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September 14, 2007

Honorable Kimberly D. Bose, Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

Re: Operating Agreement Between California Independent System Operator Corporation and PacifiCorp
Rate Schedule FERC No. 65
Docket No. ER07-____-000

Dear Secretary Bose:

Pursuant to Section 205 of the Federal Power Act ("FPA"), 16 U.S.C. § 824d, the California Independent System Operator Corporation ("CAISO") submits for Commission filing and acceptance this unexecuted Operating Agreement ("OA") between the CAISO and PacifiCorp.[1] The OA has been designated as Rate Schedule FERC No. 65. The CAISO requests that this filing be consolidated with the ongoing proceedings in Docket Nos. ER07-882 and ER07-967 because those proceedings address issues that overlap substantially with the issues addressed in the attached OA.

The CAISO is requesting an effective date for the OA of January 1, 2008. As explained further below, that is the date on which the Agreement for Use of Transmission Capacity among Pacific Power & Light Company,[2] Pacific Gas and Electric Company ("PG&E"), Southern California Edison Company, and San Diego Gas & Electric Company ("Capacity Agreement") will terminate pursuant to the notice filed by PacifiCorp in Docket No. ER07-882-000 and the Commission's subsequent suspension of the proposed termination of the Capacity Agreement

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

2 PacifiCorp is the successor to Pacific Power & Light Company.

for five months through an order issued on July 30, 2007. *PacifiCorp*, 120 FERC ¶ 61,113 (2007) ("July 30 Order").

The termination of the Capacity Agreement will remove PacifiCorp's segment of the Pacific AC Intertie ("PACI") from the CAISO's Operational Control. PacifiCorp's segment is a portion of the California-Oregon Intertie ("COI"), which is the primary path for the transfer of Energy between California and the Pacific Northwest and is within the CAISO's Balancing Authority Area. In the matters set for hearing in Docket Nos. ER07-882-000 and ER07-967-000, the CAISO is requesting that the Commission condition the termination on PacifiCorp's execution of a revised Owners' Coordinated Operations Agreement ("OCOA") governing coordination of the COI. In the event the Commission does so, the CAISO will require the OA with PacifiCorp in order to fulfill the functions of the COI Path Operator contemplated under the OCOA. If the Commission authorizes termination without such a condition, the CAISO will still require an operating agreement with PacifiCorp, but significant revisions to the OA will be necessary because the attached OA cross-references the OCOA and is based on the assumption that PacifiCorp will become a party to the OCOA.

Prior to the July 30 Order, the CAISO and PacifiCorp had made progress in negotiations on an operating agreement, but did not complete those negotiations. The attached OA reflects input from PacifiCorp through those negotiations. Negotiations have not continued during the pendency of the litigation regarding the termination of the Capacity Agreement. The CAISO is therefore filing the OA in unexecuted form to ensure the continued reliable operation of the COI in the event that the Commission allows the termination to proceed.

Because the OA addresses operational and reliability issues arising from the proposed termination of the Capacity Agreement that are also being addressed in the ongoing proceedings in Docket Nos. ER07-882 and ER07-967, the CAISO's initial brief and supporting declarations submitted in those proceedings yesterday discussed many of the issues that must be addressed in the OA.[3] The Declaration of Kyle T. Hoffman, Manager for Scheduling for the CAISO, addresses scheduling and market issues that arise in connection with the termination of the Capacity Agreement and the amendment of the OCOA, and explains the terms of the attached Operating Agreement that the CAISO

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3 The CAISO is cognizant of the Commission's September 11, 2007, Order on Requests for Clarification and Denying Request for Rehearing, 120 FERC ¶ 61,231 (2007) ("Clarification Order"). The CAISO believes it is appropriate to address the need for the OA and the terms of the OA in its briefs in Docket Nos. ER07-882 and ER07-967 because those issues constitute "operational, maintenance, and planning issues related directly to a Coordinated Operation Agreement." Clarification Order at P 9. The CAISO's instant filing of the OA in a separate docket is also consistent with the Commission's directives that parties should file with the Commission, "additional agreements . . . pertinent to the operation, maintenance, and planning of the COI." *Id.*

believes are necessary as a result of the first two events. Because Mr. Hoffman's declaration explains the need for the OA, this declaration is also being provided as an attachment to the instant filing in support of the OA. The Declaration of James McIntosh, Director of Grid Operations for the CAISO, explains the information and operating instructions that the CAISO requires in order both to fulfill its Balancing Authority responsibilities and to reliably manage the COI. The OA obligates PacifiCorp to provide the CAISO with some of this needed information. Mr. McIntosh's declaration is therefore also attached hereto in support of the instant filing. The issues discussed in these declarations are also discussed more generally in the transmittal letter below.

I. BACKGROUND

This OA is necessitated by changes in the agreements governing the rates, terms and condition of service over the 47-mile segment of the PACI that is owned by PacifiCorp but that has been leased to California utilities for the past 40 years. The PACI comprises two parallel 500 kV AC lines that run from the Malin substation in Oregon to the Tesla substation owned by PG&E in central California, including various associated facilities. The segments of the PACI from Malin to the Round Mountain substation, together with the northern portion of the California Oregon Transmission Project ("COTP"), a third 500 kV line that runs from the Captain Jack substation in Oregon to an interconnection with the Pacific AC Intertie near PG&E's Tesla Substation, constitute the COI.

The 47 miles of the eastern segment of the PACI from Malin to Indian Spring (the "PACI-PN") were built by and are owned by PacifiCorp. They are under lease to PG&E pursuant to the Capacity Agreement. The eastern segment of the PACI from Indian Spring to Round Mountain (the "PACI-PS") is owned by PG&E. The western segment from Malin to Round Mountain ("PACI-W") is owned by the Western Area Power Administration ("Western"). PG&E owns both segments of the PACI from Round Mountain to Tesla.

All of the PACI facilities owned by PG&E or leased to PG&E by PacifiCorp have been placed under the operational control of the CAISO pursuant to the Transmission Control Agreement since 1998. The CAISO also has transmission rights on the PACI-W pursuant to the Transmission Exchange Agreement, also on file with the Commission. *See generally Pacific Gas & Elec. Co.,* 109 FERC ¶ 61,255 (2004).

Prior to the formation of the CAISO, the operation of the COI was coordinated by PG&E pursuant to the Coordinated Operations Agreement. The CAISO assumed that coordination role when the CAISO commenced operations in 1998. On January 1, 2005, because of the expiration of various contracts and the transfer of the COTP to a different control area, the Coordinated Operations Agreement was replaced by the OCOA and the California-Oregon Intertie Path

Operating Agreement (the "COI Path Operator Agreement"). The CAISO is a party to the COI Path Operator Agreement, but not a party to the OCOA.[4] The CAISO continues to coordinate operations of the COI consistent with the terms of both of these agreements. *Id.* Absent amendment, however, the OCOA terminates by its own terms upon termination of the Capacity Agreement, and the COI Path Operator Agreement terminates if the OCOA terminates.

In early 2007, PacifiCorp indicated its intention to terminate the Capacity Agreement and to withdraw the PACI-PN from the CAISO's Operational Control. PacifiCorp provided formal notice to the CAISO of its intentions on April 13, 2007. In various telephone conversations and correspondence, the CAISO has discussed with PacifiCorp the reliability, operational, and economic issues that would be raised by such actions, particularly if amendments to or successor agreements to the OCOA and the COI Path Operator Agreement are not in place prior to the proposed termination of the Capacity Agreement and the related withdrawal of the eastern segment of the PACI from the CAISO's Operational Control. To date, these issues have not been fully resolved.

On May 10, PacifiCorp filed in Docket No. ER07-882 its "Notice of Termination of Agreement for Use of Transmission Capacity among Pacific Power & Light Company, Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company dated August 1, 1967" proposing that the Capacity Agreement terminate on July 31, 2007. On May 31, the CAISO filed a protest of this notice, opposing the termination of the Capacity Agreement until certain issues are addressed.

On May 30, 2007, PG&E filed in Docket No. ER07-967 a unilateral amendment to the OCOA that would eliminate the provision of the OCOA that terminates the agreement upon termination of the Capacity Agreement, thus allowing the OCOA and the COI Path Operator Agreement to survive such termination. PG&E's amended OCOA does not include PacifiCorp as a party.

In the July 30 Order, the Commission concluded that neither the proposed termination nor the proposed OCOA had been shown to be just and reasonable. It suspended each for five months and initiated a paper hearing on operational, maintenance, and planning issues related to a Coordinated Operation Agreement. July 30 Order at P 35; *PacifiCorp,* 120 FERC ¶ 61,231 at P 9. In the CAISO's brief in that hearing, the CAISO explains that a Coordinated Operations Agreement to which PacifiCorp is a party must be accompanied by an operating agreement that establishes the appropriate relationship between the CAISO and

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4 The other parties to the COI Path Operator Agreement are PG&E, Southern California Edison Company, San Diego Gas & Electric Company, participants in the COTP, and Western. These entities are also the parties to the OCOA.

PacifiCorp. The CAISO further states that it is filing the OA to accomplish that purpose.

II. NEED FOR THE OPERATING AGREEMENT

As the Balancing Authority for the area including the PACI, the CAISO is responsible for, *inter alia*, approving and confirming interchange schedules, directing resources to ensure balance in real time, and implementing redispatch as necessary for Congestion Management. Today the CAISO is able to perform these functions with regard to the PACI because the entire PACI is subject to the CAISO's operational authority under the Transmission Control Agreement and the Transmission Exchange Agreement.

Once the facilities are no longer under the lease to PG&E, the CAISO will lack contractual authority to exercise the necessary Operational Control over the PacifiCorp portion of the PACI in order to fulfill these functions. Absent the complicated option of moving the Balancing Authority Area boundary to Round Mountain (an option which would take at least six months to a year to implement, as explained in the CAISO's initial brief in Docket Nos. ER07-882 and ER07-967), the CAISO cannot operate the path in a reliable manner without a clear understanding of the respective responsibilities of the affected parties and an agreement on operating guidelines.

Similarly, under the COI Path Operator Agreement, the CAISO is responsible as the Path Operator for determining Available Scheduling Capability ("ASC") and coordinating curtailments, maintenance, planned outages, and restoration of facilities to service on the COI consistent with the terms of the OCOA. This coordination, including *pro rata* sharing of curtailments and the more robust ability to deal with system contingencies than could be provided by any of these lines alone, helps to ensure the reliability of transmission service in California and power transfers between California and the Pacific Northwest.

As the Commission has noted, "[f]ailure to have appropriate procedures in place to ensure the coordinated operation of the COI could have a significant impact on the reliable operation, import/export capability, and coordinated planning of the COI."[5] The COI is infrastructure that is critical to ensuring that electricity can be transferred between the Pacific Northwest and the Pacific Southwest.

In the event that the Commission allows the termination of the Capacity Agreement to proceed with PacifiCorp as a party to the OCOA, the OA will provide the CAISO with the necessary contractual authority to continue to perform its Balancing Authority responsibilities and Path Operator

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5 July 30 Order at P 22 (2007).

responsibilities. The absence of such an agreement would present significant obstacles to reliable transfers between California and the Pacific Northwest.

III. THE OPERATING AGREEMENT

The OA is based on the assumption that PacifiCorp is a party to the COI Path Operator Agreement and the OCOA. As noted above, if this is not the case, the OA will require significant modifications. The OA is intended to accomplish the following:

- Fulfill the requirements placed on PacifiCorp by the OCOA.
- Establish the special operational and settlement requirements under which PacifiCorp and the CAISO will coordinate and exchange information on schedules for PacifiCorp's transactions on the PACI, including the PACI-PN, once the PACI-PN is no longer part of the CAISO Controlled Grid.
- Establish that PacifiCorp's transactions on the PACI-P will be scheduled by a CAISO-certified Scheduling Coordinator in the CAISO's scheduling system and settled with the CAISO.
- Establish that the CAISO will coordinate outages of PacifiCorp's facilities with appropriate parties, including both path operators and comply with the Reliability Management System of the Western Electricity Coordinating Council.
- Establish that PacifiCorp will coordinate with the CAISO, in accordance with the CAISO Tariff, on outages of PacifiCorp's facilities.

These goals are accomplished through Sections 2-7 of the OA.

