

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

<b>San Diego Gas &amp; Electric Company</b>	)	<b>Docket Nos. EL00-95-000</b>
<b>v.</b>	)	
<b>Sellers of Energy and Ancillary Services</b>	)	
	)	
<b>Investigation of Practices of the California Independent System Operator and the California Power Exchange</b>	)	<b>Docket Nos. EL00-98-000</b>
	)	
<b>Puget Sound Energy, Inc.</b>	)	<b>Docket No. EL01-10-000</b>
<b>v.</b>	)	
<b>Sellers of Energy and/or Capacity</b>	)	
	)	
<b>Investigation of Anomalous Bidding Behavior and Practices in Western Markets</b>	)	<b>Docket No. IN03-10-000</b>
	)	
<b>Fact-Finding Investigation Into Possible Manipulation of Electric and Natural Gas Prices</b>	)	<b>Docket No. PA02-2-000</b>
	)	
<b>Arizona Public Service Company</b>	)	<b>Docket No. EL03-139-000</b>

**COMMENTS OF THE CALIFORNIA INDEPENDENT  
SYSTEM OPERATOR CORPORATION IN SUPPORT OF THE  
JOINT OFFER OF SETTLEMENT INVOLVING  
THE PINNACLE WEST COMPANIES**

Pursuant to Rule 602(f) of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission (“Commission”), 18 C.F.R. § 385.602(f) (2007), the California Independent System Operator Corporation (“ISO”)<sup>1</sup> hereby submits its comments on the Joint Offer of Settlement (“Settlement Agreement”) filed by Arizona Public Service Company (“APS”), Pinnacle West Capital Corporation, and APS Energy Services Company, Inc. (the “Pinnacle West

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<sup>1</sup> Capitalized terms not otherwise defined herein are used as defined in Appendix A to the ISO Tariff, or in the Settlement and Release of Claims Agreement referred to in the text.

Companies”) and the California Parties<sup>2</sup> (collectively, the “Settling Parties”), in the above-captioned proceedings on April 30, 2008.

## **I. COMMENTS**

### **A. The Settlement Agreement Directly Affects the ISO’s Interests.**

Although the ISO is not a signatory to the Settlement Agreement, it is the ISO that will be responsible for the financial implementation of this settlement on its books of account and in the financial clearing phase of the market re-runs that have been ordered by the Commission.<sup>3</sup> For this reason, the ISO has a direct and substantial interest in the Commission’s treatment of the Settlement Agreement.

### **B. Subject to Obtaining the Clarification Described in Section I.D, the ISO Supports the Settlement Agreement.**

The ISO has always supported the general principle that the end to complex litigation through settlement is the preferred process as opposed to the continuation of that litigation for all litigants, or for even a selected subset of the litigants. In addition, this Commission has consistently encouraged parties to resolve disputes whenever possible through settlement.<sup>4</sup> The Refund

Proceeding has now been ongoing for over seven years. Against this backdrop,

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<sup>2</sup> The California Parties consist of the People of the State of California *ex rel.* Edmund G. Brown, Jr., Attorney General of the State of California (“California Attorney General”), California Department of Water Resources, acting solely under authority and powers created by California Assembly Bill 1 of the First Extraordinary Session of 2001-2002, codified in Sections 80000 through 80270 of the California Water Code, and not under its powers and responsibilities with respect to the State Water Resources Development System (“CERS”), Pacific Gas and Electric Company (“PG&E”), Southern California Edison Company (“SCE”), and San Diego Gas & Electric Company (“SDG&E”), the California Public Utility Commission, and the California Electricity Oversight Board.

<sup>3</sup> See, in particular, 105 FERC ¶ 61,066 (2003), the Commission’s Order on Rehearing, Docket Nos. EL00-95-081, *et al.*

<sup>4</sup> *Cities of Anaheim, Azusa, Banning, Colton, and Riverside, California v. California Independent System Operator Corporation*, 96 FERC ¶ 61,024, at 61,065 (2001).

the ISO continues to support the general principle of settlement as embodied in the Settlement Agreement offered by the Settling Parties. The approval of the proposed Settlement Agreement will allow certain amounts of cash to flow sooner than would otherwise be the case and in that respect will clearly benefit Market Participants.

