collateral attack on the Credit Policy Order.⁵ These parties quote but then disregard the Commission's directive in the Credit Policy Order that the CAISO "explain what provisions, if any, it recommends removing from the tariff."⁶ The CAISO not only identified which provisions of the Credit Guide it believes must not be added to the ISO Tariff, but also provided a detailed explanation of the pragmatic concerns underlying those recommendations in the unrebutted Declaration of the CAISO's Treasurer & Director of Financial Planning. Thus, the CAISO is far from being out of compliance with the Credit Policy Order, and has, in fact, taken great pains to comply with the Commission's directive to provide an explanation of what should be excluded from the ISO Tariff.

Cities/M-S-R and TANC assert that portions of the July 11 Compliance Filing are impermissible supplemental arguments to the request for rehearing of the Credit Policy Order that the CAISO submitted in this proceeding ("CAISO Request for Rehearing"), and thus collateral attacks on the Credit Policy Order.⁷ Cities/M-S-R and TANC are incorrect. The explanations the CAISO provided in

⁵ Cities/M-S-R at 5-8, 10-11; TANC at 5-7, 8.

⁶ Credit Policy Order at P 22.

⁷ Cities/M-S-R at 6-7; TANC at 5-7.

the July 11 Compliance Filing justifying the Alternative Set of Changes address the same types of pragmatic concerns the CAISO raised in its Request for Rehearing, albeit in somewhat more detail. Even if the CAISO had never submitted its Request for Rehearing, the CAISO would still have had the opportunity and the obligation to “explain what provisions, if any, it recommends removing from the tariff” in its compliance filing. The explanations supporting the Alternative Set of Changes therefore are directly responsive to the Credit Policy Order. Indeed, it is hard to envision how the CAISO could have intelligibly described what provisions it recommends including and excluding from the ISO Tariff without providing those kinds of explanations in the July 11 Compliance Filing.

B. The Description of the Eight-Step Process for Determining Unsecured Credit Limits Is Sufficient to Satisfy the Commission’s Rule of Reason.

Cities/M-S-R and TANC argue that the description of the eight-step process for determining Unsecured Credit Limits contained in the Alternative Set of Changes contradicts directives in the Credit Policy Order.⁸ The CAISO acknowledges that the Credit Policy Order directed the CAISO to include Section A-3 of the Credit Guide in the ISO Tariff.⁹ In the same paragraph of the Order, however, the Commission invited the CAISO to explain why it recommends that certain provisions of the Credit Guide not be included in the ISO Tariff. Taken together, the CAISO believes these two statements provide the CAISO sufficient

⁸ Cities/M-S-R at 8; TANC at 6-7.

⁹ Credit Policy Order at P 22.

flexibility in making its compliance filing to explain why some of the details from Section A-3 of the Credit Guide associated with the eight-step process should not be included in the ISO Tariff. In particular, the CAISO believes that the Commission did not intend to preclude the CAISO from explaining why the ISO Tariff should not include certain tables and intricate calculations implementing the eight-step process that may need to be updated many times a year.

Cities/M-S-R and TANC also assert that Steps 2, 3, 4, and 6 in the description of the eight-step process (which is provided in Section 12.1.1 of the ISO Tariff) do not contain sufficient detail to permit a Market Participant to understand how its Unsecured Credit Limit was calculated by the CAISO.¹⁰ These arguments should be rejected. Unlike the CAISO's original ISO Tariff revisions in this proceeding which did not even refer to the eight-step process, the Alternative Set of Changes contains a description of the eight-step process the Commission has found significantly affects rates and services. As explained in the July 11 Compliance Filing, this description contains more than sufficient detail to satisfy the Commission's "rule of reason." Based on this description of the eight-step process, Market Participants and FTR Bidders can be assured that the CAISO cannot change the basic means of how those calculations are done without receiving approval from the Commission pursuant to a filing under Section 205 of the Federal Power Act.¹¹

¹⁰ Cities/M-S-R at 8-9; TANC at 7-8.