The Operating Agreement governs the operational, scheduling and Settlements requirements of the CAISO with respect to PacifiCorp's ownership of the PACI-PN. For reliable operation of the Control Area, the CAISO requires a Scheduling Coordinator to provide schedules to the CAISO, and PacifiCorp is required to ensure the use of a Scheduling Coordinator for this function. *See* OA, § 2. Section 2 of the OA requires PacifiCorp to designate itself or another entity as a Scheduling Coordinator for this function. The CAISO understands that PacifiCorp intends to serve as Scheduling Coordinator for this function.

The Commission has recognized that, where the CAISO must address operational issues involving a transmission facility that is within the CAISO Balancing Authority Area but not part of the CAISO Controlled Grid (*i.e.*, a transmission facility that is not under the CAISO's Operational Control), the

CAISO must respect the transmission owner's rights in the facility. The CAISO Tariff denominates these rights as "Transmission Ownership Rights" ("TORs"). With the exception of CAISO Tariff provisions regarding the calculation of Available Transmission Capacity, the CAISO's treatment of TORs is currently addressed through the execution of contracts with the owners. *See, e.g., Cal. Indep. Sys. Operator Corp.*, 114 FERC ¶ 61,024 (2006). The MRTU Tariff incorporates additional specific procedures regarding the treatment of TORs. To date, PacifiCorp has declined the CAISO's invitation to become a partial Participating Transmission Owner and to place the PACI-PN under the CAISO's Operational Control. Consistent with other agreements approved by the Commission, the CAISO's proposed Operating Agreement with PacifiCorp governs the CAISO's treatment of PacifiCorp's TOR for the PACI-PN.

A. OCOA Requirements

The OCOA requires each party to make arrangements with its Control Area Operator to ensure compliance with the OCOA and the COI Path Operator Agreement. Specifically, Section 8.2 of the OCOA requires:

> Each party must make arrangements . . . for its facilities that are a part of the System to be operated within a NERC certified Control Area and make reasonable efforts to require the Control Area Operator to operate such facilities in conformance with this Agreement. Such arrangements shall obligate the Party to provide compensation to the COI Control Area Operator for any sanctions incurred by the latter arising from the WECC Reliability Management System Agreement in relation to duties of the Path Operator for COI . . . due to the action or inaction of the Party for whom or on whose behalf the Control Area Operator acts in relation to the Path Operator for COI.

Section 8.2 of the OCOA also sets forth minimum obligations that must be included in the arrangements, covering such matters as responses to emergencies, outage coordination, and scheduling. Because the PACI-PN will no longer be a part of the CAISO Controlled Grid, it is necessary for the CAISO, as the Balancing Authority for the PACI (*i.e.,* the party with most of the reliability responsibilities formerly held by the Control Area Operator under the previous NERC and WECC requirements), and PacifiCorp to embody these arrangements in an Operating Agreement. These provisions are included in Section 4 of the OA.

Moreover, even if an operating agreement were not required by the OCOA, the CAISO would require an operating agreement in order to establish the contractual relationship and terms under which the CAISO receives and processes PacifiCorp schedules and fulfills its responsibilities as Balancing

Authority. The CAISO currently and in the past has had such operating agreements in place with other parties that own transmission facilities within the CAISO's Control Area but not under the CAISO's Operational Control. *See, e.g., Cal. Indep. Sys. Operator Corp.*, 114 FERC ¶ 61,024.

B. Reliability Requirements

Section 5 of the OA requires compliance with the WECC Reliability Criteria Agreement and provides PacifiCorp's consent to the release of information to WECC regarding its compliance. It also requires PacifiCorp to execute a Reliability Standards Agreement that is substantively equivalent to the CAISO *pro forma* Reliability Standards Agreement for Participating Transmission Owners. This *pro forma* Reliability Standards Agreement is still under development pending further guidance from the Commission concerning Reliability Standards compliance issues. *See, e.g., Midwest Indep. Sys. Operator, Inc.*, 119 FERC ¶ 61,222 (2007).

C. Costs and Charges

Section 6 of the OA establishes PacifiCorp's responsibility for the costs of maintaining its system and provides that the OA does not affect rates and charges under either the CAISO Tariff or PacifiCorp's OATT. It also establishes the PacifiCorp will be liable for all charges applicable under the CAISO Tariff. Unlike some existing TORs, the terms and conditions of the PacifiCorp TOR must be structured to address the fact that schedules or power flows on the PacifiCorp segment of the PACI (PACI-PN) are dependent upon use of the CAISO Controlled Grid, and automatically flow on and impact the CAISO Controlled Grid to the south of Indian Spring. Therefore, because all transactions on the PACI-PN also use the PACI-PS, which is part of the CAISO Controlled Grid, the OA provides that PacifiCorp is responsible for all CAISO Charges applicable to imports, exports, and Inter-Scheduling Coordinator trades. The Commission has previously approved the applicability of the Grid Management Charge plus charges for Ancillary Services, Imbalance Energy, and losses to transactions within the Balancing Authority Area on lines connected to the CAISO Controlled Grid, but not under the Operational Control of the CAISO. *See Cal. Indep. Sys. Operator*, 110 FERC ¶ 61,196 at P 9 (2005).

The applicability of Congestion charges for PacifiCorp's use of the CAISO Controlled Grid is worthy of specific discussion because many holders of Transmission Ownership Rights are exempt from Congestion charges under the CAISO Tariff. As such, there could be some confusion regarding the applicability of Congestion charges to transactions scheduled on the PACI-P. Other holders of Transmission Ownership Rights may be exempt from Congestion charges because, unlike PacifiCorp, they do not require use of the CAISO Controlled Grid in order to schedule on their Transmission Ownership Rights. PacifiCorp must pay Congestion charges because, despite its Transmission Ownership Rights, it uses the CAISO Controlled Grid in the same manner as any other user. Indeed it is not possible for PacifiCorp to schedule on the Transmission Ownership Rights for the PACI-PN without using the CAISO Controlled Grid. Moreover, and unlike other TORs, PacifiCorp's use of its transmission rights directly use, impact, and complicate the management of an important CAISO intertie with the Pacific Northwest. Appropriate management of that intertie is critical to the CAISO's mission and responsibilities to ensure reliability of the CAISO Controlled Grid and to provide Open Access in a fair and efficient manner.

These Congestion charges shall consist of Usage Charges under the current market design and the Congestion component of Locational Marginal Prices ("LMP") under the MRTU design. Because the burdens that the PacifiCorp schedules place on the CAISO Controlled Grid are not distinguishable from those that the CAISO incurs for other users, it would be unduly discriminatory to exempt PacifiCorp from charges for use of the CAISO Controlled Grid. *El Paso Gas Co.*, 104 FERC ¶ 61,045 at PP 115-17.

Currently, the CAISO computes Inter-Zonal Congestion charges (Usage Charges) according to Inter-Zonal Interfaces, which include all Scheduling Points. At present, the two Malin - Round Mountain lines constitute the PACI intertie and Malin is the Scheduling Point for interchange transactions with BPA, into or out of California to the northwest. Under the OA, users of the PACI-PN will pay Congestion charges calculated for the PACI Intertie, because the interties on both the PACI-P and the PACI-W will continue to be treated as a single branch group. Because users of the both PACI lines must compete for the limited transmission capacity into or out of Round Mountain, they should pay the same Usage Charge.

The allocation of Congestion charges for transactions using the PACI-PN and the associated PacifiCorp TOR is consistent with the treatment of the COTP. COTP participants require use of the CAISO Controlled Grid south of the COTP terminus to Tesla and beyond. The COTP participants must therefore compete for the use of transmission capacity over the CAISO Controlled Grid to reach NP15 and must each schedule their respective share of the COTP project south of the COTP terminus without benefit of an exemption from Congestion charges as a result of their Transmission Ownership Rights. The COTP precedent does differ from the PACI in one respect. Some COTP participants have an Existing Contract providing service from the COTP terminus to the Midway Substation, which would allow them to avoid Congestion charges to the extent that they interconnect with non-CAISO facilities at Midway and to the extent they do not exceed the capacity under the Existing Contract. Only transactions that meet both these criteria would avoid Congestion charges. PacifiCorp does not have any such Existing Contract, and there is therefore no basis for their avoidance of Congestion Charges.

The CAISO has determined that there is no way to allow the Scheduling Coordinator for the PACI-PN to submit Adjustment Bids to value the use of the COI when the interface is congested. The CAISO proposes to assess Congestion charges for use of the PACI-PN based on other Adjustment Bids for use of the COI and on an after-the-fact basis. *Id.* In other words, while CAISO New Firm Users will be able to denote, through the submission of Adjustment Bids, the value they place on securing transmission over the applicable Inter-Zonal Interface, PacifiCorp (and its transmission customers) will not be able to submit specific Adjustment Bids contemporaneously with the submission of Day-Ahead Schedules to the CAISO and in advance of the CAISO's Congestion Management process. The end result is that PacifiCorp (and its customers) will pay Congestion costs commensurate with their use of the CAISO Controlled Grid, but will not have an effective way of managing their Congestion cost exposure on a basis comparable to other CAISO transmission users.

The CAISO recognizes that this is an imperfect short-term solution, but believes this approach is more just and reasonable than to allow schedules over the PACI-PN to avoid Congestion charges for use of the PACI-PS – part of an Inter-Zonal interface. Between Round Mountain and any other point on the CAISO Controlled Grid, PacifiCorp transactions contribute to Congestion in the same manner as any other transaction using the PACI. Imposing the financial impact of this interim approach on PacifiCorp and its customers is only interim and the exact impact unknown. To allow otherwise would be to disadvantage users of the CAISO Controlled Grid by increasing their Congestion charges.

This approach is an interim measure because the CAISO's approved MRTU design is scheduled to be implemented as of March 31, 2008. September 2007 Status Report of the CAISO at 1, filed Aug. 31, 2007, in Docket No. ER06-615. As noted below, under MRTU, the CAISO will establish a PNode or Pricing Node at Indian Spring for the calculation of Congestion charges. Under the MRTU LMP-based pricing system, each LMP can be decomposed into an Energy price component, a Congestion cost component, and a Marginal Losses component. In this case, PacifiCorp will be credited back the Marginal Cost of Congestion specifically related to its transmission facilities between Malin and Indian Spring on the #2 line, but will continue to be liable for Congestion Management Charges on the PACI for the balance of their Market Transmission usage into California.

To operate otherwise – *i.e.*, to exempt PacifiCorp from CAISO Congestion costs – would be bad policy, would establish problematic precedent and would in effect establish a new form of Existing Transmission Contract rights on the

CAISO Controlled Grid, contrary to the Commission's previous refusals to require creation of new contractual rights on the CAISO Controlled Grid. *See Pacific Gas & Elec. Co.,* 109 FERC ¶ 61,255 at P 72. While other transmission providers provide transmission service pursuant to established Commission-approved Open Access Transmission Tariffs, such entities provide transmission service *up to* the interties with the CAISO Controlled Grid but not *on* the CAISO Controlled Grid.

No other holder of transmission rights enjoys such an exemption. While Western is exempt from Congestion Management Charges from Round Mountain to Tracy on its contractual right to 400 MW, that exemption was consideration for Western providing the CAISO rights to three times that capacity from Round Mountain to Malin. Western is able to schedule from Tracy to other points within the CAISO Balancing Authority Area using its own or other non-CAISO facilities. PacifiCorp provides no such exchange. Moreover, if Western were to schedule a transaction on the CAISO Controlled Grid south of Tracy, it would be subject to Congestion Management Charges for that portion of its transaction in the same manner as any other user of the CAISO Controlled Grid.

Enabling PacifiCorp's transmission customers to access the CAISO Controlled Grid without exposing them to Congestion charges is at odds with the generally applicable provisions of service over the CAISO Controlled Grid, could create problematic incentives for arbitrage, and may establish a minimum default usage charge on the CAISO Controlled Grid portion of the COI. Moreover, under the Commission's new Order No. 890 resale rules, PacifiCorp transmission customers could lock up long-term access to the CAISO Controlled Grid and have the power to dictate the resale price for transmission over the COI. *See, e.g., Preventing Undue Discrimination and Preference in Transmission Service*, Order No. 890, *FERC Stats. and Regs., Regs. Preambles* ¶ 31,241 at PP 85, 808, and Sec. 23 of *pro forma* OATT. By requiring PacifiCorp to pay all relevant charges for its use of the CAISO Controlled Grid, including Congestion Management Charges, the OA avoids this potential discrimination against other Market Participants.