The ISO also notes and supports the inclusion in the Settlement Agreement of a duty to cooperate on the part of the Settling Parties.<sup>5</sup> This duty to cooperate includes providing assistance to the ISO as necessary in order to implement the Settlement Agreement. It will be absolutely essential that the cooperation of the Settling Parties be maintained from the ISO's perspective, so that the proper financial adjustments can be made so as to properly implement the Settlement Agreement.

The ISO thanks the Settling Parties for their efforts to work together and reach agreement. It is the ISO's hope that the Commission will not have to become involved in any implementation disputes involving this Settlement Agreement. However, recognizing that it is not possible to foresee every contingency that might arise, the procedural framework is in place to handle such disputes, if indeed, they do arise.

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<sup>5</sup> See, in particular, Section 6.4 of the Settlement and Release of Claims Agreement (Attachment B to Settlement Agreement).

**C. The Commission Should State that the ISO's Directors, Officers, Employees and Consultants Will Be Held Harmless With Respect to the Settlement and Accounting Activities that the ISO Will Have to Perform in Order to Implement the Settlement Agreement.**

As with previous settlements filed and approved in these proceedings, the circumstances of this Settlement Agreement make it necessary to hold harmless the market operators (*i.e.*, the ISO and the California Power Exchange ("PX")) that are ultimately tasked with implementing this Settlement Agreement,<sup>6</sup> along with their directors, officers, employees and consultants. Therefore, in any order approving this Settlement Agreement, the Commission should state that the ISO, along with its directors, officers, employees and consultants, will be held harmless with respect to the settlement and accounting activities that it will have to perform in order to implement the Settlement Agreement, and that neither the ISO, nor its directors, officers, employees or consultants, will be responsible for recovering any funds disbursed pursuant to the Settlement Agreement, which are subsequently required to be repaid. As noted above, the Commission has already approved hold harmless language for the ISO and the PX in the context of the California Parties' settlements with a number of entities. The factors that justified holding the ISO and PX harmless with respect to the implementation of these other settlements apply equally to the instant Settlement Agreement.

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<sup>6</sup> The ISO has requested hold harmless treatment in comments on previous settlements filed in this proceeding with respect to Duke, Williams, Mirant, Enron, PS Colorado, Reliant, IDACORP, Eugene Water and Electric Board, the Automated Power Exchange, Portland General, El Paso Merchant Energy, PacifiCorp, PPM Energy, Inc, Connectiv, Midway Sunset, the Cities of Anaheim, Azusa and Riverside, Grant County, and Strategic Energy. The Commission has, to date, provided the ISO with hold harmless treatment with respect to all of these settlements on which it has ruled.

First, as with previous settlement agreements in these proceedings, the flow of funds pursuant to the Settlement Agreement will also require unprecedented accounting adjustments on the part of the ISO. These accounting adjustments will not be made under the terms of the ISO Tariff, but rather pursuant to the Settlement Agreement, the terms of which have been determined by a subset of parties to these proceedings. As the Commission is well aware, the ISO Markets ordinarily are not bilateral in nature. However, this settlement requires the ISO to adopt that fiction as between the Settling Parties, and make billing adjustments accordingly. A Market Participant might file a complaint or bring suit against the ISO, and/or its directors, officers, employees and consultants, claiming that the ISO did not make appropriate accounting adjustments, and as a result did not reflect the appropriate amount of refunds or receivables owing to that Market Participant.

Moreover, because the Settlement Agreement has been filed prior to the final orders in the Refund Proceeding, it is not certain that the Settling Parties' estimates of payables and receivables are accurate, and due to the complexity of the settlement, there may be additional, unforeseen impacts to ISO Market Participants. It is possible that such impacts would cause Market Participants to bring actions against the ISO (or its directors, officers, employees and consultants), as a result of the ISO's implementation of the Settlement Agreement.

These problems may be amplified as the Commission approves additional settlement agreements in these proceedings. As the number and variety of

approved settlements increases, the task of implementing those settlements will become more complicated. Likewise, the possibility a party will bring an action against one, or both, of the market operators also increases. For this reason, the ISO believes that it is critically important that the Commission hold the ISO (along with its directors, officers, employees, and consultants) harmless with respect to the implementation of all of the settlements reached in these proceedings that involve the flow of monies through the ISO Markets.

