



California Independent  
System Operator Corporation

August 31, 2006

**BY FEDERAL EXPRESS**

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. EL00-95-135 and EL00-98-122**

Dear Secretary Salas:

Enclosed please find an original and fourteen copies of the Offer Of Settlement and Amended Compliance Filing in the above-captioned dockets.

Consistent with Rule 602(c) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.602(c), this filing includes an Offer of Settlement and Explanatory Statement. The settlement would resolve all remaining issues in this proceeding.

In addition, this filing amends the CAISO's August 5, 2005 Compliance Filing in the referenced dockets. The purpose of the Amended Compliance Filing is to effectuate the terms of the Settlement by revising the affected provisions in the Conformed Simplified and Reorganized Tariff currently in effect. Specifically, the CAISO is proposing to amend Tariff Section 9.3.1.1 consistent with the proposed modifications contained in the Settlement Agreement. The CAISO requests that these proposed amendments become effective upon Commission approval.

Copies of this filing have been served on all parties in the above-referenced matters as well as all Scheduling Coordinators, the California Public Utilities Commission, the California Energy Commission, and the California Electricity Oversight Board.

The Honorable Magalie Roman Salas

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Under Rule 602(f)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.602(f)(2), comments on this Offer of Settlement are due no later than September 21, 2006 and reply comments are due no later than October 2, 2006. The CAISO requests adherence to the comment period provided in Rule 602(f)(2) in order to expedite the conclusion of this matter.

Two additional copies of this filing are enclosed to be date-stamped and returned in the enclosed Federal Express envelope.

If you have any questions concerning this filing, please contact the undersigned.

Respectfully submitted,



Beth Ann Burns  
Counsel

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

<b>San Diego Gas &amp; Electric Company,</b>	)	
<b>Complainant,</b>	)	
	)	
	)	Docket No. EL00-95-135
	)	
<b>Sellers of Energy and Ancillary Services</b>	)	
<b>Into Markets Operated by the California</b>	)	
<b>Independent System Operator and the</b>	)	
<b>California Power Exchange,</b>	)	
<b>Respondents.</b>	)	
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<b>Investigation of Practices of the California</b>	)	
<b>Independent System Operator and the</b>	)	Docket No. EL00-98-122
<b>California Power Exchange.</b>	)	
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**EXPLANATORY STATEMENT IN SUPPORT OF  
OFFER OF SETTLEMENT  
AND AMENDED COMPLIANCE FILING**

Pursuant to 18 C.F.R. §385.602(c)(1)(ii), the California Independent System Operator Corporation (“CAISO”) submits this Explanatory Statement<sup>1</sup> in support of the Offer of Settlement that is set forth in the Settlement Agreement, dated August 8, 2006 (“Settlement”), submitted herewith as Attachment A.<sup>2</sup> This Settlement is intended to resolve all remaining issues with respect to the CAISO’s August 5, 2005 Compliance Filing (“August 5 Compliance Filing”) and

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<sup>1</sup> The settlement of the parties is reflected entirely in the Settlement Agreement. This Explanatory Statement is not intended to alter any of the specific provisions of the Settlement Agreement, and is provided solely for purposes of explanation in accordance with the Commission’s rules.

<sup>2</sup> Capitalized terms not otherwise defined herein shall have the same meaning as set forth in the CAISO Tariff, Appendix A, Master Definitions Supplement.

proposed amendment of CAISO Tariff Section 9.3.1.1<sup>3</sup> in the above-captioned proceedings. Because the Settlement proposes changes to the Tariff language contained in the August 5 Compliance Filing, the CAISO is hereby amending that Compliance Filing in order to effectuate the terms of the Settlement.

The CAISO requests that the Federal Energy Regulatory Commission (“FERC” or “Commission”) expeditiously issue an order approving the Settlement so that the amended Tariff provisions and Operating Procedure contemplated in the Settlement may be placed into effect as soon as possible. CDWR-SWP will join this request and express its support for the approval of this Settlement in a response to this filing.

## I. BACKGROUND

In April 2001, the Commission adopted a market monitoring and mitigation plan for the California wholesale energy markets that included, among other measures, increased CAISO authority to coordinate outage scheduling by Generators that have entered into Participating Generator Agreements with the CAISO.<sup>4</sup> The California Department of Water Resources, the State agency responsible for operating the State Water Project (“CDWR-SWP”), challenged the Commission decision on the grounds that the primary purpose of CDWR-SWP’s hydroelectric generation is water management and that extending CAISO authority to the outage schedules of CDWR-SWP’s Participating Generating Units would interfere with the reliability of CDWR-SWP’s system operations and

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<sup>3</sup> This Explanatory Statement and the Settlement cite to provisions in the Conformed Simplified and Reorganized Tariff currently in effect, as discussed further below.

<sup>4</sup> See *San Diego Gas & Electric Co. v. Sellers of Energy and Ancillary Services*, 95 FERC ¶ 61,115, *order on reh’g*, 95 FERC ¶ 61,418 (2001).

water delivery. By Order on Rehearing dated June 19, 2001, the Commission affirmed the CAISO's authority to coordinate outage scheduling for Participating Generating Units, including those of CDWR-SWP.<sup>5</sup>

CDWR-SWP petitioned for review of those Commission orders. CDWR-SWP argued that the Commission did not adequately respond to CDWR-SWP's position that the CAISO should not control the outage schedules of CDWR-SWP's Participating Generating Units in the same way it controls the outages other Generators. On August 27, 2003, the U.S. Court of Appeals for the Ninth Circuit vacated and remanded the Commission's orders in pertinent part.<sup>6</sup> The Court found that the Commission had not addressed the significance of the differences between CDWR-SWP, whose primary mission is to deliver water, and merchant generators, whose primary function is to generate and distribute electricity, and had not explained why exempting hydroelectric facilities from the must-offer requirement was appropriate while not exempting CDWR-SWP's Participating Generating Units from the outage coordination procedures.

On June 22, 2004, the Commission on remand recognized the challenges CDWR-SWP faces, above and beyond other Generators, in balancing multiple uses of water and maintaining the operational integrity of water system.<sup>7</sup> The Commission noted the many options the CAISO has at its disposal to maintain reliability of the electric system and concluded that CAISO control over the

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<sup>5</sup> *Id.*

<sup>6</sup> *California Department of Water Resources v. FERC*, 342 F.3d 906 (9th Cir. 2003), *reh'g denied*, 361 F.3d 517 (9th Cir. 2004).

<sup>7</sup> *San Diego Gas & Electric Co. v. Sellers of Energy and Ancillary Services*, 107 FERC ¶ 61,294 (2004).

planned outages of CDWR-SWP's Participating Generating Units was not necessary. It directed the CAISO to exempt those units from CAISO planned outage approval requirements, but maintain relevant reporting requirements, such as providing information to the CAISO about the timing of maintenance and forced outages at CDWR-SWP Participating Generating Units.

The CAISO submitted the required filing to revise its Tariff in compliance with June 22, 2004 Order on Remand, and sought rehearing of that order. The CAISO requested that the Commission reverse its decision to exempt CDWR-SWP Participating Generating Units from CAISO outage control and coordination because it threatened the reliability of the CAISO Controlled Grid without providing a particular water delivery-related benefit to CDWR-SWP. On August 23, 2004, the Commission granted rehearing for further consideration. By Order on Rehearing dated December 21, 2004, the Commission provided the opportunity for interested parties to comment on the issues raised in the CAISO's rehearing request and provide supporting material to assist the Commission in ruling on the issues.<sup>8</sup> Both CDWR-SWP and the CAISO filed comments.