Under the MRTU Tariff, certain charges in connection with TORs are limited under Section 17 of MRTU Tariff, but only to the extent of the TOR. In addition, schedules on the TOR are still charged under the CAISO Tariff for matters such as marginal losses and Ancillary Services that are not self-supplied. *Cal. Indep. Sys. Operator*, 116 FERC ¶ 61,274 (2006) at PP 976, 1003; MRTU Tariff Section 17.3.3, as filed Aug. 3, 2007, in Docket Nos. ER06-615 and ER07-1727. Because transactions that use both the CAISO Controlled Grid and a TOR remain liable for any charges in connection with the schedules on the CAISO Controlled Gird under MRTU, users of the PACI-PN will still be liable for other charges in connection with transmission on the PACI-PS and elsewhere on the CAISO Controlled Grid.

To the extent any party suggests that Section 17 of the MRTU Tariff could be read to exempt the PacifiCorp TOR from paying Congestion charges, the CAISO notes that the Commission has expressly held that, under MRTU, the terms of an operating agreement like the OA with PacifiCorp will trump any inconsistent provisions in Section 17 of the MRTU Tariff: "We agree with the CAISO that section 17 should govern treatment of TORs, except to the extent that a provision in a FERC-approved and existing settlement agreement or operations agreement expressly provides for different treatment of a TOR." 116 FERC ¶ 61,274 at P 987.

D. Scheduling

Section 7 of the OA addresses scheduling on the PACI-P. As noted in the CAISO's protest in Docket No. ER07-882, scheduling on the PACI-PN is complicated pre-MRTU by the absence of a substation at Indian Spring. Although the PACI-PS is part of the CAISO Controlled Grid, no schedules on that portion will be feasible unless the party has also arranged transmission on the PACI-PN with PacifiCorp. In the OA, the CAISO proposes to address this issue, as discussed above, by establishing the Malin-Round Mountain #2 line Scheduling Point for transactions using the PACI-PN.

The CAISO is concerned that some might argue the establishment of the single Scheduling Point for PacifiCorp transactions on the PACI-P means that the PG&E portion of the PACI-P is not being used by the CAISO to provide transmission to its customers. Under the Commission's ruling in Opinion No. 479, *City of Vernon,* 111 FERC ¶ 61,092 at PP 73, 78, *order on rehearing*, 112 FERC ¶ 61,207 (2005), *reh'g denied*, 115 FERC ¶ 61,297 (2006), such a finding might preclude inclusion of the costs of the PACI-PS in PG&E's Transmission Revenue Requirement and therefore in the CAISO's Transmission Access Charge ("TAC"). The establishment of the Malin-Round Mountain #2 line Scheduling Point for pre-MRTU purposes, however, does not eliminate the need for a party to take service from the CAISO in order to schedule a transaction on the PACI-P. As a public utility under the Commission's jurisdiction, PacifiCorp must provide open, nondiscriminatory transmission access under its Tariff. Therefore, the PACI-P, in its entirety, remains available for scheduling by all CAISO customers on a nondiscriminatory basis. Accordingly, the establishment of the Scheduling Point does not diminish or modify the CAISO's Operational Control of the PACI-PS. The CAISO believes this clarification eliminates any questions as to whether the costs of the PACI-PS are appropriately included in PG&E's Transmission Revenue Requirement.

Subsequent to the effective date of the MRTU Tariff, the CAISO will establish a Pricing Node for Indian Spring and include that Pricing Node in its network model. It will therefore no longer be necessary to use the Malin-Round Mountain #2 line Scheduling Point.

The CAISO notes that it will continue throughout to use “Malin” as the interchange scheduling point for imports and exports on the PACI because the interchange points must align with the Balancing Authority Area metered perimeter point of interconnection with the adjacent Balancing Authority Area. In this case, the location where the CAISO intersects with BPA and where meters are located is Malin.

Section 7 of the OA also provides that scheduling on the PACI-P shall be in accordance with the relevant CAISO scheduling procedures. The Commission has previously noted that reliability of the CAISO Controlled Grid would be compromised unnecessarily by instituting alternate scheduling arrangements for one intertie. *Cal. Indep. Sys. Operator Corp.,* 114 FERC ¶ 61,077 at P 18 (2006).

Although the CAISO understands that PacifiCorp would prefer at least one exception to the CAISO scheduled procedures – the 20-minute scheduling rights contained in its tariff – the CAISO believes that this would unnecessarily complicate the CAISO’s coordination of the PACI lines. *See* Declaration of Kyle T. Hoffman at ¶ 10. The only instances in which the CAISO has agreed to the continuation of 20-minute scheduling rights is when it has been required to do so by Existing Contracts or in interim arrangements that perpetuate Existing Contract rights for a short period. *See, e.g., Cal. Indep. Sys. Operator Corp.,* 109 FERC ¶ 61,391 at P 42 (2004). In this instance, there is no Existing Contract that would require the CAISO’s departure from its procedures, and a departure would be particularly unjustified in light of the fact the schedules on the PACI-PN must also be schedules on the PACI-PS, *i.e.,* on the CAISO Controlled Grid.

In its initial brief in Docket Nos. ER07-882-000 and ER07-967-000, PacifiCorp agreed that it would be willing to have the CAISO's scheduling deadline apply to schedules on the PACI-PN "and to provide the CAISO with control of any unused Malin-Indian Spring capacity" after that deadline.[6] Consistent with this commitment, Section 7.4 of the OA provides that PacifiCorp’s Scheduling Coordinator will not have the right to adjust schedules after the close of the CAISO's Hour-Ahead Market under the current CAISO Tariff or the Hour-Ahead Scheduling Process under the MRTU version of the CAISO Tariff.

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6 Initial Brief of PacifiCorp in Docket Nos. ER07-882-000 and ER07-967-000 at p. 16 (September 13, 2007).

Because all customers scheduling on PACI-P must also take service under PacifiCorp's OATT, the CAISO cannot accept such schedules unless the customer has made arrangements with PacifiCorp in advance. Moreover, only PacifiCorp can market their non-participating transmission on PACI-PN. The CAISO must necessarily reserve back the entire 1600 MW of capacity on PACI-P for PacifiCorp and therefore cannot offer this capacity on the PACI-P to Market Participants as New Firm Use capacity in accordance with the CAISO Tariff.

PacifiCorp will therefore be the sole Scheduling Coordinator for these interchange schedules on behalf of its transmission clients. The proposed OA provides for PacifiCorp or its designated Scheduling Coordinator to submit aggregate schedules to the CAISO for the Malin-Round Mountain line #2 Scheduling Point. OA, § 4.6. PacifiCorp's full 1600 MW of transmission rights, or the derated MW amount, as determined by the path operator consistent with any OCOA curtailment instructions, will be reserved back solely for their use and scheduling. Any capacity that PacifiCorp does not schedule by the deadlines in the CAISO Tariff will be available to the CAISO as necessary to maintain the reliability of the CAISO Controlled Grid without compensation to PacifiCorp. OA, § 7.6.

Although the provision provides PacifiCorp, as the Scheduling Coordinator for transactions using the PacifiCorp portion of the PACI, the ability to control schedules on the PACI-PS, it is not unduly discriminatory. Discrimination is undue only if the parties are similarly situated and there is no good reason for the disparate treatment. *El Paso Gas Co.*, 104 FERC ¶ 61,045 at PP 115-17. Because of PacifiCorp's ownership of the PACI-PN and the fact that PacifiCorp has not transferred Operational Control of the PACI-PN to the CAISO under the Transmission Control Agreement, PacifiCorp is not similarly situated to other users of the CAISO Controlled Grid and the necessity of scheduling on the PACI-PN justifies the arrangement. In other circumstances, the Commission concluded that the CAISO's scheduling practices were not discriminatory when a portion of capacity on one transmission line could only be scheduled initially by the owners of a Generating Unit connected to the line. *See City of Anaheim, CA, et al.*, 113 FERC ¶ 61,091 at PP 132-33 (2005), *reh'g denied*, 114 FERC ¶ 61,311 (2006).

In this instance, the lack of undue discrimination is even more apparent. The PACI-P segment of the PACI will not be available solely for PacifiCorp; rather PacifiCorp is only scheduling the segment. As a public utility under the Commission's jurisdiction, PacifiCorp must offer use of the facility to all parties on a non-discriminatory basis. *See generally, Promoting Wholesale Competition Through Open Access Non-discriminatory Transmission Services by Public Utilities*, Order No. 888, 61 Fed. Reg. 21,540 (May 10, 1996), FERC Stats. & Regs. ¶ 31,036 (1996), *order on reh'g*, Order No. 888-A, 62 Fed. Reg. 12,274

(March 14, 1997), FERC Stats. & Regs. ¶ 31,048 (1997), *order on reh'g*, Order No. 888-B, 81 FERC ¶ 61,248 (1997), *order on reh'g*, Order No. 888-C, 82 FERC ¶ 61,046 (1998).

Under MRTU, the requirement in Section 7.3 of the OA that scheduling on the PACI-P shall be in accordance with the relevant CAISO provisions of the CAISO Tariff, applicable Business Practice Manual, CAISO scheduling process, CAISO procedures, and CAISO time lines will include the requirement to comply with applicable provisions of Section 17. Under Section 17, each Non-Participating TO holding a TOR must work with the CAISO to develop the Transmission Right and Transmission Curtailment ("TRTC") instructions that allow the TOR to be accommodated in a way that: (i) maintains the existing scheduling and curtailment priorities of the TOR holder; (ii) is minimally burdensome to the CAISO (i.e., creates the least impact on the CAISO's preferred operational policies and procedures); (iii) to the extent possible, imposes no additional financial burden on the TOR holder (beyond that set forth in an applicable Existing Contract or any other contract pertaining to the TOR); (iv) is minimally burdensome to the TOR holder from an operational point of view; and (v) does not require the CAISO to interpret or underwrite the economics of any applicable Existing Contract. *See* Section 17.1 of the MRTU version of the CAISO Tariff as filed in Docket Nos. ER06-615 and ER07-1727 on August 3, 2007. Section 17 sets forth specific requirements for these TRTC instructions such as the requirement that the TOR holder identify the "eligible sinks (eligible physical sinks include Load PNodes, Custom LAPs and System Resources)." These requirements are appropriate, as they apply to PacifiCorp in the same manner as they apply to other TOR holders.

E. Effective Date and Term

The CAISO proposes that the Operating Agreement be made effective as of the later of January 1, 2008, or the date the Operating Agreement, and amendments to the OCOA and the CPOA making PacifiCorp a party to the OCOA and the CPOA, are accepted for filing and made effective by the Commission. OA, § 3.1. The Operating Agreement may be terminated at the earliest of (a) six months after mutual agreement of the Parties; (b) PacifiCorp's execution of the Transmission Control Agreement; or (c) the termination of the Transmission Exchange Agreement between the CAISO, PG&E, and the Western Area Power Administration. *Id.*, § 3.2. The proposed term will enable contractual issues related to the ongoing coordination of operations and scheduling of the PACI to be addressed simultaneously prior to the termination of the Transmission Exchange Agreement.

F. Miscellaneous

The remainder of the OA sets forth various contractual arrangements that are unrelated to operational and reliability issues. The provisions are similar to those in other CAISO operating agreements that have been approved by the Commission.

IV. REQUEST FOR CONSOLIDATION AND FOR EXPEDITIOUS COMMISSION RULING

As described above and in the CAISO brief in Docket Nos. ER07-882 and ER07-967, the OA is necessitated by the changed Operational Control of PACI-PN and by amendments to the OCOA. The outcome of Docket Nos. ER07-882 and ER07-967 will directly affect the terms and conditions of the OA. The CAISO therefore requests that this filing be consolidated with those dockets.

The CAISO also requests that the Commission act on both the OA and the issues raised in the CAISO's briefs in Docket Nos. ER07-882 and ER07-967 in an expeditious manner. The CAISO is concerned that, if the Commission were to require modifications to the OA or elect not to accept the conditions to the Capacity Agreement termination proposed by the CAISO in Docket Nos. ER07-882 and ER07-967, it may be difficult or even impossible for the CAISO to implement the Commission's directives by January 1, 2008. The CAISO therefore respectfully requests that the Commission issue an order or orders on the OA and in Docket Nos. ER07-882 and ER07-967 in a time frame that allows the CAISO and other affected parties to assess any implementation issues raised by the Commission's directives.