¹¹ Transmittal Letter for July 11 Compliance Filing at 7, 8; July 11 Compliance Filing, Attachment C, Declaration at ¶ 15.

Claims that the approach contained in the Alternative Set of Changes will prevent Market Participants from learning how their Unsecured Credit Limit is calculated are demonstrably false. The Alternative Set of Changes contains a provision stating that “[a] Market Participant or FTR Bidder, upon request, will be provided a written analysis as to how the provisions in Section 12.1.1 and this section [Section 12.1.1.1] were applied in setting its Unsecured Credit Limit.”¹² That provision gives assurance that a Market Participant will be able to understand how CAISO determined its Unsecured Credit Limit.

For the reasons explained in the July 11 Compliance Filing, and in particular in the Declaration of the CAISO’s Treasurer & Director of Financial Planning, the Alternative Set of Changes do not include in the ISO Tariff certain tables and intricate calculations found in the Credit Guide and that implement the eight-step process. There are important pragmatic reasons why the Alternative Set of Changes contains a description of the eight-step process but does not include those tables and intricate calculations. The eight-step process was designed to give the CAISO the ability to fine-tune the tables and calculations as needed to reflect experience with customers and changing market conditions without the lengthy period associated with developing an ISO Tariff filing, obtaining authorization from the ISO Governing Board to submit such a Tariff filing, and then obtaining regulatory approval of the filing.¹³ Further, requiring it to file the entire eight-step process unnecessarily and inappropriately limits the

¹² July 11 Compliance Filing, Attachment B-2, at black-lined changes to Section 12.1.1.1 of the ISO Tariff.

¹³ July 11 Compliance Filing, Attachment C, Declaration at ¶ 15.

CAISO's flexibility to modify the eight-step process based on experience. This is consistent with the Commission's own recognition, in considering whether to require transmission providers "to incorporate the creditworthiness and security methodologies into their OATTs," that a balance must be drawn "between the burden . . . of adding these methodologies to . . . [OATTs] and the need for Commission review and approval if methodologies frequently change."¹⁴ The CAISO anticipates that the detailed tables and calculations implementing the eight-step process may need to change, if not frequently, then at least often enough that the CAISO should not be required to keep the process in the ISO Tariff. As the Commission has recognized in the past, "[t]he credit policies of other established energy markets have undergone continual refinements to better reflect the needs of all affected parties."¹⁵

In particular, the CAISO expects that certain procedures implementing Steps 2, 3, and 5 of the eight-step process (and perhaps other steps) may well need to undergo refinements, as the CAISO has explained previously in this proceeding:

- Step 2 includes a table of Agency Rating Default Probabilities. It may be appropriate to update this table as frequently as every month. If the CAISO were required to update the table through a filing under Section 205 of the Federal Power Act, there would be a

¹⁴ *Notice of Proposed Rulemaking, Preventing Undue Discrimination and Preference in Transmission Service*, 115 FERC ¶ 61,211, at PP 455-56 (2006).

¹⁵ *Midwest Independent Transmission System Operator, Inc.*, 108 FERC ¶ 61,163, at P 432 (2004).

minimum of a 60-day lag in the CAISO's ability to use the updated information. That approach would be unworkable.¹⁶

- Step 3 contains details concerning the calculation of a Market Participant's Moody's KMV Default Probability, including the identification of two pieces of software currently used in this step. The CAISO has a concern that the application of these detailed Step 3 procedures to certain private entities may yield results that may be overly conservative. If it turns out that these detailed Step 3 procedures yield results that are overly conservative, the CAISO will have to make changes as needed.¹⁷
- Two of the components of equations listed in Step 5 are the Base Default Probability, which currently equals 0.06 percent, and the Maximum Tangible Net Worth Percentage allowed by the CAISO, which currently equals 7.5 percent. These percentages should be updated to reflect changing market conditions. The CAISO developed the detailed tables and calculations implementing the eight-step process with the intention of periodically reviewing the overall credit limits resulting from the mechanical formulas, and periodically recalibrating factors such as the 0.06 percent Base Default Probability and the 7.5 percent Maximum Tangible Net Worth Percentage. Moreover, Step 5 indicates that Scheduling

¹⁶ CAISO Request for Rehearing at 9; July 11 Compliance Filing, Attachment C, Declaration at ¶ 15.