Based on its review of the comments filed by the parties, the Commission on July 5, 2005 issued an Order on Rehearing and Compliance Filing that granted rehearing in part to allow the CAISO a degree of control over the outage schedule for CDWR-SWP Participating Generator facilities.<sup>9</sup> The Commission

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<sup>8</sup> *San Diego Gas & Electric Co. v. Sellers of Energy and Ancillary Services*, 109 FERC ¶ 61,306 (2004). CDWR-SWP requested rehearing of this order. That request was dismissed as premature under Rule 713. *San Diego Gas & Electric Co. v. Sellers of Energy and Ancillary Services*, 110 FERC ¶ 61,306 (2005).

<sup>9</sup> *San Diego Gas & Electric Co. v. Sellers of Energy and Ancillary Services*, 112 FERC ¶ 61,024 (2005).

found that CDWR-SWP's water management responsibilities will not be compromised by submitting a proposed outage schedule required by the CAISO for each calendar year, with quarterly updates, but that the CAISO's ability to cancel approved outages CDWR-SWP Participating Generating Units should be more limited than allowed in the Tariff and protocol provisions then in effect.

Specifically, the Commission held that:

Given the importance of maintaining the integrity of the water system and DWR's additional challenges in balancing multiple uses of its water, we will not allow the CAISO to deny an outage request or cancel DWR's approved outages in order to secure "efficient use" of the CAISO Controlled Grid (in other words, for economic reasons) or for reasons of "market impact"; such actions will only be permitted in order to ensure system reliability. Further, if DWR determines that an action of the Outage Coordination Office will result in a violation of any law affecting hydroelectric operations (such as minimum and maximum dam reservoir levels and instream flows) or compromise DWR's ability to deliver water to its customers, the CAISO must first use every other option at its disposal to avoid a reliability problem before rejecting an outage request or requiring DWR to cancel any approved outage.<sup>10</sup>

The Commission directed the CAISO to amend its July 22, 2004 Compliance Filing consistent with this decision.

The CAISO submitted the required Compliance Filing on August 5, 2005, which gave rise to comments and a protest by CDWR-SWP on September 6, 2005, and an answer by the CAISO on September 21, 2005.

In an effort to resolve this long-standing matter, the CAISO and CDWR-SWP undertook settlement discussions under the auspices of FERC's Dispute Resolution Service that resulted in this Settlement. The Settlement resolves all outstanding issues associated with the CAISO's August 5, 2005 compliance

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<sup>10</sup> *Id.* at 61,170.

filing.

## **II. SUMMARY OF THE SETTLEMENT TERMS**

The Settlement is founded on the principle that the CAISO has fundamental responsibility to manage and maintain the reliable operation of the electric grid while CDWR-SWP has corresponding responsibility to manage the State's water system and deliver water. The Settlement proposes a process for handling CDWR-SWP Participating Generator outages that will allow each party to continue to fulfill its operational responsibilities and at the same time assist the other party in maintaining the reliability of its system.

Under the terms of the settlement, the CAISO Tariff provisions that provide for CAISO approval and coordination of scheduled and forced outages by Participating Generators will be applicable to the CDWR-SWP Participating Generating Units. CDWR-SWP, however, will have a new option to designate certain outages as necessary for statutory compliance or water system reliability.

In an outage schedule, outage request, or request to change or cancel an Approved Maintenance Outage that it submits to the CAISO for a CDWR-SWP Participating Generating Unit in accordance with CAISO Tariff Section 9.3, CDWR-SWP may indicate that the proposed maintenance work, and/or the timing of the outage is necessary in order to:

- a. Comply with various federal and State legal and regulatory requirements that govern stream flow, water temperature, water quality and quantity, flood control space, after-bay, reservoir, or lake elevation, and other environmental and wildlife constraints

(“CDWR-SWP Statutory Compliance Outage”); or

- b. Maintain reliable operations of critical water infrastructure and not impair its ability to satisfy water delivery or conservation requirements (“CDWR-SWP Water System Reliability Outage”).

The CAISO will not deny, cancel, or reschedule a CDWR-SWP Statutory Compliance or Water System Reliability Outage, provided that the outage request is timely, designates the outage as a CDWR-SWP Statutory Compliance or Water System Reliability Outage by an appropriate cause code, and includes a description of the requirement or constraint.

The CAISO may nevertheless contact CDWR to inquire whether the timing of a CDWR-SWP Statutory Compliance or Water System Reliability Outage can be changed. CDWR may agree to the change or, after making best efforts to accommodate the change, may notify the CAISO that the change is not feasible. In that event, the CAISO will not deny, cancel, or reschedule that CDWR-SWP Statutory Compliance or Water System Reliability Outage.

Any outage that CDWR-SWP submits to the CAISO in an outage schedule, outage request, or request to change or cancel an Approved Maintenance Outage that is not timely; does not contain a cause code identifying the outage as a CDWR-SWP Statutory Compliance or Water System Reliability Outage or does not include a description of the asserted requirement or constraint will be processed by the CAISO under the otherwise applicable provisions of CAISO Tariff Section 9.3 and Operating Procedures.

Attachment 1 to the Settlement Agreement contains proposed modifications to the provisions of the CAISO Tariff to implement the terms of the Settlement. Those proposed Tariff changes will be discussed in the next section of this filing. It should also be noted, however, that conforming changes related to CDWR outages will be made to Operating Procedure T-113J, as set forth in Attachment 2 to the Settlement Agreement, which will become effective on the same date as the Tariff modifications are approved by FERC and made effective.

The CAISO submits that these Settlement terms will establish a fair and reasonable process for handling CDWR-SWP Participating Generator outages that will allow both the CAISO and CDWR-SWP to continue to fulfill their operational responsibilities and at the same time assist the other party in maintaining the reliability of its system. In addition, approval of the Settlement will fully resolve the remaining issues in this docket and will conclude long-standing litigation, thereby saving the parties the incurrence of further expense for continued litigation. The CAISO, accordingly, requests that the Commission approve this Settlement in its entirety as being in the public interest.

### **III. ADDITIONAL INFORMATION RELATED TO THE SETTLEMENT**

#### **A. What are the issues underlying the Settlement and what are the major implications?**

The factual and procedural background of these proceedings, the issues underlying the proceedings, and the major implications of the proceedings are summarized in Sections I and II above. The Settlement resolves all issues between the settling parties and all issues remaining in these dockets.

**B. Whether any of the issues raise policy implications?**

The Settlement furthers the broad public interest favoring settlements.<sup>11</sup>

**C. Whether other pending cases may be affected?**

The CAISO does not believe that the Settlement affects any other pending cases.

**D. Whether the Settlement involves issues of first impression, or if there are any previous reversals on the issues involved?**

The procedural history and precedent related to the issues involved in the Settlement are discussed in Section I. The Settlement resolves all issues remaining from the August 27, 2003 remand by the U.S. Court of Appeals for the Ninth Circuit in *California Department of Water Resources v. FERC*, 342 F.3d 906 (9th Cir. 2003), *reh'g denied*, 361 F. 3d 517 (9th Cir. 2004).

**E. Whether the proceeding is subject to the just and reasonable standard or whether there is *Mobile-Sierra* language making it the standard, i.e., the applicable standards of review?**

The CAISO intends the just and reasonable standard of review to apply to this Settlement.

**IV. AMENDED COMPLIANCE FILING**

The CAISO is also amending its August 5 Compliance Filing in order to effectuate the terms of the Settlement and to conform the affected Tariff provisions to the CAISO's Conformed Simplified and Reorganized Tariff currently in effect. The CAISO requests that the Commission not only approve the attached Offer of Settlement but also the revised Compliance Filing attached hereto.

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<sup>11</sup> See *Southern Union Gas Co. v. FERC*, 840 F.2d 964, 971 (D.C. Cir. 1988).