V. EXPENSES AND REQUEST FOR WAIVER

No expense or cost associated with this filing has been alleged or judged in any judicial or administrative proceeding to be illegal, duplicative, unnecessary, or demonstratively the product of discriminatory employment practices.

The information submitted with this filing substantially complies with the requirements of Part 35 of the Commission's regulations applicable to filings of this type. The CAISO requests waiver of any applicable requirement of Part 35 if necessary, in order to permit this filing to become effective as proposed.

VI. SERVICE

Copies of this filing have been served upon PacifiCorp, the California Public Utilities Commission, the California Electricity Oversight Board, and all parties on the official service lists for Docket Nos. ER07-882 and ER07-697. In addition, the filing has been served upon all CAISO Scheduling Coordinators and posted on the CAISO's website.

Enclosed for filing are six copies of each of the following:

(1) this letter of transmittal;

(2) the Operating Agreement, provided in a format that complies with Order No. 614, *Designation of Electric Rate Schedule Sheets*, FERC Stats. and Regs. ¶ 31,096 (2000) (Attachment A).

(3) Declaration of Kyle T. Hoffman, Manager of Scheduling for the CAISO (Attachment B).

(4) Declaration of James McIntosh, Director of Grid Operations for the CAISO (Attachment C).

Also enclosed are two additional copies of this filing to be date-stamped and returned to our messenger.

VII. CORRESPONDENCE

The CAISO requests that all correspondence, pleadings and other communications concerning this filing be served upon the following:

Nancy Saracino, General Counsel
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Counsel for the California Independent System Operator Corporation

*Individuals designated for service pursuant to 18 C.F.R. § 203(b)(3).

VIII. CONCLUSION

For the reasons set forth above, the CAISO respectfully requests that the Commission accept the OA for filing.

Respectfully submitted,

Sean A. Atkins
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Attachment A

CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

AND

PACIFICORP

OPERATING AGREEMENT

Operating Agreement

THIS AGREEMENT is made this _______ day of _________________, ______ and is entered into, by and between:

(1) **PacifiCorp,** having a registered or principal executive office at **700 N.E. Multnomah Street, Suite 1600, Portland, Oregon 97232**

and

(2) **California Independent System Operator Corporation**, a California nonprofit public benefit corporation having a principal executive office located at such place in the State of California as the CAISO Governing Board may from time to time designate (the "CAISO").

Whereas:

A. PacifiCorp owns a 47 mile segment of the Malin to Round Mountain #2 line of the Pacific AC Intertie ("PACI"). The Malin to Round Mountain segments of the PACI comprise two of the three 500 kV lines that together constitute the California-Oregon Intertie ("COI"). PacifiCorp's 47 mile segment ("PACI-PN") runs from Malin substation to Indian Spring. PacifiCorp has elected to operate PACI-PN within the CAISO Balancing Authority Area as a Non-Participating Transmission Owner ("Non-PTO").

B. PACI-PN interconnects with CAISO Controlled Grid facilities at the Indian Spring location, referenced above. Indian Spring is not a substation at the time of this agreement.

C. The CAISO is the Balancing Authority for PacifiCorp's Malin to Indian Spring facilities.

D. The Owners Coordinated Operation Agreement ("OCOA") is an agreement among the parties with ownership rights on the PACI and the California-Oregon Transmission Project ("COTP") that, together with the California-Oregon Intertie Path Operating Agreement ("CPOA"), governs coordinated operations of the PACI and COTP, collectively the "System."

E. The OCOA requires each owner of System facilities to enter into an agreement with its Control Area Operator to ensure is facilities are operated in conformance with the OCOA, including certain minimum requirements. Under revised NERC procedures, the role of the Control Area Operator for purposes of the OCOA is fulfilled by the Balancing Authority.

F. PacifiCorp is a party to the OCOA, and PacifiCorp must make the arrangements referenced in E above with the Balancing Authority for the PACI-PN, which is the CAISO.

G. As the Balancing Authority for the PACI-PN, the CAISO needs scheduling, meter, and Outage information from PacifiCorp to fulfill its Balancing Authority responsibilities. Because PacifiCorp is a new transmission provider in the CAISO Balancing Authority Area, the CAISO has no existing agreements with PacifiCorp under which PacifiCorp is obligated to provide such information.

NOW, THEREFORE, in consideration of the mutual covenants set forth herein, THE PARTIES AGREE as follows:

1. DEFINITIONS AND INTERPRETATION

1.1 Master Definitions Supplement. Except as otherwise defined in Section 1.3 of this Agreement, all terms and expressions used in this Agreement with initial capitalization shall have the same meaning as those contained in the Master Definitions Supplement to the CAISO Tariff.

1.2 Rules of Interpretation. The following rules of interpretation and conventions shall apply to this Agreement:

(a) if and to the extent a matter is specifically addressed by a provision of this Agreement, the provision of this Agreement shall govern notwithstanding any inconsistent provisions of the CAISO Tariff;

(b) if and to the extent this 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;

(c) the singular shall include the plural and vice versa;

(d) the masculine shall include the feminine and neutral and vice versa;

(e) "or" is used in the conjunctive sense;

(f) "includes" or "including" shall incorporate "without limitation";

(g) references to a Section or Schedule shall mean a Section or a Schedule of this Agreement, as the case may be, unless the context otherwise requires;

(h) except as otherwise provided, 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;

(i) 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;

(j) 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;

(k) unless the context otherwise requires, any reference to a Party includes a reference to its permitted successors and assigns;

(l) any reference to a day, week, month or year is to a calendar day, week, month or year; and

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

1.3 Special Agreement Definitions. In addition to terms defined in the beginning of this Agreement and in Section 1.1 of this Agreement, for purposes of this Agreement the following terms shall have the meanings set forth below.

Administrative Committee means the committee described in Section 7 of the OCOA.

Applicable Requirements means, in relation to PacifiCorp's interest in the System, any applicable law or regulation; any standards, procedures or requirements of (i) NERC, (ii) WECC, (iii) the CAISO as Balancing Authority, or (iv) any other person or entity or tariff or rate schedule, that are legally binding on PacifiCorp's interest in the System, which may include operational control; in each case as amended from time to time and whether now existing or hereafter imposed or arising.

Available System Transfer Capability ("ASTC") means the portion of Rated System Transfer Capability ("RSTC") that is physically capable of transmitting power based on operating conditions, other than loop flow, existing at a given time as determined in accordance with Section 11.1 of the OCOA.

Balancing Authority and Balancing Authority Area have the meaning given them in the "Glossary of Terms Used in Reliability Standards" adopted by the North American Electric Reliability Corporation on November 1, 2006.

CAISO Tariff means the transmission tariff of the CAISO on file with the Federal Energy Regulatory Commission as they may be amended from time to time, specifically including changes to the CAISO Tariff to implement MRTU as may be approved by FERC in FERC Docket Nos. ER06-615, ER07-1257, and other dockets related to MRTU.

California-Oregon Border ("COB") means the cut-plane where the COI crosses the border between the State of California and the State of Oregon, parallel to such border.

California-Oregon Intertie ("COI") means the two 500-kV transmission lines between Malin Substation and Round Mountain Substation and the one 500-kV transmission line between Captain Jack Substation and Olinda Substation.

California-Oregon Intertie Path Operating Agreement ("CPOA") means the agreement dated October 21, 2004, among Southern California Edison Company, Pacific Gas and Electric Company, San Diego Gas & Electric Company, the COTP Participants, Western and the CAISO.

COTP means the California-Oregon Transmission Project, a 500-kV transmission line and associated facilities between the Captain Jack substation near COB and the eastern boundary of the existing right-of-way of the Tesla-Tracy 500 kV transmission line, at which the COTP's conductors extending from the Tracy Substation meet PG&E's conductors extending from PG&E's Tesla Substation.

Curtailment means a temporary reduction in schedules on the System in accordance with Section 11 of the OCOA.

E&O Committee means the body described in Section 7 of the OCOA.

Electric System means all physically connected properties and other assets, now or hereafter existing, owned or controlled by a single entity, and used for, or pertaining to, the generation, transmission, transformation, distribution, or sale of electric power and energy, including all additions, extensions, expansions, and improvements, but excluding subsidiaries and their properties and assets. To the extent that an entity is not the sole owner of an asset or property, only that entity's ownership interest in such asset or property shall be considered to be part of its Electric System.

Indian Spring means the point of change of ownership along the PACI-P between PG&E and PacifiCorp, between Round Mountain and Malin Substations.

MRTU means the CAISO's Market Redesign and Technology Upgrade project, the implementation of which is the subject of FERC Docket Nos. ER06-615, ER07-1257 and related dockets.

Non-Participating Transmission Owner ("Non-PTO") means an entity owning transmission facilities within the CAISO Balancing Authority Area that is not a signatory to the Transmission Control Agreement.

Non-Simultaneous Transfer Capability means the capability or capacity of a transmission circuit or path, in megawatts, to transfer power reliably and in accordance with prescribed reliability criteria independent of concurrent flows on other circuits or paths. It is normally determined with all potentially interacting circuits or paths loaded below the levels at which limitations are observed and studied.

Open Access Transmission Tariff ("OATT") means a tariff adopted pursuant to FERC Order Nos. 888 and 890.

Owners Coordinated Operation Agreement ("OCOA") means the contract among the owners of the PACI and COTP transmission facilities governing the coordinated operation of the PACI and the COTP, as it may be amended.

Pacific AC Intertie ("PACI") means that portion of the 500 kV AC Pacific Intertie consisting of two 500 kV lines located between Malin Substation and PG&E's Tesla Substation, associated 500 kV facilities at Tesla Substation and that portion of the Tesla-Tracy 500 kV AC transmission line between Tesla Substation and the eastern boundary of the existing right-of-way of the Tesla-Tracy 500 kV transmission line, at which the COTP's conductors extending from the Tracy Substation meet PG&E's conductors extending from PG&E's Tesla Substation, including lines, substations and associated facilities.

PACI-P means the portion of the Malin to Round Mountain #2 line of the PACI owned by PacifiCorp between Malin Substation and Indian Spring and the portion of the PACI owned by PG&E from Indian Spring to the eastern boundary of the existing right-of-way of the Tesla-Tracy 500 kV transmission line, at which the COTP's conductors extending from the Tracy Substation meet PG&E's conductors extending from PG&E's Tesla Substation.

PACI-PN means the portion of the PACI-P owned by PacifiCorp between Malin Substation and Indian Spring.

PACI-PN Interconnection Point means the point of Interconnection on the PACI-PN line for interchange between the CAISO Balancing Authority Area and the adjacent Bonneville Power Administration Balancing Authority Area, located at the Malin substation.

PACI-PN Terminus means the point of Interconnection between the PACI-PN and the PG&E-owned portion of the Malin to Round Mountain #2 line, which is part of the CAISO Controlled Grid, located at Indian Spring, roughly mid-point on the Malin-Round Mountain #2 500 kV line.

Pacific Northwest Path Operator means the entity, currently the Bonneville Power Administration ("Bonneville"), responsible for operating the electric transmission path and managing transfer capability north of COB corresponding to the COI south of COB.

Party means each of the signatories to this Agreement (PacifiCorp and CAISO).

Path Operator for COI means the entity, currently the CAISO, selected pursuant to Section 8.1.2 of the OCOA which performs the duties described in Section 8.1.6 of the OCOA.

PG&E means the Pacific Gas and Electric Company.

Rated System Transfer Capability ("RSTC") means the Non-Simultaneous Transfer Capability of the System at COB as determined by the Administrative Committee in accordance with Section 9 of the OCOA.

Reliability Management System ("RMS") means the contractual reliability management program implemented through the WECC Reliability Criteria Agreement or its successor agreement and arrangement, the WECC RMS Agreement, this Agreement, and any similar contractual arrangement.

Reliability Standards Agreement means an agreement for the allocation of responsibilities for compliance with the mandatory Reliability Standards adopted by FERC, NERC, and WECC.

System means the combined COTP and PACI (including the PACI-PN).

Transmission Control Agreement means CAISO FERC Electric Tariff No. 7, on file with FERC.

WECC Reliability Criteria Agreement means the agreement dated June 18, 1999 among the WECC and certain of its member transmission operators, as such may be amended from time to time.

WECC RMS Agreement means the Reliability Management System Agreement between the WECC and the CAISO requiring the CAISO to comply with the reliability criteria contained in the WECC Reliability Criteria Agreement or its successor agreement or arrangement, as such may be amended from time to time.