¹⁷ CAISO Request for Rehearing at 10.

Coordinators with a Combined Default Probability greater than 0.5 percent will receive zero percent of their Tangible Net Worth. The CAISO anticipates that this limit may need to be reviewed periodically to ensure that it does not unduly restrict credit limits, particularly in changing market conditions. In general, Market Participants could be subject to adverse consequences if the CAISO does not have the flexibility to change, with changing market conditions, the factors that directly affect the amount of unsecured credit they receive.¹⁸

Moreover, as explained in the Declaration, there are additional implementation details that relate to the application of the eight steps that will likely have implications for the eight-step process. Examples of such implications include which financial statement line items should be included in the determination of Tangible Net Worth and Net Assets (such as whether or not to include restricted assets), and how often Unsecured Credit Limits will be updated based on changes in Moody's KMV default probabilities. The CAISO will need to further consider these issues based on experience with the new credit procedures and changing market conditions.¹⁹

In addition to their arguments concerning the implementation details of the eight-step process, Cities/M-S-R and TANC, as well as Six Cities, submit lists of provisions in the Credit Guide that those parties assert need to be included in the

¹⁸ *Id.* at 9-10.

¹⁹ July 11 Compliance Filing, Attachment C, Declaration at ¶ 15.

ISO Tariff because they directly affect rates and services for Market Participants.²⁰ However, these lists are merely compiled like grocery lists – they contain bare rosters of provisions in the Credit Guide that the parties wish to have included in the ISO Tariff, without any substantive explanation why those particular provisions should not be excluded from it. In contrast, the Declaration and the transmittal letter for the July 11 Compliance Filing explained exactly why those provisions could and should be excluded from the ISO Tariff.²¹

Moreover, the Commission’s “rule of reason” only requires the CAISO to file those practices that “affect rates and service significantly” and that are “reasonably susceptible of specification.”²² The provisions of the Credit Guide that the parties list should not be required to be filed, pursuant to the rule of reason test, because the level of detail contained in Section 12 of the ISO Tariff, especially with the additions proposed in the Alternative Set of Changes, is sufficient to satisfy the requirements of the rule of reason.²³ The Commission should base its review of those provisions on the merit of the CAISO’s explanations in response to the Commission’s directive to the CAISO to explain what provisions it recommends removing from the ISO Tariff, and should give no weight to the bald assertion of a handful of protestors, unsupported by any

²⁰ Cities/M-S-R at 11-12; Six Cities at 2-3; TANC at 8-9.

²¹ Transmittal Letter for July 11 Compliance Filing at 9-10; July 11 Compliance Filing, Attachment C, Declaration at ¶¶ 11, 13-17, 19-20, 26-28.

²² Transmittal Letter for July 11 Compliance Filing at 9-10 (quoting *City of Cleveland v. FERC*, 773 F.2d 1368, 1376 (D.C. Cir. 1985) (emphasis omitted)).

²³ Transmittal Letter for July 11 Compliance Filing at 10.

meaningful responsive explanation, that certain Credit Guide provisions should be in the ISO Tariff.

C. The Provisions in the July 11 Compliance Filing Concerning Qualitative Factors Do Not Need to Be Modified.

Six Cities argue that the Commission should require the CAISO to provide a further explanation as to how it will apply consideration of qualitative factors in evaluating creditworthiness, or at least the CAISO should be required to include explicit language in the ISO Tariff stating that whenever the CAISO has discretion in implementing its credit policy, it must exercise that discretion in a non-discriminatory manner.²⁴ No further explanation regarding the CAISO's application of the qualitative factors listed in the ISO Tariff is needed. As Six Cities note, the list of qualitative factors contained in both the First Set of Changes and the Alternative Set of Changes are the very same ones that the Commission determined should be considered in evaluating creditworthiness in the Commission's *Policy Statement on Electric Creditworthiness*.²⁵ The Commission found the CAISO's use of these qualitative factors to be reasonable in the Credit Policy Order.²⁶ Moreover, the CAISO did not propose any changes to the qualitative factors in the July 11 Compliance Filing; they are the same factors that the CAISO has applied, and applied in the same way, ever since the

²⁴ Six Cities at 3-5.