A hold harmless provision would also be appropriate because the ISO is a non-profit public benefit corporation, and it would not be reasonable to subject its officers, employees, and consultants to suits claiming individual liability for engaging in the accounting necessary to implement the Settlement Agreement. These individuals should not be subjected to litigation, along with its attendant costs and expenditure of time, for merely implementing a settlement authorized by the Commission.

Finally, there is nothing in the Settlement Agreement that counsels against, or is inconsistent with, granting the ISO and the individuals associated with it the protection requested here. Indeed, the Settlement Agreement provides for numerous mutual releases and waivers, which will effectively “hold harmless” the Settling Parties from existing and potential claims. Moreover, the Settling Parties state that they do not oppose the Commission adopting hold harmless provisions for the ISO and PX.<sup>7</sup>

For these reasons, the Commission, in any order approving the Settlement Agreement, should state that the ISO, along with its directors,

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<sup>7</sup> See Joint Explanatory Statement at 12 (Attachment A to Settlement Agreement).

officers, employees, and consultants will be held harmless with respect to the settlement and accounting activities that the ISO will have to perform in order to implement the Settlement Agreement, and that neither the ISO, nor its directors, officers, employees, or consultants will be responsible for recovering any funds disbursed pursuant to the Settlement Agreement, which are subsequently required to be repaid.

**D. There is an Issue Regarding Potential Shortfalls That Might Result from a Difference Between the Estimate of APS' Obligations in the ISO Markets Used in the Settlement Agreement, and APS' Obligations in the ISO Markets as Reflected in Updated Data or as Determined at the End of This Proceeding**

The Joint Explanatory Statement accompanying the Settlement Agreement states that “the Pinnacle West Companies do not owe refunds in [the ISO and PX markets] for transactions during the Settlement Period.”<sup>8</sup> Although the ISO understands that this statement was meant to refer to Pinnacle West’s overall net refund position in the combined ISO and PX markets, the ISO is concerned because its most current refund rerun data shows that as a result of receiving allocations of supplier offsets (fuel cost, emissions, entity revenue shortfall), Arizona Public Service Company (“APS”) owes refunds of approximately \$100,000 in the ISO markets before interest.<sup>9</sup> APS is one of the Pinnacle companies that is party to the settlement, and the only Pinnacle company that participated in ISO markets.

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<sup>8</sup> Joint Explanatory Statement at 3.

<sup>9</sup> Although APS is shown as owing refunds in the ISO markets for the Settlement Period, it is still a net creditor in the ISO markets during this period.

Based on the fact that CERS and APS have agreed to assume the risk of several types of potential shortfalls,<sup>10</sup> the ISO believes that it was the intent of the Settling Parties that they also cover any shortfall that might result due to the fact that APS may, after taking into account applicable supplier offsets, have a larger refund obligation in the ISO markets than anticipated in the Settlement Agreement. This apparent intention, however, may not be clearly reflected in the language of the Settlement Agreement. The ISO, APS and CERS have discussed this issue and are currently in the process of formulating a statement that makes clear the respective liabilities of APS and CERS for shortfalls in the ISO markets, which the Commission will be asked to adopt in any order it issues approving the Settlement Agreement. The ISO, APS and CERS will provide this statement in reply comments on the Settlement Agreement, which are due to be filed no later than June 2.

## **II. CONCLUSION**

Wherefore, for the reasons stated above the ISO respectfully states that it supports the Settlement Agreement and will work with the Settling Parties to implement it. The ISO also respectfully requests that the Commission state, in any order approving the Settlement Agreement, that that the ISO, along with its directors, officers, employees, and consultants will be held harmless with respect to the settlement and accounting activities that it will have to perform in order to implement the Settlement Agreement, and that neither the ISO, nor its directors, officers, employees, or consultants will be responsible for recovering any funds

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<sup>10</sup> See Sections 4.1.2, 5.1, 5.2, and 5.3 of the Settlement Agreement

disbursed pursuant to the Settlement Agreement, which are subsequently required to be repaid.

Respectfully submitted,

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Dated: May 22, 2008

## CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of this document upon the email listserv established by the Commission for this proceeding.

Dated this 22<sup>nd</sup> day of May at Washington, DC.

*/s/ Michael Kunselman*

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