2. SCOPE OF AGREEMENT

This Agreement governs the operational, scheduling, and Settlements requirements of the CAISO with respect to PacifiCorp's ownership of the PACI-PN as detailed in Schedule 1. As a party to the OCOA, PacifiCorp requires the CAISO to perform certain functions as the Balancing Authority for PacifiCorp's ownership of the PACI-PN. For reliable operation of the Balancing Authority Area, the CAISO requires transmission operators and Scheduling Coordinators to provide schedules in accordance with the CAISO Tariff. PacifiCorp shall designate itself or another entity as a Scheduling Coordinator for this function.

3. TERM AND TERMINATION

3.1 Term. This Agreement shall be effective as of the later of i) January 1, 2008, or ii) the later of the date this Agreement, and amendments to the OCOA and the CPOA making PacifiCorp a party to the OCOA and the CPOA, are accepted for filing and made effective by FERC, and shall continue in effect until termination under Section 3.2 of this Agreement.

3.2 Termination. This Agreement may be terminated at the earliest of:

(a) six months after mutual agreement of the Parties;

(b) PacifiCorp execution of the Transmission Control Agreement; or

(c) the termination of the Transmission Exchange Agreement between the CAISO, PG&E, and the Western Area Power Administration.

With respect to any notice of termination given pursuant to this Section, the CAISO or PacifiCorp must file a timely notice of termination with FERC or must otherwise comply with the requirements of FERC Order No. 2001 and related FERC orders. The filing of the notice of termination will be considered timely if the filing of the notice of termination is made after the preconditions for termination have been met. This Agreement shall terminate upon acceptance by FERC of such a notice of termination, if filed with FERC, or thirty (30) days after the date of the CAISO's or PacifiCorp's notice of termination, if terminated in accordance with the requirements of FERC Order No. 2001 and related FERC orders. Any outstanding charges or settlements that arose under this Agreement shall survive until they are satisfied.

4. OPERATING REQUIREMENTS

4.1 Operating Requests. The CAISO shall respond to operating requests from the Path Operator for COI in a timely manner in accordance with the CPOA and the CAISO Tariff unless specific threats to human safety or serious and imminent adverse impacts to reliability of the CAISO Balancing Authority Area would result.

4.2 Maintenance. The CAISO shall coordinate maintenance schedules and operation of the System as may be required to: i) maintain the reliability of the interconnected Electric Systems, ii) minimize the total cost of maintenance, iii) reduce losses, iv) maintain voltage levels, v) minimize reactive interchange, and vi) minimize the magnitude and duration of reductions in ASTC.

4.3 Outages. The CAISO shall coordinate and approve Outages that affect ASTC with appropriate parties, the Path Operator for COI, the Pacific Northwest Path Operator and other entities to minimize adverse impacts to ASTC. All requests for Outages must be approved by the CAISO, which approval shall be granted in accordance with the CAISO Tariff. The CAISO shall coordinate the removal from, and restoration to, service for any facilities within the CAISO Balancing Authority Area that affect ASTC.

4.4 Emergency Response. The CAISO shall initiate requests for emergency response procedures to isolate inoperable components of the System and to restore the remaining System facilities to service without undue delay.

4.5 Studies. The CAISO shall in coordination with other parties that choose to participate, and as concurred by the Administrative Committee, prepare short-term operating studies, including contingency studies of potential Outages and disturbances, which affect ASTC and submit them upon request to the E&O Committee for review.

4.6 **COB Schedules.** PacifiCorp's Scheduling Coordinator shall as required provide total schedules at COB to the CAISO for PacifiCorp's PACI-PN facilities and the CAISO shall provide such schedules to the Path Operator for COI. The CAISO, the Path Operator for COI and PacifiCorp shall develop operating procedures to provide the timing and format in which schedules are given to the Path Operator for COI.

4.7 **COI Emergencies.** The CAISO shall in the event of, and for the duration of, a System Emergency or as a result of Uncontrollable Force take such immediate action in accordance with Good Utility Practice as the CAISO determines necessary to mitigate or eliminate the System Emergency or Uncontrollable Force. Such action may include or result in, without limitation, Curtailments in accordance with Section 11 of the OCOA and directing the operation of System facilities in a manner that is reasonable and practical under the circumstances.

4.8 **Voltage Control and Reactive Support.** PacifiCorp shall make available to the CAISO and shall operate the voltage control and reactive facilities on its portion of the System to meet voltage control standards under Applicable Requirements and the CAISO Tariff. The CAISO shall coordinate the use of the available voltage control and reactive support devices to maintain the reliable operation of the System in accordance with Good Utility Practice.

4.9 **Removal From and Restoration To Service**. PacifiCorp acting in coordination with the CAISO, in accordance with Section 9 of the CAISO Tariff, may remove from service, and following an Outage shall restore to service, all or part of its respective System facilities.

5. RELIABILITY MANAGEMENT

5.1 **Purpose.** In order to maintain the reliable operation of the transmission grid, the WECC Reliability Criteria Agreement, or its successor agreement or arrangement, sets forth reliability criteria adopted by the WECC with which PacifiCorp and the CAISO shall be required to comply.

5.2 **Compliance.** Section III.K to Annex A of the WECC Reliability Criteria Agreement, or its successor agreement or arrangement, provides for Qualified Path Unscheduled Flow Relief and the System is a qualified path. PacifiCorp and the CAISO shall comply with the requirements of the WECC Reliability Criteria Agreement or its successor agreement and arrangement, and, in the event of failure to comply, each Party agrees to be subject to the sanctions applicable to such failure. Such sanctions shall be assessed pursuant to the procedures contained in the WECC Reliability Criteria Agreement or its successor agreement and arrangement. Moreover, if PacifiCorp is not directly sanctioned and the CAISO is sanctioned on behalf of PacifiCorp, PacifiCorp agrees to reimburse the CAISO for its proportionate share of such sanction.

5.3 Publication. PacifiCorp consents to the release by the WECC of information related to PacifiCorp's compliance with this Agreement only in accordance with the WECC Reliability Criteria Agreement or its successor agreement and arrangement.

5.4 Reserved Rights. Nothing in the WECC RMS Agreement or the WECC Reliability Criteria Agreement or its successor agreement and arrangement shall affect the right of the CAISO, subject to any necessary regulatory approval, to take such other measures to maintain reliability which the CAISO may otherwise be entitled to take.

5.5 Reliability Standards: PacifiCorp, as a Non-PTO, shall execute a Reliability Standards Agreement including all of the substantive terms and conditions of any such CAISO *pro forma* Reliability Standards Agreement for Participating Transmission Owners or other Market Participants as FERC may approve.

6. COSTS, CHARGES AND PAYMENT

6.1 Operating and Maintenance Costs. PacifiCorp shall be responsible for its operating and maintenance costs incurred in connection with operating and maintaining its Electric System and its ownership interest in the System. The CAISO shall not be responsible for paying any operating and maintenance charges from PacifiCorp for costs so incurred.

6.2 Charges Not Generally Affected. Nothing in this Agreement is intended to affect the rates and charges paid by transmission service customers of the CAISO for use of the CAISO Controlled Grid. Transmission service customers of the CAISO using the CAISO's markets or the CAISO Controlled Grid shall pay rates and charges in accordance with the CAISO Tariff. All schedules using the portion of the PACI-P south of the PACI-PN Terminus constitute use of the CAISO Controlled Grid. In addition, nothing in this Agreement is intended to affect the rates and charges paid by transmission service customers of PacifiCorp for use of PacifiCorp's Electric System. Transmission service customers of PacifiCorp using PacifiCorp's Electric System shall pay rates and charges in accordance with PacifiCorp's Open Access Transmission Tariff ("PacifiCorp's OATT").

6.3 CAISO Charges. CAISO charges applicable to PacifiCorp's Scheduling Coordinator for its transmission customers for schedules within the CAISO Balancing Authority Area shall include all CAISO Market charges (including Congestion charges), Grid Management Charges ("GMC"), and losses as applicable to import and export schedules and Inter-SC Trades in accordance with the CAISO Tariff.

6.4 Payment. All payments to the CAISO will be made in accordance with the CAISO Tariff and the applicable Business Practice Manual.

7. SCHEDULING AND UNUSED CAPACITY

7.1 Establishment of Scheduling Point. The CAISO will establish a Malin-Round Mountain #2 line Non-PTO Scheduling Point for the purpose of scheduling transactions using the PACI-PN that will be used until the effective date of the MRTU version of the CAISO Tariff. The Parties agree that the establishment of a Malin-Round Mountain #2 line Non-PTO Scheduling Point does not relieve customers from the obligation of taking transmission service under the CAISO Tariff to obtain service on the PG&E portion of the PACI-P. The Parties further agree that nothing in this Agreement diminishes or modifies the CAISO's Operational Control of the PG&E portion of the PACI-P.

7.2 Establishment of a Pricing Node. The CAISO will establish a Pricing Node (PNode) at Indian Spring to be used for establishing LMPs on and after the effective date of the MRTU version of the CAISO Tariff. The LMPs at each PNode shall be calculated in accordance with Section 27 of the MRTU version of the CAISO Tariff.

7.3 Scheduling. Scheduling of all transactions at the Malin-Round Mountain #2 line Non-PTO Scheduling Point or to Indian Spring shall be in accordance with the scheduling provisions of the CAISO Tariff, applicable Business Practice Manual, CAISO scheduling process, CAISO procedures and CAISO time lines. PacifiCorp's Scheduling Coordinator shall meet all requirements with respect to Scheduling Coordinators in the CAISO Tariff. All schedules submitted at the Malin-Round Mountain #2 line Non-PTO Scheduling Point or at Indian Spring shall be submitted into the CAISO market transmission reservation system ("SI" or "SIBR" as applicable) and shall be submitted by PacifiCorp's Scheduling Coordinator.

7.4 Unused Capacity. Once the deadline for schedule changes under the CAISO Tariff has passed, the CAISO may use any unused capacity as necessary to maintain reliability of the interconnected Electric Systems without compensation to PacifiCorp. PacifiCorp's Scheduling Coordinator will not have the right to adjust schedules after the close of the CAISO's Hour-Ahead Market or Hour-Ahead Scheduling Process, as applicable.

8. DISPUTE RESOLUTION

8.1 Dispute Resolution. The Parties shall make reasonable efforts to settle all disputes arising out of or in connection with this Agreement. In the event any dispute is not settled, the Parties shall adhere to the CAISO ADR Procedures set forth in Section 13 of the CAISO Tariff, which is incorporated by reference, except that any reference in Section 13 of the CAISO Tariff to Market Participants shall be read as a reference to PacifiCorp and references to the CAISO Tariff shall be read as references to this Agreement.

9. LIABILITY

9.1 Liability. The provisions of Section 14 of the CAISO Tariff will apply to liability arising under this Agreement, except that all references in Section 14 of the CAISO Tariff to Market Participants shall be read as references to PacifiCorp and references to the CAISO Tariff shall be read as references to this Agreement.

10. UNCONTROLLABLE FORCES

10.1 Uncontrollable Forces. Section 14 of the CAISO Tariff shall be incorporated by reference into this Agreement except that all references in Section 14 of the CAISO Tariff to Market Participants shall be read as a reference to PacifiCorp and references to the CAISO Tariff shall be read as references to this Agreement.

11. NO DEDICATION OF FACILITIES

11.1 No Dedication of Facilities. Any undertaking by a Party under any provision of this Agreement is rendered strictly as an accommodation and shall not constitute the dedication of its Electric System or any portion thereof by the undertaking Party to the public, to any other Party or to any third party, and any such undertaking by a Party shall cease upon the termination of such Party's obligations under this Agreement. The Electric System of a Party shall at all times be, and remain, in the exclusive ownership, possession, and control of that Party, and nothing in this Agreement shall be construed to give any other Party any right of ownership, possession or control of such Electric System.

12. REGULATORY AUTHORITY

12.1 FERC Jurisdiction. This Agreement is subject to acceptance for filing by, and the regulatory jurisdiction of, FERC.

12.2 Changes in Rates. Nothing contained herein shall be construed as affecting in any way the right of PacifiCorp or the CAISO unilaterally to make application to FERC for a change in rates under Section 205 of the Federal Power Act and pursuant to the FERC's Rules and Regulations promulgated thereunder. The standard of review the Federal Energy Regulatory Commission shall apply when acting on proposed modifications of the rates for CAISO charges included in Section 6.3 of this Agreement, either on the Commission's own motion or on behalf of a signatory or non-signatory, shall be the "just and reasonable" standard of review rather than the "public interest" standard of review. The term "rates" as used herein shall mean a statement of electric services provided in accordance with this Agreement, rates and charges for, or in accordance with, those services, and all classifications, practices, rules, regulations, or contracts, including but not limited to this Agreement, which in any manner affect or relate to such services, rates and charges. A change in rates may include, but not be limited to, changes in rates, charges and the underlying methodology by which such rates and charges are developed.