The CAISO filed its Simplified and Reorganized Tariff on September 22, 2005 for the purpose of revising its prior Tariff by: (1) merging the Protocols into the ISO Tariff where similar issues are addressed; (2) deleting duplicative provisions; (3) undertaking additional reorganization to consolidate tariff language addressing similar issues; and (4) retaining certain separate, on file Protocols that cover specific issues not addressed elsewhere in the CAISO Tariff. The Simplified and Reorganized Tariff was accepted by the Commission as of March 1, 2006. See *Cal. Independ. Sys. Operator Corp.*, 114 FERC ¶ 61,199 (February 24, 2006). On August 18, 2006, the CAISO published the Conformed Simplified and Reorganized Tariff to reflect effective language and compliance filings approved by FERC as of that date. As a result of the reorganization, the CAISO Tariff provision that had been at issue in this proceeding, i.e., Section 2.3.3.1.1, has been renumbered to be Section 9.3.1.1.

The CAISO is proposing to amend Section 9.3.1.1 to reflect the proposed modifications to the CAISO Tariff contained in Attachment 1 to the Settlement Agreement. Section 9.3.1.1, as amended, addresses the coordination of maintenance Outages of CDWR-SWP Participating Generating Units. It provides that Section 9.3 applies to CDWR-SWP Participating Generating Units and that the submission by CDWR-SWP of an Outage schedule, Outage request, or request to change or cancel an Approved Maintenance Outage, and the CAISO's treatment of those Outage schedules and requests, is governed by Section 9.3, except as otherwise provided in Section 9.3.1.1.1

Under new Section 9.3.1.1.1(a), CDWR-SWP is required to state in each Outage schedule or request whether the proposed maintenance work, and/or the timing of the Outage is necessary as a CDWR-SWP Statutory Compliance Outage or Water System Reliability Outage, as those categories of outages are defined in Sections 9.3.1.1.1(a)(i) and (a)(ii). Proposed Section 9.3.1.1.1(b) describes the format and information CDWR-SWP must submit for a Statutory Compliance or Water System Reliability Outage. It also requires CDWR-SWP to notify the CAISO in the event the designation of an Outage changes, or the Outage no longer meets the criteria of Section 9.3.1.1.1(a)(i) or (ii).

Section 9.3.1.1.1(c) prohibits the CAISO from denying, canceling, or rescheduling a CDWR-SWP Statutory Compliance or Water System Reliability Outage, provided that the Outage request is timely, includes an appropriate cause code and includes a description of the requirement or constraint. Under Section 9.3.1.1.1(d), the CAISO may contact CDWR-SWP to inquire whether the timing of a Statutory Compliance or Water System Reliability Outage can be changed and CDWR-SWP may agree to the change or, after making best efforts to accommodate the change, may notify the ISO that the change is not feasible, in which case the Outage can not be denied, cancelled, or rescheduled.

Proposed Section 9.3.1.1.1(e) covers CDWR-SWP Participating Generator outages that do not meet the criteria for Statutory Compliance or Water System Reliability Outages and provides that those Outages will be processed under the otherwise applicable provisions of Section 9.3 and CAISO Operating Procedures.

Clean Tariff sheets reflecting the above language are included with this filing as Attachment B. Blackline sheets showing the changes to the currently effective Conformed Simplified and Reorganized Tariff are included as Attachment C. These provisions will become effective upon Commission approval.

The CAISO is serving copies of this Explanatory Statement In Support Of Offer Of Settlement, Offer of Settlement And Amended Compliance Filing on all parties on the official service list for the captioned dockets. Further, because this filing proposes changes to the CAISO Tariff, the CAISO is also serving copies of the filing on the following entities: the California Public Utilities Commission, the California Energy Commission, the California Electricity Oversight Board, and all parties with effective Scheduling Coordinator Agreements under the CAISO Tariff. In addition, the CAISO is posting this filing on its website.

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## V. CONCLUSION

For the foregoing reasons, the CAISO requests that the Commission find that the Settlement is fair and reasonable, and in the public interest, and approve it and the amended compliance filing without modification.

Respectfully submitted,



Charles F. Robinson  
General Counsel  
Anthony J. Ivancovich  
Assistant General Counsel-Regulatory  
Beth Ann Burns  
Counsel  
California Independent System  
Operator Corporation  
151 Blue Ravine Road  
Folsom, CA 95630  
916-608-7146 – telephone  
916-608-7222 – facsimile

**ATTACHMENT A**

## SETTLEMENT AGREEMENT

This Settlement Agreement is made and entered into this August 8, 2006, ("Effective Date"), by and between the California Department of Water Resources ("CDWR"), a State agency responsible for operating critical water infrastructure for the benefit of the people of the State of California, and the California Independent System Operator Corporation ("CAISO"), a State chartered, nonprofit public benefit corporation responsible for the operation of California's critical energy infrastructure (electric transmission grid) and wholesale energy markets (hereinafter referred to collectively as "Parties" and individually as "Party").

**Whereas**, CDWR operates the State Water Project ("SWP"), a storage and delivery system of reservoirs, aqueducts, pumping plants, and hydroelectric generating plants, in accordance with State and federal regulatory requirements pertaining to the delivery of water, environmental protection and flood management.

**Whereas**, CDWR uses some of the power it produces to meet SWP pump load, sells and exchanges some of the power through bilateral transactions, and sells the remaining power into the CAISO's wholesale markets to the extent that its water-management responsibilities permit.

**Whereas**, the CAISO operates the CAISO's Controlled Grid and the CAISO Market under the jurisdiction of the Federal Energy Regulatory Commission ("FERC" or "Commission") and in accordance with the provisions of the CAISO Tariff.

**Whereas**, CDWR and the CAISO have entered into a Participating Generator Agreement ("PGA") under which specified SWP generating units ("CDWR-SWP Participating Generating Units") schedule Energy or Ancillary Services through a Scheduling Coordinator over the CAISO Controlled Grid, and/or submit bids in the CAISO's Market, and comply with all applicable provisions of the CAISO Tariff.

**Whereas**, in FERC Docket No. EL00-95-135, et al., and on appeal to the U.S. Court of Appeals for the Ninth Circuit, Docket No. 01-71405, CDWR and the CAISO

have litigated and continue to dispute the extent to which CAISO Tariff provisions and operating procedures that provide for CAISO approval and coordination of scheduled and forced outages by Participating Generators should be applicable to CDWR-SWP Participating Generating Units.

**Whereas**, the Parties agreed to submit the matter to mediation with the Commission's Dispute Resolution Service ("DRS") in an effort to resolve pending issues and end the protracted litigation.

**Whereas**, the Parties undertook mediation with DRS on February 7 and 8, 2006, and discussed this matter; and

**Whereas**, the Parties have reached settlement of this matter and desire to resolve the dispute and to avoid future claims relating to it as provided in this Settlement Agreement.

**Now, therefore**, in consideration of the mutual covenants contained herein, and for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

## I. SETTLEMENT

### A. CDWR Outage Requests

1. The CAISO Tariff provisions that provide for CAISO approval and coordination of scheduled and forced outages by Participating Generators shall be applicable to the CDWR-SWP Participating Generating Units as set forth in this Settlement Agreement, subject to FERC approval, as provided in Paragraphs II(A) and (B).

2. In each outage schedule, outage request, and request to change or cancel an Approved Maintenance Outage that it submits to the CAISO for a CDWR-SWP Participating Generating Unit in accordance with CAISO Tariff Section 9.3, CDWR will

state whether it has determined the proposed maintenance work, and/or the timing of the outage, is necessary in order for SWP to:

- a. Comply with various federal and State legal and regulatory requirements that govern stream flow, water temperature, water quality and quantity, flood control space, after-bay, reservoir, or lake elevation, and other environmental and wildlife constraints ("CDWR-SWP Statutory Compliance Outage"); or
- b. Maintain reliable operations of critical water infrastructure and not impair its ability to satisfy water delivery or conservation requirements ("CDWR-SWP Water System Reliability Outage").