²⁵ Compare *Policy Statement on Electric Creditworthiness*, 109 FERC ¶ 61,186, at P 13 n.13 (2004) ("*Policy Statement*"), with July 11 Compliance Filing, Attachment A-1, at Sheet Nos. 1180-81, and Attachment B-1, at Sheet Nos. 264B-264C.

²⁶ Credit Policy Order at P 20 ("The CAISO approach to establishing unsecured credit limits is similar to that used by other ISOs and RTOs reflecting elements of those credit policies. Consistent with the *Policy Statement*, the CAISO considered qualitative and quantitative factors in setting unsecured credit limits for rated entities and will not deny unsecured credit to financially strong entities merely because they do not maintain an agency credit rating.").

CAISO first included them in the Credit Guide pursuant to the *Policy Statement*.²⁷ All that the July 11 Compliance Filing did was to move this list of qualitative factors to the ISO Tariff. Thus, the CAISO has not made any new “proposal” regarding its application of the qualitative factors, as Six Cities assert.

Six Cities note that, with regard to two other entities that are independent system operators and regional transmission organizations (the Midwest ISO and the Southwest Power Pool), the Commission has specified the weighting that should be applied to quantitative and qualitative factors in evaluating the creditworthiness of not-for-profit entities.²⁸ In those cases, however, the Commission was acting on a specific weighting proposal proposed by those entities.²⁹ In contrast, in the instant proceeding, the Commission found the CAISO’s means of calculating Unsecured Credit Limits is reasonable, without requiring the use of weighting, and specifically found that, “[c]onsistent with the *Policy Statement*, the CAISO considered qualitative and quantitative factors in setting the unsecured credit limits for rated entities and will not deny unsecured credit to financially strong entities merely because they do not maintain an agency credit rating.”³⁰

²⁷ See July 11 Compliance Filing, Attachment B-3, at page 13 of 49.

²⁸ Six Cities at 4.

²⁹ *Midwest Independent Transmission System Operator, Inc.*, 109 FERC ¶ 61,285, at P 355 & n.157 (2004); *Southwest Power Pool, Inc.*, 114 FERC ¶ 61,222, at PP 36-37 (2006). In the latter case just cited, the Southwest Power Pool had proposed giving a weighting of 50 percent to qualitative factors and 50 percent to quantitative factors, but the Commission instead required the weighting proposed by the Midwest ISO (*i.e.*, a weighting of 60 percent to qualitative factors and 40 percent to quantitative factors).

³⁰ Credit Policy Order at P 20.

Moreover, Six Cities can be assured that the CAISO will determine the Unsecured Credit Limits of not-for-profit entities in an appropriate manner. As described further in Section II.E below, on August 9, 2006, the CAISO filed a supplemental compliance filing in this proceeding to include in the ISO Tariff alternative measures for determining the Unsecured Credit Limits of not-for-profit entities. As described therein, one of the components of the supplemental compliance filing is based in large part on a proposal offered by NCPA, which is based on Commission-approved credit provisions utilized by the New York ISO.³¹

As to the proposal of Six Cities that the CAISO include explicit language in the ISO Tariff stating that whenever the CAISO has discretion in implementing its credit policy, it must exercise that discretion in a non-discriminatory manner, the CAISO believes that the Federal Power Act already forbids the CAISO or any other public utility from exercising such discretion in a manner that is not unduly discriminatory.³²

D. The CAISO Agrees that Minor Corrections Should Be Made to Provisions Contained in the First Set of Changes, if the Commission Does Not Accept the Alternative Set of Changes.