12.3 Nothing contained herein shall be construed as affecting in any way the right of any party taking service under this Agreement to file a complaint under Section 206 of the Federal Power Act and pursuant to the FERC's Rules and Regulations promulgated thereunder.

12.4 Nothing contained herein shall be construed as affecting in any way the right of the CAISO unilaterally to make application to FERC for a change in the terms and conditions of this Agreement under Section 205 of the Federal Power Act and pursuant to the FERC's Rules and Regulations promulgated thereunder in the event that PacifiCorp terminates its obligations under the OCOA or the CPOA but the OCOA and the CPOA otherwise remain in full force and effect.

13. MISCELLANEOUS

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

13.2 **Notices.** Any notice, demand or request which may be given to or made upon either Party regarding this Agreement shall be made in accordance with Section 22.4 of the CAISO Tariff, provided that all references in Section 22.4 of the CAISO Tariff to Market Participants shall be read as a reference to PacifiCorp and references to the CAISO Tariff shall be read as references to this Agreement, and unless otherwise stated or agreed shall be made to the representative of the other Party indicated in Schedule 2. A Party must update the information in Schedule 2 of this Agreement as information changes. Such changes shall not constitute an amendment to this Agreement.

13.3 **Waivers.** Any waivers at any time by either Party of its rights with respect to any default under this Agreement, or with respect to any other matter arising in connection with this Agreement, shall not constitute or be deemed a waiver with respect to any subsequent default or other matter arising in connection with this

Agreement. Any delay, short of the statutory period of limitations, in asserting or enforcing any right under this Agreement shall not constitute or be deemed a waiver of such right.

13.4 Governing Law and Forum. This 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 law provisions. The Parties irrevocably consents that any legal action or proceeding arising under or relating to this Agreement to which the CAISO ADR Procedures do not apply shall be brought in any of the following forums, as appropriate: any court of the State of California, any federal court of the United States of America located in the State of California, or, where subject to its jurisdiction, before the Federal Energy Regulatory Commission.

13.5 Consistency with Federal Laws and Regulations. This Agreement shall incorporate by reference Section 22.9 of the CAISO Tariff as if the references to the CAISO Tariff were referring to this Agreement.

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

13.7 Severability. If any term, covenant, or condition of this Agreement or the application or effect of any such term, covenant, or condition is held invalid as to any person, entity, or circumstance, or is determined to be unjust, unreasonable, unlawful, imprudent, or otherwise not in the public interest by any court or government agency of competent jurisdiction, 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 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 Agreement.

13.8 Amendments. This Agreement and the Schedules attached hereto may be amended from time to time by the mutual agreement of the Parties in writing. Amendments shall not take effect until FERC has accepted such amendments for filing and made them effective.

13.9 Counterparts. This 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 Agreement.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their respective authorized officials.

California Independent System Operator Corporation:

By: ______________________________

Name: ______________________________

Title: ______________________________

Date: ______________________________

PacifiCorp:

By: ______________________________

Name: ______________________________

Title: ______________________________

Date: ______________________________

SCHEDULE 1
PACIFICORP RIGHT

47 miles of the 500 kV Malin to Round Mountain #2 line south from the Malin substation to Indian Spring.

SCHEDULE 2
NOTICES

PacifiCorp

Name of Primary Representative: ____________________

Title: ________________

Address: ________________

City/State/Zip Code: ________________

Email Address: ____________________

Phone: ____________________

Fax No: ____________________

Name of Alternative Representative: ________________________________

Title: ________________________________

Address: ________________________________

City/State/Zip Code: ________________________________

Email Address: ________________________________

Phone: ________________________________

Fax No: ________________________________

CAISO

Name of Primary Representative:	Roni L. Reese
Title:	Senior Contracts Analyst
Address:	151 Blue Ravine Road
City/State/Zip Code:	Folsom, CA 95630
Email Address:	rreese@caiso.com
Phone:	(916) 608-7027
Fax No.:	(916) 608-7292

Name of Alternative Representative:	Philip D. Pettingill
Title:	Manager of Infrastructure Policy & Contract Negotiation
Address:	151 Blue Ravine Road
City/State/Zip Code:	Folsom, CA 95630
Email Address:	ppettingill@caiso.com
Phone:	(916) 608-7241
FAX NO.:	(916) 608-7292

Attachment B

Exhibit ISO-2

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

PacifiCorp	)	Docket No. ER07-882-000
Pacific Gas and Electric Company	)	Docket No. ER07-967-000

DECLARATION OF KYLE T. HOFFMAN

I, Kyle T. Hoffman, declare as follows:

1. I am Manager of Scheduling for the California Independent System Operator Corporation in Folsom, California.

2. The purpose of my testimony is to discuss scheduling and market issues that arise in connection with the termination of the Agreement for Use of Transmission Capacity among Pacific Power & Light Company, Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company dated August 1, 1967 (the "Capacity Agreement"), amendment of the Owners' Coordinated Operating Agreement ("OCOA"), and the Operating Agreement ("OA") that the CAISO believes is necessary as a result of the first two events.

3. The California-Oregon Intertie ("COI") is a 4,800 MW transmission path comprised of three parallel 500 kV lines: the Pacific AC Intertie ("PACI") line owned by the Western Area Power Administration – Sierra Nevada Region ("Western") from Malin to Round Mountain #1 ("PACI-W"); the PACI line owned by PacifiCorp from Malin to Indian Spring and Pacific Gas & Electric Company

("PG&E") from Indian Spring to Round Mountain ("PACI-P")[1]; and the California Oregon Transmission Project ("COTP"). The COTP is owned by a number of municipal utilities. The two PACI lines are currently located within the Control Area or Balancing Authority Area[2] of the CAISO and the COTP line resides within the Sacramento Municipal Utility District ("SMUD") Balancing Authority Area. Each line has an individual maximum rated capacity of 1600 MW. In accordance with the OCOA among Southern California Edison Company, PG&E, San Diego Gas & Electric Company, the Participants in the COTP and Western, owners of each of these transmission facilities have agreed to operate the entire COI path in a coordinated fashion and each line shares capacity derates when the path is collectively derated for operating constraints. In accordance with the COI Path Operating Agreement, the COI transmission owners have retained the CAISO as the COI path operator on the California side of the path to coordinate operations between SMUD and the CAISO (the two Balancing Authorities on the south side of the COI path). The Bonneville Power Authority ("Bonneville") is the Balancing Authority and path operator on the north side of the COI path.

4. Within the CAISO market and scheduling systems, the CAISO currently uses Scheduling Points to schedule transactions on the PACI in the

[1] The terms PACI-W and PACI-P are used for consistency with the Transmission Exchange Agreement, discussed below. In the Transmission Exchange Agreement, however, the term PACI-P includes the entire path owned by PacifiCorp from Malin to Indian Springs and PG&E from Indian Springs to Tesla.

[2] Capitalized terms not otherwise defined or explained have the meaning given them in the tariff of the CAISO on file with the Commission ("CAISO Tariff"). The definition of a Control Area in the CAISO Tariff applies to a Balancing Authority Area as described in revised standards of the North American Electric Reliability Corporation. This Declaration will therefore use the updated terms "Balancing Authority" and "Balancing Authority Area".

same manner as all other exports out of and imports into the CAISO Balancing Authority Area are scheduled, using the transmission facilities under the CAISO's Operational Control ("CAISO Controlled Grid"). The CAISO Tariff defines a Scheduling Point as follows:

> A location at which the ISO Controlled Grid is connected, by a group of transmission paths for which a physical, non-simultaneous transmission capacity rating has been established for Congestion Management, to transmission facilities that are outside the ISO's Operational Control. A Scheduling Point typically is physically located at an "outside" boundary of the ISO Controlled Grid (e.g., at the point of interconnection between a Control Area utility and the ISO Controlled Grid). For most practical purposes, a Scheduling Point can be considered to be a Zone that is outside the ISO's Controlled Grid.

Under Section 30.2.6.3 of the CAISO Tariff, all imports into or exports from the CAISO Controlled Grid must specify the Scheduling Point. In addition, the CAISO considers this path to be a Zonal boundary for Congestion Management purposes.

5. Because both PACI lines are currently under the CAISO's Operational Control, and terminate at Malin, the CAISO uses Malin as the Scheduling Point for all transactions on the PACI. The CAISO does not distinguish the power flow scheduled on one line from that on the other. Following the termination of the Capacity Agreement between PacifiCorp and PG&E, the CAISO will no longer have Operational Control of the segment of the PACI-P owned by PacifiCorp (the northern end of the line or "PACI-PN"). The CAISO Controlled Grid would therefore terminate at Indian Spring, the intersection between the PACI-PN and the portion of the PACI-P owned by PG&E (the southern end of the line or "PACI-PS"). That said, because the PACI-

P is a single line (comprised of the PACI-PN and PACI-PS), flows on the PACI-PN automatically flow on the PACI-PS, and vice versa.

6. In order to effect the transfer or exit of the PACI-PN from the CAISO Controlled Grid, the CAISO will need to revise the scheduling process on the PACI because the ability of the CAISO to schedule transactions to Malin on the PACI-P would necessitate use of the PACI-PN and would depend on the CAISO Scheduling Coordinator's ability to also take service under PacifiCorp's Open Access Transmission Tariff ("OATT") for service on the PACI-PN, while transactions on the PACI-W do not require service under PacifiCorp's OATT or otherwise implicate use of non-CAISO Controlled Grid. In addition, the PACI-W does not interconnect with the PACI-P, and the scheduling of the PACI-W line is governed by the Transmission Exchange Agreement among Western, PG&E and the CAISO.

7. As a result, the CAISO must distinguish transactions on the PACI-P. There is no metering or substation at Indian Spring, however. Therefore, under the proposed OA, the CAISO proposes to establish a Malin-Round Mountain scheduling mechanism to represent transactions on the PACI-PN.

8. Nonetheless, it remains appropriate to use "Malin" as the interchange scheduling point for imports and exports on the PACI as the interchange points must align with the Balancing Authority Area metered perimeter point of interconnection with the adjacent Balancing Authority Area. In this case, that point is the location where the CAISO intersects with Bonneville

and where meters are located, the Malin substation. In addition, for Congestion Management purposes, CAISO will need to manage Congestion on the two lines simultaneously as there is a transfer capability limit at the southern terminus of the two lines – Round Mountain.

9. Because all customers scheduling on PACI-P must also take service under PacifiCorp's OATT, the CAISO cannot accept such schedules unless the customer has made arrangements with PacifiCorp in advance. Moreover, only PacifiCorp can market their non-participating transmission on the PACI-PN. Therefore, the CAISO must necessarily reserve back the entire 1600 MW of capacity on PACI-P for PacifiCorp and therefore cannot offer this capacity on the PACI-P to Market Participants as New Firm Use capacity in accordance with the CAISO Tariff.

10. The CAISO therefore proposes that PacifiCorp will act as the sole Scheduling Coordinator for all interchange schedules submitted by PacifiCorp to the CAISO on behalf of PacifiCorp's transmission customers. The proposed OA provides for PacifiCorp to become a Scheduling Coordinator and to submit aggregate schedules to the CAISO for the Malin-Round Mountain line #2 Scheduling Point. Only PacifiCorp will be allowed to submit such schedules on behalf of their transmission customers. PacifiCorp will be required to comply with the CAISO schedule procedures. Although the CAISO expects that PacifiCorp would prefer at least one exception to the CAISO scheduled procedures – the 20-minute scheduling rights contained in its tariff – the CAISO believes that this would unnecessarily complicate the CAISO's coordination of the PACI lines. The

only instances in which the CAISO has agreed to the continuation of 20 minute scheduling rights is when it has been required to do so by Existing Contracts or in interim arrangements that perpetuate Existing Contract rights for a short period.