3. CDWR will identify each CDWR-SWP Statutory Compliance or Water System Reliability Outage by designating the outage type with an appropriate cause code in the outage schedule, outage request, or request to change or cancel an Approved Maintenance Outage and will provide a description of the requirement or constraint that indicates which of the items in I(A)(2)(a) or I(A)(2)(b) is triggering the outage. If the designation of an outage changes, or the outage no longer meets the criteria of Paragraph I(A)(2)(a) or I(A)(2)(b), CDWR will notify the CAISO about this change in status as soon as practical but no more than one business day after the change in status occurs.

4. In the event that the CAISO contacts CDWR to inquire whether the timing of an CDWR-SWP Statutory Compliance or Water System Reliability Outage can be changed, CDWR may agree to the change or, after making best efforts to accommodate the change, notify the CAISO that the change is not feasible as determined by CDWR-

SWP in its sole discretion due to the described requirement or constraint.

5. CDWR agrees that any outage it submits to the CAISO in an outage schedule, outage request, or request to change or cancel an Approved Maintenance Outage that is not timely; does not contain a cause code identifying the outage as a CDWR-SWP Statutory Compliance or Water System Reliability Outage or does not include a description of the asserted requirement or constraint will be processed by the CAISO under the otherwise applicable provisions of CAISO Tariff Section 9.3 and Operating Procedures.

6. CDWR will train current SWP operations personnel on the process for submitting CDWR-SWP Statutory Compliance or Water System Reliability Outages to the CAISO and on the modifications to the provisions of the CAISO Tariff and Operating Procedures that result from this Settlement Agreement and will train new employees that are involved in the process.

**B. CAISO Coordination of Outages at CDWR-SWP Participating Generating Units**

1. The CAISO will not deny, cancel, or reschedule a CDWR-SWP Statutory Compliance or Water System Reliability Outage that CDWR submits to the CAISO in an outage schedule, outage request, or request to change or cancel an Approved Maintenance Outage, provided that the outage request is timely, designates the outage as a CDWR-SWP Statutory Compliance or Water System Reliability Outage by an appropriate cause code, and includes a description of the requirement or constraint, as provided in Paragraphs I(A)(2)(a) and I(A)(2)(b).

2. The CAISO may contact CDWR to inquire whether the timing of a CDWR-SWP Statutory Compliance or Water System Reliability Outage can be changed. In the

event that CDWR informs the CAISO that the change is not feasible due to the requirement or constraint, the CAISO will not deny, cancel, or reschedule that CDWR-SWP Statutory Compliance or Water System Reliability Outage.

3. The CAISO will process any outage that CDWR submits in an outage schedule, outage request, or request to change or cancel an Approved Maintenance Outage that is not timely, does not contain a cause code identifying the outage as an SWP Statutory Compliance or Water System Reliability Outage, or does not include a description of the asserted requirement or constraint, under the otherwise applicable provisions of CAISO Tariff Section 9.3 and Operating Procedures.

4. The CAISO will train current CAISO Outage Coordination and Real-Time Operations personnel on the process for handling CDWR-SWP Statutory Compliance and Water System Reliability Outages and on the modifications to the provisions of the CAISO Tariff and Operating Procedures that result from this Settlement Agreement and will train new employees that are involved in the process.

## **II. IMPLEMENTATION**

### **A. Joint Filing of Settlement**

The Parties will jointly file this Settlement Agreement in FERC Docket No. EL00-95-135, et al., and seek Commission approval or acceptance of the settlement and the proposed modifications to the provisions of the CAISO Tariff contained in Attachment 1 to this Settlement Agreement.

### **B. Revisions to CAISO Tariff and Outage Coordination Protocol**

The proposed modifications to the provisions of the CAISO Tariff contained in Attachment 1 to the Settlement Agreement will be implemented as approved by FERC

and made effective.

**C. Revisions to Operating Procedure T-113J**

1. The proposed modifications to Operating Procedure T-113J that relate to CDWR outages, as contained in Attachment 2 to this Settlement Agreement, will become effective on the same date as the provisions of the CAISO Tariff contained in Attachment 1 to this Settlement Agreement are approved by FERC and made effective.

2. In the event that FERC issues an order that modifies this Settlement Agreement, in whole or in part, in a manner that is not consistent with the provisions proposed in Operating Procedure T-113J, either Party may elect to terminate this Settlement Agreement. If both Parties elect not to terminate the Settlement Agreement, the Parties will work cooperatively together through the Commission's DRS to modify and implement those provisions in a manner that conforms with FERC's order.

3. After the provisions in Operating Procedure T-113J that relate to CDWR outages become effective, the CAISO will not delete or otherwise modify those provisions without providing written notice and a copy of the proposed changes to CDWR at least 30 days in advance of the date the revision is proposed to take effect. If CDWR does not agree to these changes, CDWR may initiate good faith negotiations with the CAISO under CAISO Tariff Section 13. The Parties will work cooperatively in the good faith negotiations to arrive at a mutually agreed upon revision to Operating Procedure T-113J and may seek the assistance of the Commission's DRS if resolution is not otherwise achieved.

### **III. TERM AND TERMINATION**

#### **A. Term**

This Settlement Agreement shall become effective immediately upon execution on the Effective Date and shall continue in effect until terminated.

#### **B. Termination**

This Settlement Agreement shall terminate when any of the following events occur:

1. In the event that FERC issues an order that rejects or modifies, in whole or in part, the Settlement Agreement, including Attachment 1, in a manner not acceptable to a Party, that Party may elect to terminate the Settlement Agreement upon 30 days advance written notice to the other Party.

2. If any term, covenant, or condition of this Settlement Agreement or the application or effect of any such term, covenant, or condition is held invalid as to any person, entity, or circumstance, is determined to be unjust, unreasonable, unlawful, imprudent, or otherwise not in the public interest by any court or government agency of competent jurisdiction, or is inconsistent with any federal or state law or an Order of the Commission, either Party may terminate this Settlement Agreement upon 30 days advance written notice to the other Party.

3. Either Party may terminate this Settlement Agreement upon 90 days advance written notice to the other Party.

### **IV. DEFINITIONS AND INTERPRETATION**

#### **A. Master Definitions Supplement**

Except as otherwise defined herein, all terms and expressions used in this

Settlement Agreement with initial capitalization shall have the same meaning as those contained in the CAISO Tariff, Appendix A, Master Definitions Supplement.

**B. Rules of Interpretation**

The following rules of interpretation and conventions shall apply to this Settlement Agreement:

1. If and to the extent a matter is specifically addressed by a provision of this Settlement Agreement, the provision of this Settlement Agreement shall govern notwithstanding any inconsistent provisions of the CAISO Tariff;

2. If and to the extent this Settlement Agreement provides that a matter shall be determined in accordance with the applicable provisions of the CAISO Tariff, the applicable provisions of the CAISO Tariff shall govern;

3. The singular shall include the plural and vice versa;

4. The masculine shall include the feminine and neutral and vice versa;

5. "Includes" or "including" shall mean "including without limitation";

6. References to a Paragraph shall mean a Paragraph of this Settlement Agreement, as the case may be, unless the context otherwise requires;

7. A reference to a given agreement or instrument shall be a reference to that agreement or instrument as modified, amended, supplemented or restated through the date as of which such reference is made;

8. Unless the context otherwise requires, references to any law shall be deemed references to such law as it may be amended, replaced or restated from time to time;

9. Unless the context otherwise requires, any reference to a "person" includes any individual, partnership, firm, company, corporation, joint venture, trust, association, organization or other entity, in each case whether or not having separate legal personality;

10. Unless the context otherwise requires, any reference to a "Party" includes a reference to its permitted successors and assigns;

11. Any reference to a day, week, month or year is to a calendar day, week, month or year; and

12. The captions and headings in this Settlement Agreement are inserted solely to facilitate reference and shall have no bearing upon the interpretation of any of the terms and conditions of this Settlement Agreement.