Cities/M-S-R and TANC point out several minor corrections that should be made to provisions contained in the First Set of Changes.³³ The CAISO

³¹ See transmittal letter for supplemental compliance filing submitted in Docket No. ER06-700-003 on August 9, 2006, at page 3 (citing Section IV.C of Attachment K to the New York ISO Market Services Tariff).

³² Section 205(b) of the Federal Power Act, 16 U.S.C. § 824d(b) states in relevant part that “[n]o public utility shall, with respect to any transmission or sale subject to the jurisdiction of the Commission, . . . make or grant any undue preference or advantage to any person or subject any person to any undue prejudice or disadvantage”

³³ Cities/M-S-R at 12-13; TANC at 9-10.

appreciates Cities/M-S-R and TANC bringing this issue to the CAISO's attention, and agrees that if the Commission does not accept the Alternative Set of Changes but instead accepts the First Set of Changes, the CAISO should make the minor corrections to the First Set of Changes that Cities/M-S-R and TANC suggest.

E. The CAISO Has Submitted a Supplemental Compliance Filing Pursuant to the Status Report Referenced by NCPA.

NCPA notes that the CAISO included in the July 11 Compliance Filing a status report regarding the CAISO's discussions with stakeholders to develop alternative measures for calculating the Unsecured Credit Limits of non-profit entities. NCPA states that it is in essential agreement with the CAISO's status report and is reasonably optimistic that progress has been made in the discussions.³⁴ The status report that NCPA references explained that the CAISO has worked with stakeholders to develop an alternative measure for calculating Unsecured Credit Limits applicable to Local Publicly Owned Electric Utilities as well as an alternative measure for calculating Unsecured Credit Limits applicable to Unrated Governmental Entities.³⁵ On August 9, 2006, subsequent to NCPA's filing of comments in this proceeding, the CAISO submitted a supplemental compliance filing in this proceeding that contains ISO Tariff language to implement these alternative measures. As described therein, the supplemental compliance filing was the end result of a stakeholder process involving a series

³⁴ NCPA at 1.

³⁵ Transmittal Letter for July 11 Compliance Filing at 10-11.

of opportunities for submission of written comments, the posting of CAISO responses, and conference calls with stakeholders, including NCPA.

F. The July 11 Compliance Filing Includes the Correct Version of ISO Tariff Sheet No. 536A.

No party raised the following issue, but the CAISO now provides clarification concerning it for the benefit of the Commission and the parties. In Attachment D to the July 11 Compliance Filing, the CAISO provided a clean ISO Tariff sheet styled as Original Sheet No. 536A, which bore an effective date of May 14, 2006. Subsequently, in an errata filing submitted on July 13, 2006, in Docket No. ER06-723-003, the CAISO included another clean ISO Tariff sheet styled as Original Sheet No. 536A (containing the exact same text as the version of that sheet provided in the July 11 Compliance Filing), which bore an effective date of May 31, 2006. The version of Original Sheet No. 536A provided in the July 11 Compliance Filing is the correct one; the other version of that sheet should be disregarded. The CAISO will serve the instant filing in Docket No. ER06-723 in order to inform parties in that proceeding of the clarification described above.

III. CONCLUSION

For the reasons explained above, the Commission should accept the Alternative Set of Changes provided in Attachment B to the July 11 Compliance Filing without modification.

Respectfully submitted,

Charles F. Robinson
General Counsel
Sidney M. Davies
Assistant General Counsel
The California Independent
System Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630
Tel: (916) 351-4400
Fax: (916) 608-7296

/s/ Sean A. Atkins
Sean A. Atkins
Bradley R. Miliauskas
Alston & Bird LLP
The Atlantic Building
950 F Street, NW
Washington, DC 20004
Tel: (202) 756-3300
Fax: (202) 654-4875

Counsel for the California Independent
System Operator Corporation

Dated: August 16, 2006

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, and upon all parties on the official service list compiled by the Secretary in Docket No. ER06-723, 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 16th day of August, 2006.

/s/ Sidney M. Davies
Sidney M. Davies