11. In all respects other than PacifiCorp's submission of the aggregated schedules for the entire capacity, the schedules using PACI-P transmission are like any other export, import, or Inter-SC Trade, and the CAISO does not believe there is any reason to treat them differently. PacifiCorp transactions on the CAISO Controlled Grid, including the PACI-PS, will therefore be subject to all applicable charges under the CAISO Tariff, including, but not limited to, Congestion Management charges for use of the CAISO Controlled Grid, Grid Management Charges, and Imbalance Energy charges associated with derates after the close of the market. I discuss below a number of these charges, but this is not intended to be an all inclusive list of the applicable charges under the CAISO Tariff.

12. For example, the CAISO must procure any non-self-provided Ancillary Services for the Load served by non-firm imports and exports in accordance with the CAISO Tariff and Western Electricity Coordinating Council Minimum Operating Reliability Criteria. Unless self-provided, PacifiCorp must therefore pay for such Ancillary Services.

13. PacifiCorp will need to submit Day-Ahead and Hour-Ahead schedules to the CAISO so that its schedules are managed in the same manner as other schedules using the CAISO Controlled Grid. PacifiCorp interchange

schedules will be subject to Imbalance Energy charges for any deviations from the Final Hour-Ahead Schedule, including any deviations attributable to path derates or loop flow mitigation. The metered Demand of any Scheduling Coordinator that is served by a transaction using PacifiCorp's PACI-PN will pay the CAISO's transmission Access Charge. Imports that are wheeled through the CAISO Controlled Grid and exports using PACI-PN will pay the Wheeling Access Charge.

14. The interchange transactions will incur losses on the CAISO Controlled Grid which must be reimbursed. Under the current Tariff, the CAISO establishes Generation Meter Multipliers for the determination of losses. The Generation Meter Multiplier for transactions from Scheduling Points is referred to as a Tie Meter Multiplier ("TMM"). Losses will be calculated according to a TMM applied to imports using the Malin-Round Mountain line#2 Scheduling Point.

15. PacifiCorp schedules will also be subject to Congestion charges. Because the CAISO cannot adjust schedules on the PACI-PN as part of its Congestion Management, however, the CAISO has determined that there is no way to allow the Scheduling Coordinator for the PACI-PN to submit Adjustment Bids to value the use of the COI when the interface is congested. The CAISO will assess users of the PACI-PN Usage Charges that it will determine after-the-fact for both lines, which constitute a single branch group under the CAISO's Pre-MRTU Zonal Congestion Management system, based on Adjustment Bids submitted by other users of the PACI. Historically, congestion charges on the

PACI from April 2006 through March 2007 from Malin to Round Mountain were approximately $6.9 Million and Round Mountain to Malin was $0.

16. PacifiCorp's use of the CAISO Controlled Grid causes the CAISO to incur the same administrative costs as for any other importer of energy. PacifiCorp's use of the PACI-PN benefits from all CAISO's services as the responsible Balancing Authority. There is therefore no reason to exempt PacifiCorp from the applicable Grid Management Charges under the CAISO Tariff.

17. Although the nature of some charges will change when the CAISO implements its Market Redesign and Technology Update tariff ("MRTU Tariff"), PacifiCorp will remain subject to the CAISO tariff requirements. PacifiCorp will need to submit Import Bids and Export Bids and Inter-SC Trades in the Day-Ahead Market and the Hour-Ahead Scheduling Process. Use of PACI-PN will be modeled in the CAISO's network systems so as to provide the special scheduling and settlements treatment afforded by the CAISO to Non-Participating Transmission Owners for use of their own transmission rights, referred to as Transmission Ownership Rights or TORs. PacifiCorp will be subject to all CAISO charges applicable to TORs, including relevant GMC charges, Imbalance Energy, and Ancillary Services and Losses that are not self-supplied.

18. For transactions on the PACI-PS (and all lines to the south), PacifiCorp will remain responsible for all charges for use of the CAISO Controlled Grid, including the Access Charge or Wheeling Access Charge and charges from the CAISO's Day-Ahead Market, Hour-Ahead Scheduling Process and the Real-

Time Market. However, under MRTU the CAISO will be better able to specifically isolate CAISO Controlled Grid charges from those associated with the 47-mile segment of line owned by PacifiCorp, the PACI-PN. The CAISO will update the network model to include a special Pricing Node ("PNode") at Indian Springs under the Full Network Model to facilitate Locational Marginal Pricing for this line segment. Such a precise modeling and pricing approach is not possible under the CAISO's current Zonal model.

19. Thus PacifiCorp interchange transactions at Malin will pay the Marginal Cost of Congestion to and from the Indian Spring PNode only, for exports and imports respectively. Transmission losses will be incurred for transmission schedules between the Malin PNode and the Aggregated PNode for the Existing Zone Generation Trading Hub (the PNode at which the Energy scheduled on PACI-PS is transferred back to another Scheduling Coordinator), or the Demand PNode, import intertie PNode, or export intertie PNode, within the CAISO Balancing Authority Area.

20. The treatment of PacifiCorp schedules on the CAISO Controlled Grid is consistent with other arrangements that govern the treatment of Transmission Ownership Rights under the CAISO Tariff (and will persist under the MRTU Tariff). With only limited exceptions, the holders of Transmission Ownership Rights pay all applicable charges for new firm use of the CAISO Controlled Grid (*i.e.,* that which is not provided under Existing Contracts or owned transmission rights). Two such situations involve the COI and deserve particular mention.

21. The first involves the California Oregon Transmission Project ("COTP"), a 500 kV transmission line that parallels the PACI and is part of the COI. The COTP terminates seven miles south of Tracy at the eastern boundary of the existing right-of-way of the Tesla-Tracy 500 kV transmission line, at which point the COTP's conductors extending from Western's Tracy Substation meet PG&E's conductors extending from PG&E's Tesla Substation. Although most of the COTP is in SMUD's Balancing Authority Area and the Balancing Authority Area boundary with the CAISO is established at Tracy. Therefore, the COTP extends seven miles into the CAISO Balancing Authority Area. In addition, all COTP schedules must use the CAISO Controlled Grid between the COTP terminus and Tesla. Thus, as in the case of PacifiCorp, the COTP owners have Transmission Ownership Rights in the CAISO's Balancing Authority Area that require use of the CAISO Controlled Grid between those rights and any Load or Generation in the CAISO Control Area.

22. The CAISO's Inter-Control Area Operating Agreement establishes the COTP Interconnection Point at Tracy and specifically provides that (1) imports into the CAISO Control Area at the COTP Interconnection Point that use the CAISO Controlled Grid beyond the COTP Terminus shall pay all applicable CAISO Tariff-based charges; and (2) exports from the CAISO Control Area at the COTP Interconnection Point that use the CAISO Controlled Grid shall pay all applicable CAISO Tariff-based charges. This is precisely the circumstance that would be applicable to PacifiCorp. The only difference is that select COTP participants have an Existing Contract that provides 300 megawatts of firm

bidirectional point-to-point service on PG&E's transmission system between the COTP terminus and PG&E's Midway substation. The existence of the Existing Contract exempts transactions from some CAISO charges, but *only* to the extent that their usage does not exceed 300 MW and is only for deliveries to the Midway substation.

23. The second case involves the Transmission Exchange Agreement between PG&E, the CAISO, and Western. Western's PACI-W terminates at Round Mountain. Western also has facilities within the SMUD Balancing Authority Area that terminate at Tracy. PG&E, however, owns the PACI facilities between Round Mountain and Tracy. As a result, Western cannot reach its facilities (from which it serves its own Demand) without use of the intervening CAISO Controlled Grid. Conversely, CAISO Market Participants cannot otherwise use Western's PACI-W north of Round Mountain to gain access to northwest power. In order to remedy this situation, the parties executed the Transmission Exchange Agreement.

24. Under the Transmission Exchange Agreement, Western provides the CAISO access to 1200 MW of its 1600 MW on the PACI-W north of Round Mountain (Western retains use of the remaining 400 MW), and the CAISO provides Western with access to 400 MW of capacity from Round Mountain to Tracy. In essence, Western is given the equivalent of a Transmission Ownership Right between Round Mountain and Tracy. As such, Western is exempt from most charges, such as the Wheeling Access Charge and Congestion Charges for its use of the CAISO Controlled Grid between those points. Western is also

exempt from the Grid Management Charges, including those that would apply to TOR schedules. Western is still responsible for self-providing or paying for Ancillary Services and losses.

25. The CAISO concluded that these special arrangements with Western were justified for a number of reasons. First and foremost, Western is providing three times as much capacity to the CAISO's Scheduling Coordinators as the CAISO is providing to Western. Second, the Transmission Exchange Agreement eliminates the possibility of pancaked transmission rates, thus promoting efficient electricity markets at the COI. Third, the arrangement allows the continued coordinated operation of the COI.

26. PacifiCorp's situation at the COI is markedly different, however, in that it does not require wheel-through transmission to serve its own Demand within the CAISO Balancing Authority Area or in an adjacent Balancing Authority Area.

27. It is also important to note that the Transmission Exchange Agreement does not exempt Western from CAISO charges to the extent that it uses the CAISO Controlled Grid other than pursuant to its rights under the agreement. If Western were to schedule transactions between Round Mountain and other points on the CAISO Controlled Grid, those transactions would be subject to the same charges as other transactions on the CAISO Controlled Grid.

28. As the CAISO discusses in its brief, one option for addressing the termination of the Capacity Agreement would be to relocate the Control Area

boundary to Round Mountain. This option, however, would require significant time, cost, and the agreement of Bonneville, to accomplish.

29. First, the CAISO and Bonneville, the Balancing Authority on the northern side of Malin, would need permission from the Western Electricity Coordinating Council and the North American Electric Reliability Corporation. Second, the parties would need to install metering equipment, both revenue metering and telemetry, at Round Mountain in order to measure and operate the new Interchange point. Third, the CAISO would need to coordinate procedures with Bonneville to address the existence of two different Balancing Authority Area boundaries for schedules between Malin and Round Mountain. Finally, the CAISO would need to model the new Intertie for inclusion in its scheduling and market software. These processes would require at least 6 months to complete, provided it was not before the start of MRTU, predicated upon the time required to establish a new Control Area boundary between SMUD and the CAISO in 2005, when the COTP line was transferred from the CAISO to the SMUD Balancing Authority.

I declare the foregoing to be true under penalty of perjury. Executed this 13th day of September, 2007

Attachment C

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

PacifiCorp	)	Docket Nos. ER07-882-000
	)	ER07-973-000
Pacific Gas and Electric Company	)	ER07-967-000
	)	ER07-968-000
	)	ER07-969-000
	)	ER07-994-000
Southern California Edison Company	)	ER07-978-000
	)	
	)	EL07-84-000

DECLARATION OF JAMES McINTOSH

I, James McIntosh, declare as follows:

1. I am Director of Grid Operations for the California Independent System Operator Corporation ("CAISO"). As Director of Grid Operations I am responsible for day-to-day operations at the CAISO.

2. The CAISO is both the operator of the transmission facilities placed under its Operational Control[1] by its Participating TOs and a Balancing Authority under the standards of the North American Electric Reliability Corporation ("NERC") and the Western Electricity Coordinating Council ("WECC"). As such, the CAISO's operating functions include, among others, all pre-scheduling and scheduling activities for its Balancing Authority Area, transmission and generation outage management, resource commitment, and real-time dispatch

[1] Capitalized terms not otherwise defined or explained have the meaning given them in CAISO's tariff on file with the Commission ("CAISO Tariff").

functions. Each of these functions is performed in conformance with established CAISO Tariff business and market rules. In addition, the CAISO must satisfy all applicable reliability requirements, as established by the NERC and the WECC for all NERC-certified Balancing Authority Area operators.

3. As I have been informed by counsel, this proceeding concerns changes in the agreements governing the rates, terms and condition of service over the 47-mile segment of the Pacific AC Intertie ("PACI") that is owned by PacifiCorp but that has been leased to California utilities for the past 40 years. The configuration of the PACI, the California Oregon Transmission Project ("COTP") and the California-Oregon Intertie ("COI") is discussed in the CAISO's brief and the Declaration of my colleague Kyle Hoffman. Pacific Gas and Electric Company ("PG&E"), Southern California Edison Company, San Diego Gas & Electric Company, the Western Area Power Administration, the Sacramento Municipal Utility District ("SMUD"), and the Transmission Agency of Northern California retained the CAISO as the Path Operator to coordinate the operations of the COI, effective January 1, 2006, and pay the CAISO $2 million per year for this service.