## **V. GENERAL PROVISIONS**

### **A. Assignments**

Either Party may assign or transfer any or all of its rights and/or obligations under this Settlement Agreement with the other Party's prior written consent in accordance with CAISO Tariff Section 22.2. Such consent shall not be unreasonably withheld. Any such transfer or assignment shall be conditioned upon the successor in interest accepting the rights and/or obligations under this Settlement Agreement as if said successor in interest was an original Party to this Settlement Agreement.

This Settlement Agreement shall be binding upon and for the benefit of any of the Parties and their successors and assigns. Nothing in this Settlement Agreement shall be construed or interpreted to impart any rights or obligations to any third party (other than a permitted successor or assignee bound to this Settlement Agreement).

**B. Notices**

Any notice, demand or request which may be given to or made upon either Party regarding this Settlement Agreement shall be made in accordance with CAISO Tariff Section 22.4 and provided to the other Party's representatives as listed in Schedule 1 to this Settlement Agreement. Any changes to the contact information listed in Schedule 1 to this Settlement Agreement shall be provided in writing to the other Party and shall not constitute an amendment to this Settlement Agreement.

**C. Waivers**

Any waivers at any time by either Party of its rights with respect to any default under this Settlement Agreement, or with respect to any other matter arising in connection with this Settlement Agreement, shall not constitute or be deemed a waiver with respect to any subsequent default or other matter arising in connection with this Settlement Agreement. Any delay, short of the statutory period of limitations, in asserting or enforcing any right under this Settlement Agreement shall not constitute or be deemed a waiver of such right.

**D. Governing Law and Forum**

This Settlement Agreement shall be deemed to be a contract made under, and for all purposes shall be governed by and construed in accordance with, the laws of the State of California, except its conflict of laws provisions. The Parties irrevocably consent that any legal action or proceeding arising under or relating to this Settlement Agreement to which the CAISO ADR Procedures do not apply, shall be brought in any of the following forums, as appropriate: a court of the State of California in and for the County of Sacramento, California; or, where subject to its jurisdiction, before the FERC.

**E. Consistency with Federal Laws and Regulations**

This Settlement Agreement shall incorporate by reference CAISO Tariff Section 22.9 as if the references to the CAISO Tariff were referring to this Settlement Agreement.

**F. Merger**

This Settlement Agreement constitutes the complete and final agreement of the Parties with respect to the subject matter hereto and supersedes all prior negotiations or proposed agreements, whether written or oral, with respect to such subject matter.

**G. Construction**

The language of this Settlement Agreement shall be construed as a whole, according to its fair meaning and intent, and not strictly for or against any Party, regardless of who drafted or was principally responsible for drafting this Settlement Agreement or any specific terms or conditions hereof. This Settlement Agreement shall be construed as having been drafted by both Parties, and neither Party shall claim otherwise.

**H. Amendment**

The language of this Settlement Agreement may not be altered, amended, modified or otherwise changed in any respect whatsoever except by a writing duly executed by an authorized representative of each of the Parties. Amendments that require FERC approval, if any, shall not take effect until FERC has accepted such amendments for filing and made them effective.

**I. Severability**

If any term, covenant, or condition of this Settlement Agreement or the

application or effect of any such term, covenant, or condition is held invalid as to any person, entity, or circumstance, is determined to be unjust, unreasonable, unlawful, imprudent, or otherwise not in the public interest by any court or government agency of competent jurisdiction, or is inconsistent with any federal or State law or an Order of the Commission, and the Parties elect not to terminate this Settlement Agreement, then such term, covenant, or condition shall remain in force and effect to the maximum extent permitted by law, and all other terms, covenants, and conditions of this Settlement Agreement and their application shall not be affected thereby, but shall remain in force and effect and the Parties shall be relieved of their obligations only to the extent necessary to eliminate such regulatory or other determination unless a court or governmental agency of competent jurisdiction holds that such provisions are not separable from all other provisions of this Settlement Agreement.

**J. Non-Precedential Effect of Settlement Agreement**

This Settlement Agreement is non-precedential with respect to any pending or future proceeding, and its terms may not be referred to in any pending or future proceeding before FERC or any court or other forum for the purpose of supporting or opposing any specific approach to any issue. Notwithstanding the foregoing, this Settlement Agreement may be pleaded as a full and complete defense to any claim that may be instituted or attempted in breach of this Settlement Agreement. Either Party may refer to and introduce this Settlement Agreement in a pending matter or in any future case or other proceeding for the purpose of obtaining any required regulatory approval of the Settlement Agreement or enforcing the rights and obligations established by this Settlement Agreement.

**K. Settlement Discussions Privileged**

The discussions between the Parties that have produced this Settlement Agreement, before, during, and after the mediation held on February 7 and 8, 2006, have been conducted on the explicit understanding that all offers of settlement and any comments on these offers are privileged under rules protecting settlement negotiations and not admissible as evidence against any Party which objects to their admission and that any discussion of the Parties with respect to offers of settlement is not subject to discovery or admissible in evidence.

**L. Warranties**

Each Party warrants that: (1) it is represented by competent counsel with respect to this Settlement Agreement and all matters covered by it; (2) it has been fully advised by said counsel with respect to its rights and obligations and with respect to the execution of this Settlement Agreement; and (3) no promise, inducement or agreement not expressed herein has been made in connection with this Settlement Agreement.

**M. Authority**

Each Party represents and warrants that it has the full power and authority to enter into this Settlement Agreement and to perform transactions, duties and obligations herein set forth. Each signatory to this Settlement Agreement who signs on behalf of a Party represents and warrants that he or she has the authority to sign on behalf of that Party.

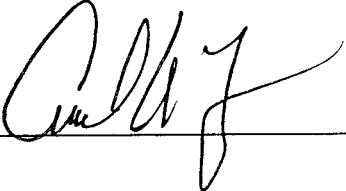
**N. Counterparts**

This Settlement Agreement may be executed in one or more counterparts at different times, each of which shall be regarded as an original and all of which, taken

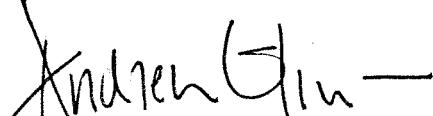
together, shall constitute one and the same Settlement Agreement. Any signature page of this Settlement Agreement may be detached from any counterpart without impairing the legal effect of any signatures thereon, and may be attached to another counterpart identical in form hereto but having attached to it one or more signature pages. This Settlement Agreement shall not take effect until each Party has signed a counterpart.

**IN WITNESS WHEREOF**, the Parties have caused this Settlement Agreement to be executed by their duly authorized representatives as of the Effective Date.

**CALIFORNIA DEPARTMENT OF  
WATER RESOURCES**

By: 

Approved as to form and legal sufficiency

  
Andrew H. Lin  
DWR Legal Counsel

**CALIFORNIA INDEPENDENT SYSTEM  
OPERATOR CORPORATION**

By: \_\_\_\_\_

together, shall constitute one and the same Settlement Agreement. Any signature page of this Settlement Agreement may be detached from any counterpart without impairing the legal effect of any signatures thereon, and may be attached to another counterpart identical in form hereto but having attached to it one or more signature pages. This Settlement Agreement shall not take effect until each Party has signed a counterpart.

