

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
Compliance Filing
Docket No. ER98-3760-___

Dear Secretary Salas:

The California Independent System Operator Corporation (“CAISO”) respectfully submits for filing an original and five copies of the instant filing in compliance with the order of the Federal Energy Regulatory Commission (“Commission”) dated September 30, 2005 in the above captioned docket, 112 FERC ¶ 61,350 (2005), (“September 30 Rehearing Order”). That order granted rehearing of the Commission’s November 19, 2004 order in the above-captioned docket, 109 FERC ¶ 61, 183 (2004) (“November 19 Order”), and directed the CAISO to submit its plans for the implementation of competitive procurement of Voltage Support and Black Start services, including a timeline for doing so.

The November 19 Order, which addressed Outstanding Issues concerning ancillary services requirements *et al.* found, regarding Outstanding Issue A.4, that the CAISO Tariff provided for a reasonable means for procuring Black Start and Voltage Support.¹ Further, if additional resources can provide reliable and economical Voltage Support and Black Start services, the Commission encouraged the CAISO to explore those options.² On December 20, 2004, the California Department of Water Resources (“CDWR”) sought rehearing of the November 19 Order on the issue related to the CAISO’s procurement of Voltage Support and Black Start services.

In its request for rehearing, CDWR argued that the Commission’s ruling on Outstanding Issue A.4, that the CAISO Tariff provides the CAISO with a reasonable means for procuring Black Start and Voltage Support services, lacked support. CDWR also argued that the CAISO had agreed to develop a competitive process for obtaining Voltage Support and Black Start services, citing specifically to an October 1997 order in which the Commission conditionally accepted the CAISO Tariff based on an understanding that all available and appropriate resources would compete for contracts to

¹ The November 19 Order specifically cited CAISO Tariff Section 2.5.3.4 and ASRP Section 7.5.1 (wherein the CAISO has the ability to procure necessary Voltage Support as needed).

² 109 FERC ¶61,183 at P 36.

provide such services to the CAISO.³ CDWR also stated that the CAISO anticipated that, by January 1, 1999, it would have a fully functional process by which such services would be competitively bid. CDWR claims that by limiting procurement to RMR units and must offer generation, the CAISO is arbitrarily excluding other service providers, such as CDWR.

In its September 30 Rehearing Order, the Commission, elaborating on the parties' positions in their briefs on Outstanding Issue A.4, found that the CAISO has never disputed its intention to obtain Voltage Support and Black Start services through competitive procurement, a commitment that the Commission cited in the October 1997 Order conditionally authorizing the CAISO's operations. While the Commission found that the Local Area Reliability Service ("LARS") process has represented a good faith effort by the CAISO to competitively procure Voltage Support and Black Start services through a competitive procurement process, it also supported the notion that reliable and economic alternatives exist for the procurement of these services.

Therefore, the Commission granted rehearing on Outstanding Issue A.4 and directed the CAISO to submit its plans for the implementation of competitive procurement of Voltage Support and Black Start services, including a timeline for doing so.

The CAISO, as correctly noted by CDWR, does not dispute its previously stated intent to obtain Voltage Support and Black Start services through competitive procurement. In developing a proposed structure for the competitive procurement of Voltage Support and Black Start services, the CAISO has acknowledged the need for stakeholder input.⁴ However, the Commission correctly recognizes that the CAISO currently has significant time, staff and other resources dedicated to developing and implementing its pending market redesign. Further, a significant amount of work remains to be done researching and evaluating the relevant experience of other control areas and analyzing the technical conference proceedings on reactive power (Voltage Support) held at the Commission last year.⁵ Nevertheless, in compliance with the Commission's September 30 Rehearing Order, the CAISO has begun a process of identifying alternatives to its current procurement strategies for Voltage Support and Black Start services.

After the CAISO identifies potential options and develops a proposed structure for the competitive procurement of Voltage Support and Black Start services, three major steps will need to be undertaken in order to implement a new process, namely 1) conducting a stakeholder process and seeking to achieve conceptual agreement among stakeholders for such process; 2) designing, testing and implementing software, as necessary; and 3) transitioning from the incumbent procurement regime to the new regime.

³ CDWR cites Pacific Gas and Electric Co., 81 FERC ¶ 61,122 at 61,496-67 (1997) ("October 1997 Order").

⁴ 112 FERC ¶ 61,350 at P 14.

⁵ Principles for Efficient and Reliable Reactive Power Supply and Consumption, Docket No. AD05-1-000.

It is difficult for the ISO to estimate a timetable for the implementation of any process for the competitive procurement of Voltage Support and Black Start services until conceptual agreement on the issues has been reached, because this will determine the nature of the software changes that are needed and the subsequent testing and implementation schedule. With the aforementioned caveats in mind as well as the commitments made with respect to stakeholder input, the CAISO respectfully submits the following timetable for developing a structure for competitive procurement of these services:

Date:	Policy Resolution Activities:
Complete by June 30 th 2006	Development of proposed conceptual design for the competitive procurement of Black Start and Voltage Support with stakeholder input.
Complete by September 30 th 2006	Presentation of initial white paper detailing the CAISO proposal – solicitation of stakeholder comments.
Complete by December 30 th 2006	Presentation of revised White Paper.
Complete by March 30 th 2007	Final policy resolution.

The nature of the policy resolution will determine the need for software changes. If the policy resolution requires only minimal changes to the ISO software and procedures, then the implementation possibly can be done within a few months thereafter. If on the other hand, more extensive software changes are needed, then this will have to be coordinated with a software release in the Spring or Fall, sometime after the initial implementation of the CAISO's MRTU project which is currently scheduled for November 1, 2007.

In light of these potential scenarios, the ISO proposes the following structure:

Minimal Software Changes Necessary Implementation in 2008

- March 30th to September 30th 2007: Procurement for 2008

Comprehensive Software Changes Necessary Implementation in 2009

- Complete by September 30th 2007: Detailed Design Specification (DDS)
- Complete by March 30th 2008: Software Development and Factory Acceptance Testing (FAT)
- Complete by June 30th 2008: Site Acceptance Testing (SAT) and final Quality Assurance
- Complete by September 30th 2008 for 2009: Production Software Deployment

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

Respectfully Submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have, this 30th day of January 2006, caused to be served a copy of the forgoing document upon all parties listed on the official service list compiled by the Secretary of the Federal Energy Regulatory Commission in this proceeding.

Geeta O. Tholan ^{BEM}
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