4. The purpose of my testimony is to detail and explain the information and operating instructions the CAISO requires in order to fulfill both its Balancing Authority responsibilities and to reliably manage the California-Oregon Intertie ("COI"). Mister Hoffman will address certain of the market and scheduling issues that have arisen in this proceeding.

5. Prior to the formation of the CAISO, the operation of the COI was coordinated by PG&E pursuant to the Coordinated Operations Agreement. The CAISO assumed that coordination role when the CAISO commenced operations in 1998. On January 1, 2005, because of the expiration of various contracts, and the transfer of the COTP to a different control area, the Coordinated Operations Agreement was replaced by the Owners' Coordinated Operations Agreement ("OCOA") and the California-Oregon Intertie Path Operating Agreement (the "COI Path Operating Agreement" or "CPOA") was agreed upon. The CAISO coordinates operations of the COI consistent with the terms of both of these agreements.

6. As Balancing Authority, the CAISO has responsibilities established by NERC and the WECC. Pursuant to Version 3 of the NERC Reliability Functional Model (a copy of which is provided as Attachment 1), a Balancing Authority's responsibilities fall into three timeframes: "Ahead of Time", Real Time", and "After the Hour". In the "Ahead of Time" timeframe, which typically includes the day-ahead and pre-operating hour periods, a Balancing Authority, among other functions, approves, validates and confirms interchange schedules, confirms ramping capabilities with Interchange Authorities, makes dispatch adjustments so as not to exceed transmission facility limits, and coordinates system restoration plans with transmission operators. In addition, a Balancing Authority will coordinate with Generators and Load-Serving Entities within the Balancing Authority Area regarding their operational status and plans, availability,

load forecast, and other items. The Balancing Authority will share this information and communicate with the applicable Reliability Coordinator.

7. In the "Real Time" timeframe, generally within each operating hour, a Balancing Authority will receive real-time operating information from Transmission Operators, adjacent Balancing Authorities and Generators and will provide real-time operational information to, and implement instructions from, the applicable Reliability Coordinator. In addition, the Balancing Authority will direct resources (Generators and Load-Serving Entities) to take action to manage congestion and ensure that the system is balanced in Real Time. Balancing Authorities will also, as necessary, implement emergency procedures and system restoration plans in Real Time.

8. "After the Hour", Balancing Authorities will confirm interchange schedules with Interchange Authorities and adjacent Balancing Authorities for "checkout."

9. As both a Balancing Authority and Transmission Provider, the CAISO must satisfy all of the 83 currently approved NERC reliability standards. The NERC reliability standards fall into the following 13 general categories:

i. **Resource and Demand Balancing** (BAL-001 through 006);

ii. **Communications** (COM-001 through 002);

iii. **Critical Infrastructure Protection** (CIP-001);

iv. **Emergency Preparedness and Operations** (EOP-001 through 009);

v. **Facilities Design, Connections, and Maintenance** (FAC-001 through 013(in part));

vi. **Interchange Scheduling and Coordination** (INT-001 through 010);

vii. **Interconnection Reliability Operations and Coordination** (IRO-001 through 016 (in part));

viii. **Modeling, Data, and Analysis** (MOD-006 through 021 (in part));

ix. **Personnel Performance, Training, and Qualifications** (PER-001 through 004);

x. **Protection and Control** (PRC-001 through 022 (in part));

xi. **Transmission Operations** (TOP-001 through 088);

xii. **Transmission Planning** (TPL-001 through 004); and

xiii. **Voltage and Reactive** (VAR-001 through 002).

10. As a Balancing Authority, the CAISO must ensure compliance with all, or portions of, the following categories of standards: BAL; COM; CIP; EOP; FAC; INT; IRO; MOD; PER; PRC; TOP; and VAR. Therefore, as a Balancing Authority, the CAISO must ensure its compliance with all of the NERC reliability standard categories (except Transmission Planning).

11. As part of its responsibilities as a Balancing Authority, the CAISO must, among other functions, be able to coordinate with all Transmission Operators within its Balancing Authority Area and be able to implement real-time instructions from the Reliability Coordinator and otherwise take action to keep the system balanced.

12. There is a strong correlation between the duties and responsibilities of the CAISO as COI Path Operator as specified in the CPOA and the functions and responsibilities of a Balancing Area Authority as detailed in the NERC

Functional Model. Because the PACI and the COTP operate in parallel, the reliable operation of both lines requires that they be coordinated as if they were in the same Balancing Authority Area. Similarly, the CAISO cannot fulfill its Balancing Authority responsibilities without assurance that operation and scheduling of the various lines of the COI will be coordinated.

13. Unfortunately, from the perspective of reliability, the PACI and the COTP are not in the same Balancing Authority Area. The COTP is in SMUD's Balancing Authority Area. As COI Path Operator, the CAISO must manage and communicate the requisite information to *both* California Balancing Authorities at COI, *i.e.*, to SMUD and to its own operations.

14. The CPOA codifies the information requirements and duties and obligations of the CAISO and the COI owners so as to enable the CAISO to perform the broader obligations even though the lines are under the operational control of different entities and are in different Balancing Authority Areas. While the CAISO theoretically could obtain the requisite information and establish the appropriate relationships with the involved parties through NERC's newly established reliability standards and related processes and requirements, the CPOA establishes the most effective means to satisfy all applicable NERC and WECC requirements regarding reliable operation of the Balancing Area and the COI.

15. The COI Path Operating Agreement provides the CAISO with the authority and mechanisms to carry out these responsibilities with respect to the COI.

16. The COPA sets forth the various obligations of the owners of the coordinated facilities. Pursuant to Section 8.5 of the CPOA, each owner or its COI Control Area Operator must provide real-time status, power flow, voltage, remedial action scheme ("RAS"), and other information related to the party's Electric System to the Path Operator. In addition, each owner must provide outage schedules for equipment that may impact the rating of the COI and otherwise make arrangements for reliable telecommunication facilities to transmit real-time information to the Path Operator.

17. Section 8 of the CPOA, which pertains to system operation, sets forth the duties for the Path Operator of COI. Section 8 provides that COI Operating Procedures will be consistent with the WECC Unscheduled Flow Mitigation Plan ("USFMP"). The WECC USFMP sets forth the procedures for managing unscheduled or "loop flows" in real time. Left unaddressed, loop flow can result in real-time overloads on critical transmission facilities like the COI.

18. Other duties and responsibilities in Section 8 include determining, in coordination with the Pacific Northwest Path Operator (currently the Bonneville Power Administration ("Bonneville")), the Operating Transfer Capability Limit ("OTC") of the COI based on WECC seasonal studies as performed by the owners and considering hydroelectric generation conditions in Northern California. Based on the results of those findings, the CAISO as Path Operator is also responsible for determining the Available System Transfer Capability ("ASTC") and Available Scheduling Capability ("ASC") of the path on both a pre-schedule and a real-time basis and allocating the ASC to the PACI-P, PACI-W

and COTP in conformance with the OCOA. As provided in Section 8, if feasible, the CAISO as Path Operator is then to determine and allocate the ASTC among the Owners based on operating conditions at or south of the Malin and Captain Jack substations.

19. As detailed in Sections 8.3.4 and 8.3.5 of the CPOA, the CAISO as Path Operator must provide timely communications to the COI Control Area Operators and the Pacific Northwest Path Operator concerning: OTC, ASTC, ASC, ASC Shares; limitations thereon resulting from actual and estimated Unscheduled Flow and applicable Nomograms; schedules exceeding ASC Share; and the determination and allocation of the amount of Power Flow Reduction Measures. As defined in the CPOA, Power Flow Reduction Measures are:

> Actions taken to promptly and rapidly reduce power flow, including but not limited to: the circulation of power on the PDCI, the increase of generation within the control area through changes initiated by a Control Area Operator that create counter flow, and Curtailments that result in immediate responses from the parties to scheduled transactions to change the amount of generation or load accordingly.

As provided in Section 8.3.5 of the CPOA, these actions and measures are necessary to enable the Path Operator to comply with the WECC Reliability Management System Agreement, avoid sanctions established in the WECC Reliability Criteria Agreement, and comply with other applicable obligations and procedures.

20. Further, as specified in Section 8.3.6 of the CPOA, the CAISO, as Path Operator, must monitor all electric system conditions that may reasonably

affect ASTC and ASC, including the operating status of 500 kV and 230 kV equipment and related power flows, Unscheduled Flow and voltages. In addition, the Path Operator must monitor the status of Generators and related power flows and voltages as well as the status of Remedial Action Schemes and telecommunications and available remedial actions.

21. The CAISO as Path Operator must also become and remain a party to the WECC Reliability Management System Agreement and the WECC Reliability Criteria Agreement. As provided in Section 8.3.12 of the CPOA, the Path Operator must make all reasonable efforts to maximize both the OTC and ASC consistent with the obligations set forth in the CPOA by, among other things, reviewing the equipment outage plans of the parties to the CPOA and COI Control Area Operators and the Pacific Northwest Path Operator, and to the extent such outage plans affect OTC, recommending changes to such plans to minimize reductions in OTC.

22. In the event of an Operating Emergency, the Path Operator must also notify the Control Area Operators of any limitations on OTC or ASC, direct appropriate action including Power Flow Reduction Measures, and maintain continuous reliable communication with the applicable WECC Reliability Coordinator.

23. The CAISO's most important responsibility under the CPOA is the implementation and execution of the real-time procedures necessary to preserve reliable operation of the path and the CAISO Balancing Area. As I discussed earlier, these are specifically referred to as Power Flow Reduction Measures in

the CPOA. Among the identified Power Flow Reduction Measures, it is imperative that the CAISO have clear curtailment instructions so as to appropriately allocate and execute curtailments across the COI Owners. Any delay in the allocation and assignment of curtailments by the CAISO could overload critical COI facilities and endanger the reliable operation of the path.

24. The OCOA current calls for a pro rata sharing of curtailments. The sharing of curtailments is a matter primarily of interest of the parties to that agreement. I would note, however, that the CAISO's interchange software, CAS, has automatic features which provide for "Rapid Curtailment" on a pro rata basis. To implement curtailments in another manner would require significant manual intervention in the automated CAS curtailment process by our real-time schedulers to differentiate curtailments by line. Differential curtailment instructions would require that each interchange e-tag be individually curtailed on the branch group, per the instructions, during intensive mitigation events. From a reliability standpoint, pro rata sharing is preferable.

25. Coordinated operation of the COI, as currently provided for pursuant to the terms of the OCOA and the CPOA, is critical to maintaining both the reliable and effective operation of both the COI and the CAISO's larger Balancing Authority Area.

26. Coordinated and reliable operation of the COI would be compromised if not all owners of the COI are parties to both the OCOA and the CPOA. Absent coordinated operation of the COI by all owners, the CAISO may be forced to operate the path under potential conflicting instructions, potentially

compromising the reliable operation of the path and the larger CAISO Balancing Area. In particular, the CAISO requires that the owners provide to the CAISO clear, unambiguous, and uncontested instructions with respect to the allocation and potential curtailment of COI capacity to the owners.

27. If any one owner were not to become a party to the OCOA or the CPOA, the CAISO would still need to contract with that owner to obtain the same information and establish the same duties and responsibilities between the CAISO and the owner as those established in the CPOA. More importantly, the CAISO and all the parties would have to ensure that there were no conflicting requirements between the agreements and the CAISO would need to ensure it had clear instructions as to how to allocate capacity and curtailments on the path. Having multiple agreements between the CAISO as Path Operator and the COI owners is suboptimal. Therefore, the most reliable outcome in this case is for PacifiCorp to become a party to the OCOA and the CPOA.

28. A less desirable alternative would involve moving the Balancing Authority Area boundary to Round Mountain. If the CAISO chose to remain Path Operator under such circumstances, it would only need to work with the current parties to the OCOA and the CPOA. This would be a lengthy and complicated process.

29. First, Balancing Authority Area boundaries are under the control of NERC and the WECC. The CAISO would need to make application and obtain approval of the move. Second, new metering and telemetry would be needed at Round Mountain. The information from this equipment is a prerequisite to the

management of Balancing Authority Area Interchange and settlement. Third, both the CAISO and the Bonneville Power Authority would need to develop procedures and software modifications in order to govern the Interchange.

30. All of these matters require a significant commitment of time and resources. I would estimate that a change in the Balancing Authority Area boundary would require at least six months.

I declare the foregoing to be true under penalty of perjury. Executed this 10 day of September, 2007.

James McIntosh