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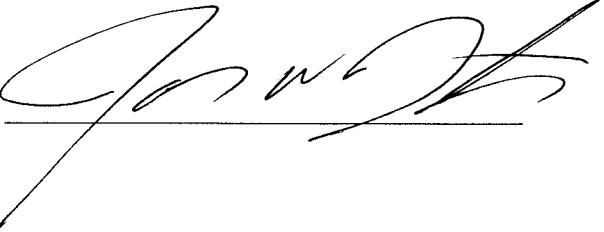
**CALIFORNIA DEPARTMENT OF  
WATER RESOURCES**

By: \_\_\_\_\_

Approved as to form and legal sufficiency

\_\_\_\_\_  
DWR Legal Counsel

**CALIFORNIA INDEPENDENT SYSTEM  
OPERATOR CORPORATION**

By: 

**CDWR-SWP AND CAISO  
SETTLEMENT AGREEMENT  
PROPOSED TARIFF LANGUAGE**

**MASTER DEFINITIONS SUPPLEMENT**

**CDWR-SWP**

The California Department of Water Resources, State Water Project.

**CDWR-SWP Participating Generating Units**

The Generating Units operated by the California Department of Water Resources, State Water Project, that are subject to a Participating Generator Agreement with the ISO.

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**9.3.1.1 Coordinating Maintenance Outages of CDWR-SWP Participating Generating Units.**

The provisions of Section 9.3 shall apply to CDWR-SWP Participating Generating Units. The submission by CDWR-SWP of an Outage schedule, Outage request, or request to change or cancel an Approved Maintenance Outage, and the ISO's treatment of Outage schedules and requests relating to CDWR-SWP Participating Generating Units, shall be in accordance with Section 9.3, except as otherwise provided in Section 9.3.1.1.1

**9.3.1.1.1 Coordinating Maintenance Outages of CDWR-SWP**

a. In each Outage schedule, Outage request, and request to change or cancel an Approved Maintenance Outage that CDWR-SWP submits to the ISO for a CDWR-SWP Participating Generating Unit, CDWR-SWP will state whether CDWR-SWP has determined that the proposed maintenance work, and/or the timing of the Outage, is necessary in order for CDWR-SWP to:

- i. Comply with various federal and state legal and regulatory requirements that govern stream flow, water temperature, water quality and quantity, flood control space, after-bay, reservoir, or lake elevation, and other environmental and wildlife constraints ("CDWR-SWP Statutory Compliance Outage"); or
- ii. Maintain reliable operations of critical water infrastructure and not impair its ability to satisfy water delivery or conservation requirements ("CDWR-SWP Water System Reliability Outage").

b. CDWR-SWP will identify each CDWR-SWP Statutory Compliance or Water System Reliability Outage by designating the Outage with an appropriate cause code in the Outage schedule, Outage request, or request to change or cancel an Approved Maintenance Outage and will provide a description of the requirement or constraint. If the designation of an Outage changes, or the Outage no longer meets the criteria of Section 9.3.1.1.1(a)(i) or (ii), CDWR-SWP will notify the ISO about this change in status as soon as practical but no more than one business day after it occurs.

c. The ISO will not deny, cancel, or reschedule a CDWR-SWP Statutory Compliance or Water System Reliability Outage that CDWR-SWP submits to the ISO in

an Outage schedule, Outage request, or request to change or cancel an Approved Maintenance Outage, provided that the Outage request is timely, designates the Outage as a CDWR-SWP Statutory Compliance or Water System Reliability Outage by an appropriate cause code and includes a description of the requirement or constraint.

d. The ISO may contact CDWR-SWP to inquire whether the timing of a CDWR-SWP Statutory Compliance or Water System Reliability Outage can be changed. CDWR-SWP may agree to the change or, after making best efforts to accommodate the change, may notify the ISO that the change is not feasible as determined by CDWR-SWP in its sole discretion due to the described requirement or constraint. In the event that CDWR-SWP determines that changing the timing of the Outage is not feasible due to the described requirement or constraint, the ISO will not deny, cancel, or reschedule that CDWR-SWP Statutory Compliance or Water System Reliability Outage.

e. The ISO will process any Outage that CDWR-SWP submits in an Outage schedule, Outage request, or request to change or cancel an Approved Maintenance Outage, that is not timely, does not contain a cause code identifying the Outage as a CDWR-SWP Statutory Compliance or Water System Reliability Outage or does not include a description of the requirement or constraint, under the otherwise applicable provisions of ISO Tariff Section 9.3 and ISO Operating Procedures.

 <b>CALIFORNIA ISO</b> <small>California Independent System Operator</small>	<b>Operating Procedure Attachment J</b>	<b>Procedure No.</b>	T-113J
		<b>Version No.</b>	1.0
		<b>Effective Date</b>	TBD
<b>CDWR-SWP System</b>		<b>Distribution Restriction: Proprietary</b>	

**Facilities,  
operating  
concerns and  
electric  
system  
interfaces**

Aspects of CDWR-SWP Operations are subject to environmental and regulatory restrictions. Restrictions that may impact CDWR-SWP Operations include but are not limited to the following:

- Water supply requirements
- In-stream flow requirements
- Water temperature requirements
- Delta water quality and quantity requirements
- Flood control operations
- Reservoir elevation restrictions
- Water delivery requirements (including meeting subsequent longer term deliveries)

Because of these concerns, scheduled outages of CDWR-SWP facilities may have significantly less flexibility for rescheduling or cancellation. Oftentimes, there may be no flexibility whatsoever. This lack of flexibility must be taken into account the same as such restrictions are for other Market Participants.

CDWR-SWP will advise the ISO of outages that have some operational restriction or limitation by using Cause Code designation in SLIC as well as a more detailed description of the restriction in the text portion of the SLIC request. Cause codes to be used to identify these operational restrictions or limitations will be 9696 - *Operational Environmental-Hydro/Pump* or 7199 - *Hydro/PS Water Supply Discharge Problems*. *If the referenced cause codes are changed, deleted, or replaced, similar cause codes to identify CDWR-SWP operational restriction or limitation based on NERC GADS methodology will be agreed to by both CDWR-SWP and ISO.*

Absent such designation, the facility outage request will be given no additional preference. If the designation for outage restrictions changes, CDWR-SWP will advise the ISO as soon as practical, but no later than one business day after it occurs.

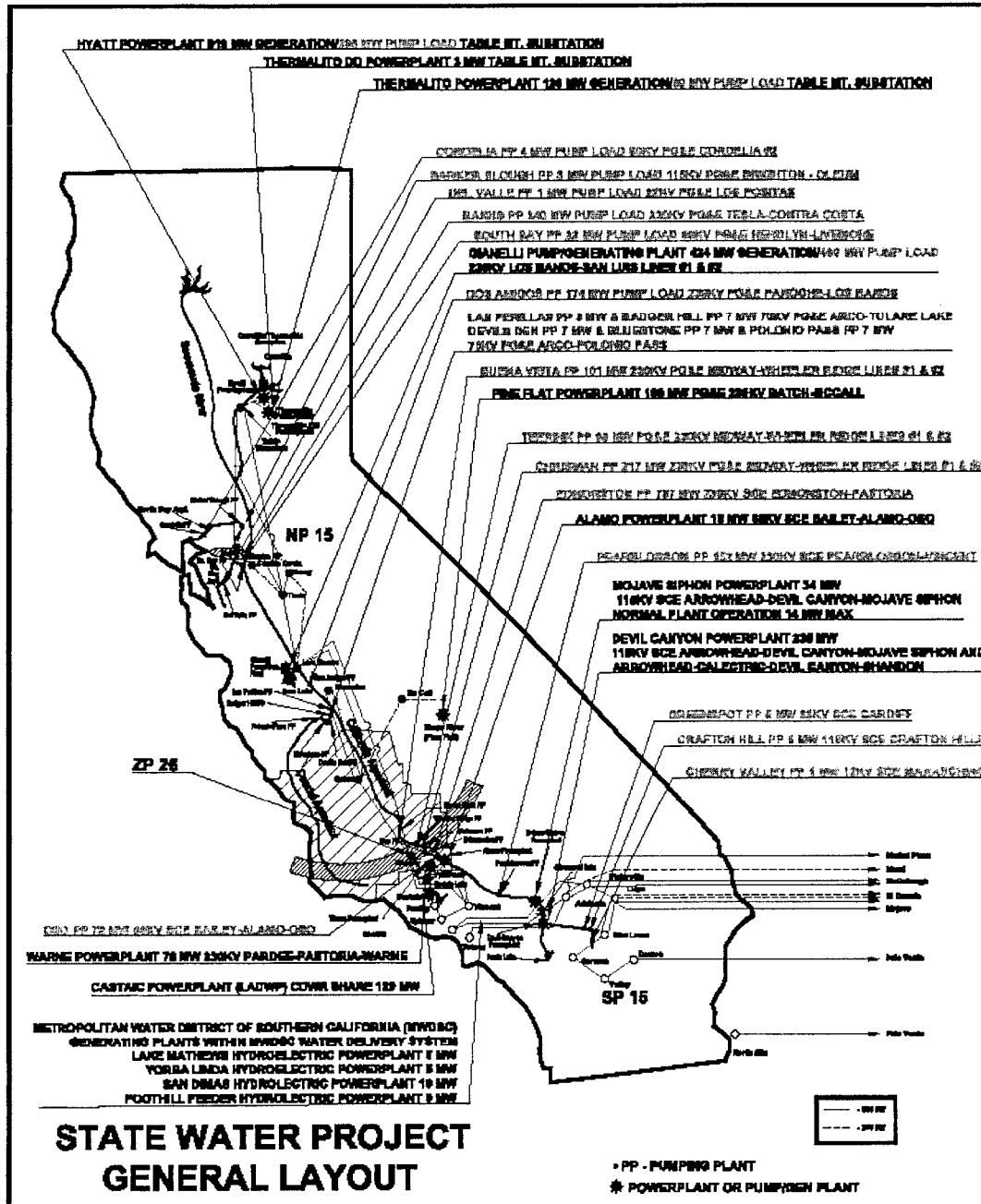
In the event the ISO determines the need to cancel or reschedule an outage of a CDWR-SWP facility that is designated as having limited flexibility, the ISO will contact CDWR-SWP operations to determine if the restrictions will allow change in the outage schedule, or if there is some other operations under the control of the CDWR-SWP that will achieve the same operational result (e.g., a reduction in pump schedule to accommodate for inability to increase generation). Availability of CDWR-SWP facilities that are limited due to the above restrictions is at the sole discretion of the CDWR-SWP.

California Department of Water Resources (CDWR) operates the State Water Project (SWP). CDWR also manages the operation of the California Energy Resource Scheduling (CERS). However, this attachment and associated

 <b>CALIFORNIA ISO</b> California Independent System Operator	<b>Operating Procedure Attachment J</b>	<b>Procedure No.</b>	T-113J
		<b>Version No.</b>	1.0
		<b>Effective Date</b>	TBD
<b>CDWR-SWP System</b>		<b>Distribution Restriction:</b> <b>Proprietary</b>	

information exchange between operational personnel refers ONLY to the State Water Project operations and no other portions of CDWR. The map on the following page shows the CDWR-SWP facilities.

 <b>CALIFORNIA ISO</b> <small>California Independent System Operator</small>	<b>Operating Procedure Attachment J</b>	Procedure No.	T-113J
		Version No.	1.0
		Effective Date	TBD
<b>CDWR-SWP System</b>		Distribution Restriction: Proprietary	



**ATTACHMENT B – CLEAN SHEETS**

**OFFER OF SETTLEMENT AND AMENDED COMPLIANCE FILING**

**(DOCKET NO. EL00-95-135)**

**9.2 Responsibility for Authorized Work on Facilities.**

The ISO shall have authority to approve requests by Participating TOs to work on all energized transmission equipment under the Operational Control of the ISO.

**9.3 Coordination of Outages and Maintenance.**

**9.3.1 ISO Outage Coordination Office.**

The ISO Outage Coordination Office shall be established by the ISO and shall coordinate and approve Maintenance Outages of: (i) all facilities that comprise the ISO Controlled Grid and (ii) Participating Generators. The ISO shall additionally coordinate and approve Outages required for new construction and for work on de-energized and live transmission facilities (e.g., relay maintenance or insulator washing) and associated equipment. The ISO Outage Coordination Office will be operational Monday through Friday, except holidays. The Outage Coordination Office is located in Folsom. Each office and the areas of responsibility of that office are detailed in the most recent version of the applicable ISO Operating Procedures, which are posted on the ISO Home Page.

**9.3.1A Coordinating Maintenance Outages of UDC Facilities.**

Each UDC and the Participating TO with which it is interconnected shall coordinate their Outage requirements that will have an effect on their transmission interconnection prior to the submission by that Participating TO of its Maintenance Outage requirements under Section 9.3.

**9.3.1.1 Coordinating Maintenance Outages of CDWR-SWP Participating Generating Units.**

The provisions of Section 9.3 shall apply to CDWR-SWP Participating Generating Units. The submission by CDWR-SWP of an Outage schedule, Outage request, or request to change or cancel an Approved Maintenance Outage, and the ISO's treatment of Outage schedules and requests relating to CDWR-SWP Participating Generating Units, shall be in accordance with Section 9.3, except as otherwise provided in Section 9.3.1.1.1.

**9.3.1.1.1 Coordinating Maintenance Outages of CDWR-SWP**

- a. In each Outage schedule, Outage request, and request to change or cancel an Approved Maintenance Outage that CDWR-SWP submits to the ISO for a CDWR-SWP Participating Generating Unit, CDWR-SWP will state whether CDWR-SWP has determined that the proposed maintenance work, and/or the timing of the Outage, is necessary in order for CDWR-SWP to:
  - i. Comply with various federal and state legal and regulatory requirements that govern stream flow, water temperature, water quality and quantity, flood control space, afterbay, reservoir, or lake elevation, and other environmental and wildlife constraints ("CDWR-SWP Statutory Compliance Outage"); or
  - ii. Maintain reliable operations of critical water infrastructure and not impair its ability to satisfy water delivery or conservation requirements ("CDWR-SWP Water System Reliability Outage").
- b. CDWR-SWP will identify each CDWR-SWP Statutory Compliance or Water System Reliability Outage by designating the Outage with an appropriate cause code in the Outage schedule, Outage request, or request to change or cancel an Approved Maintenance Outage and will provide a description of the requirement or constraint. If the designation of an Outage changes, or the Outage no longer meets the criteria of Section 9.3.1.1.1(a)(i) or (ii), CDWR-SWP will notify the ISO about this change in status as soon as practical but no more than one business day after it occurs.
- c. The ISO will not deny, cancel, or reschedule a CDWR-SWP Statutory Compliance or Water System Reliability Outage that CDWR-SWP submits to the ISO in an Outage schedule, Outage request, or request to change or cancel an Approved Maintenance Outage, provided that the Outage request is timely, designates the Outage as a CDWR-SWP Statutory Compliance or Water System Reliability Outage by an appropriate cause code and includes a description of the requirement or constraint.

CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION  
FERC ELECTRIC TARIFF  
THIRD REPLACEMENT VOLUME NO. I

Original Sheet No. 151B

d. The ISO may contact CDWR-SWP to inquire whether the timing of a CDWR-SWP Statutory Compliance or Water System Reliability Outage can be changed. CDWR-SWP may agree to the change or, after making best efforts to accommodate the change, may notify the ISO that the change is not feasible as determined by CDWR-SWP in its sole discretion due to the described requirement or constraint. In the event that CDWR-SWP determines that changing the timing of the Outage is not feasible due to the described requirement or constraint, the ISO will not deny, cancel, or reschedule that CDWR-SWP Statutory Compliance or Water System Reliability Outage.

e. The ISO will process any Outage that CDWR-SWP submits in an Outage schedule, Outage request, or request to change or cancel an Approved Maintenance Outage, that is not timely, does not contain a cause code identifying the Outage as a CDWR-SWP Statutory Compliance or Water System Reliability Outage or does not include a description of the requirement or constraint, under the otherwise applicable provisions of ISO Tariff Section 9.3 and ISO Operating Procedures.

	rating guidelines, less any reserved uses applicable to the path.
<b><u>Backup ISO Control Center</u></b>	The ISO Control Center located in Alhambra, California.
<b><u>Balanced Schedule</u></b>	A Schedule shall be deemed balanced when Generation, adjusted for Transmission Losses equals forecast Demand with respect to all entities for which a Scheduling Coordinator schedules.
<b><u>Balancing Account</u></b>	An account set up to allow periodic balancing of financial transactions that, in the normal course of business, do not result in a zero balance of cash inflows and outflows.
<b><u>Black Start</u></b>	The procedure by which a Generating Unit self-starts without an external source of electricity thereby restoring power to the ISO Controlled Grid following system or local area blackouts.
<b><u>Black Start Generator</u></b>	A Participating Generator in its capacity as party to an Interim Black Start Agreement with the ISO for the provision of Black Start services, but shall exclude Participating Generators in their capacity as providers of Black Start services under their Reliability Must-Run Contracts.
<b><u>Bulk Supply Point</u></b>	A UDC metering point.
<b><u>Business Day</u></b>	Monday through Friday, excluding federal holidays and the day after Thanksgiving Day.
<b><u>C.F.R.</u></b>	Code of Federal Regulations.
<b><u>Calendar Day</u></b>	Any day including Saturday, Sunday or a federal holiday.
<b><u>CDWR-SWP</u></b>	The California Department of Water Resources, State Water Project.
<b><u>CDWR-SWP Participating Generating Units</u></b>	The Generating Units operated by the California Department of Water Resources, State Water Project, that are subject to a Participating Generator Agreement with the ISO.
<b><u>Certificate of Compliance</u></b>	A certificate issued by the ISO which states that the Metering Facilities referred to in the certificate satisfy the certification criteria for Metering Facilities contained in the ISO Tariff.
<b><u>Check Meter</u></b>	A redundant revenue quality meter which is identical to and of equal accuracy to the primary revenue quality meter connected at the same metering point which must be certified in accordance with the ISO Tariff.

CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION  
FERC ELECTRIC TARIFF  
THIRD REPLACEMENT VOLUME NO. II

Original Sheet No. 485A

**Circular Schedule**

A Schedule or set of Schedules that creates a closed loop of Energy Schedules between the ISO Controlled Grid and one or more other Control Areas that do not have a source and sink in separate Control Areas, which includes Energy scheduled in a counter direction over a Congested Inter-Zonal Interface through two or

Issued by: Charles F. Robinson, Vice President and General Counsel

Issued on: September 1, 2006

Effective: Upon Commission Approval

**ATTACHMENT C – BLACKLINES**

**OFFER OF SETTLEMENT AND AMENDED COMPLIANCE FILING**

**(DOCKET NO. EL00-95-135)**

\* \* \*

**9.3.1.1      California Department of Water Resources****Coordinating Maintenance Outages of CDWR-SWP Participating Generating Units.**

The provisions of Section 79.3, and the provisions of the Outage Coordination Protocol, shall apply to the California Department of Water Resources (“CDWR”) CDWR-SWP Participating Generating Units. However, the ISO’s authority to deny a requested change to an Approved Maintenance Outage, or cancel an Approved Maintenance Outage, relating to hydroelectric Generating Units owned and operated by the CDWRThe submission by CDWR-SWP of an Outage schedule, Outage request, or request to change or cancel an Approved Maintenance Outage, and the ISO’s treatment of Outage schedules and requests relating to CDWR-SWP Participating Generating Units, shall be in accordance with Section 9.3, except as otherwise provided limited as set forth in Section 9.3.1.1, of the ISO Tariff.

**9.3.1.1.1      Coordinating Maintenance Outages of CDWR-SWP**

a. In each Outage schedule, Outage request, and request to change or cancel an Approved Maintenance Outage that CDWR-SWP submits to the ISO for a CDWR-SWP Participating Generating Unit, CDWR-SWP will state whether CDWR-SWP has determined that the proposed maintenance work, and/or the timing of the Outage, is necessary in order for CDWR-SWP to:

- i. Comply with various federal and state legal and regulatory requirements that govern stream flow, water temperature, water quality and quantity, flood control space, after-bay, reservoir, or lake elevation, and other environmental and wildlife constraints (“CDWR-SWP Statutory Compliance Outage”); or
- ii. Maintain reliable operations of critical water infrastructure and not impair its ability to satisfy water delivery or conservation requirements (“CDWR-SWP Water System Reliability Outage”).

b. CDWR-SWP will identify each CDWR-SWP Statutory Compliance or Water System Reliability Outage by designating the Outage with an appropriate cause code in the Outage schedule, Outage request, or request to change or cancel an Approved Maintenance Outage and will provide a description of the requirement or constraint. If the designation of an Outage changes, or the Outage no longer meets the criteria of Section 9.3.1.1.1(a)(i) or (ii), CDWR-SWP will notify the ISO about this change in status as soon as practical but no more than one business day after it occurs.

c. The ISO will not deny, cancel, or reschedule a CDWR-SWP Statutory Compliance or Water System Reliability Outage that CDWR-SWP submits to the ISO in an Outage schedule, Outage request, or request to change or cancel an Approved Maintenance Outage, provided that the Outage request is timely, designates the Outage as a CDWR-SWP Statutory Compliance or Water System Reliability Outage by an appropriate cause code and includes a description of the requirement or constraint.

d. The ISO may contact CDWR-SWP to inquire whether the timing of a CDWR-SWP Statutory Compliance or Water System Reliability Outage can be changed. CDWR-SWP may agree to the change or, after making best efforts to accommodate the change, may notify the ISO that the change is not feasible as determined by CDWR-SWP in its sole discretion due to the described requirement or constraint. In the event that CDWR-SWP determines that changing the timing of the Outage is not feasible due to the described requirement or constraint, the ISO will not deny, cancel, or reschedule that CDWR-SWP Statutory Compliance or Water System Reliability Outage.

e. The ISO will process any Outage that CDWR-SWP submits in an Outage schedule, Outage request, or request to change or cancel an Approved Maintenance Outage, that is not timely, does not contain a cause code identifying the Outage as a CDWR-SWP Statutory Compliance or Water System Reliability Outage or does not include a description of the requirement or constraint, under the otherwise applicable provisions of ISO Tariff Section 9.3 and ISO Operating Procedures.

\* \* \*

## Appendix A

**CDWR-SWP**

The California Department of Water Resources, State Water Project.

**CDWR-SWP Participating Generating Units**

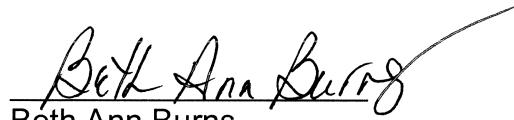
The Generating Units operated by the California Department of Water Resources, State Water Project, that are subject to a Participating Generator Agreement with the ISO.

\* \* \*

**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in the above-captioned dockets.

Dated at Folsom, California, on this 31<sup>st</sup> day of August, 2006.



Beth Ann Burns  
Beth Ann Burns