

August 20, 2001

The Honorable David P. Boergers
Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

**Re: California Independent System Operator Corporation
Docket No. ER01-____-000**

Dear Secretary Boergers:

Pursuant to Section 205 of the Federal Power Act ("FPA"), 16 U.S.C. § 824d, the California Independent System Operator Corporation ("ISO") submits for Commission filing and acceptance the Letter Agreement between the ISO and Bonneville Power Administration ("BPA").

The ISO is requesting a waiver of the 60-day prior notice requirement to allow the Letter Agreement to be made effective as of January 17, 2001.

I. Purpose of the Letter Agreement

The Letter Agreement provides the terms for mutually beneficial power exchanges between the ISO and BPA.

II. Background

In the current electrical crisis, the ISO has sought innovative mechanisms through which to ensure the reliability of electricity to the citizens of California. One such arrangement has been the 1 MWh for 2 MWh exchange of power between the BPA and the ISO. The ISO and BPA engaged in such exchanges from time to time from November, 2000 to January 17, 2001, on the basis of oral agreements under System Emergency conditions. The ISO and BPA entered into the Letter Agreement to formalize those exchange arrangements as of January 17, 2001.

Through the Letter Agreement, the ISO intends to implement the exchange with BPA by requesting delivery of Energy during times when the ISO declares a System

Emergency, which in some cases requires the curtailment of firm Load. The ISO intends to return Energy to BPA during off-peak times when supplies of Energy are available to the ISO in excess of the needs of California. In this manner, the ISO may be able to take advantage of disparities in prices in the California Energy markets between peak and off-peak periods, to exchange 2 MWh of less expensive Energy for 1 MWh of more expensive Energy. This is intended to result in a lower overall cost for Energy for California. It is the ISO's understanding that through the exchange BPA will be able to preserve more of its hydroelectric storage capacity for use during higher-value periods, allowing BPA to avoid having to make additional Energy purchases.

The ISO issued a Market Notice on August 10, 2001 explaining the ISO's method of handling Energy exchange arrangements such as the Letter Agreement. This Market Notice is included with this filing as Attachment C.

III. Provisions of the Letter Agreement

The ISO-BPA Letter Agreement providing for exchange of Energy between BPA and the ISO contains the following primary provisions:

- Section 3(a) of the Letter Agreement provides that service will be initiated by an ISO request for delivery of Energy by BPA. This section specifies that BPA's delivery obligation is subject to mutual agreement regarding the terms of delivery and is conditioned on availability of transmission and BPA generation.
- Section 3(d) provides that the ISO will return Energy to BPA in compensation for the Energy delivered by BPA at a ratio of 2 MWh returned by the ISO for every 1 MWh delivered by BPA. This section also specifies the time periods and conditions for the ISO's return of Energy to BPA and provides for monetary compensation by the ISO to BPA in the event the ISO is unable to satisfy its Energy return obligations.
- Sections 2 and 4 incorporate much of the Western Systems Power Pool ("WSPP") Agreement for purposes of providing the "boilerplate" provisions of the Letter Agreement. Certain provisions of the WSPP Agreement have not been incorporated in the Letter Agreement, including the liquidated damages provisions, the limitation of exchange ratios to a maximum of 1.5 to 1, and the use of Utah law as the default state law. The WSPP Agreement is included with this filing as Attachment B.

IV. Settlement Methodology

The Settlement framework is designed to minimize the cost shift associated with the Letter Agreement while assuring revenue neutrality for the ISO. This new Settlement methodology was activated prospectively for charges to appear beginning on the June 2001 Settlement statements, which will be published by the ISO in August

2001. For previous trade dates (November 14, 2000 through May 31, 2001), Settlement reruns will be conducted using the new Settlement methodology.

The key features in this framework are outlined below.

The incoming Energy from the exchange provided in the Letter Agreement created a positive neutrality adjustment. When the Energy was returned, a negative neutrality adjustment ensued. Since the incoming and outgoing Energy were usually valued differently, there was a cost shift associated with the transaction that was not cash neutral to the ISO.

The ISO has created a charge type for the allocation of the cost to Scheduling Coordinators ("SCs") participating in the ISO's markets during the incoming Schedules. Whenever an Energy exchange account is closed or reaches a zero balance, the incurred costs will be calculated and allocated to the SCs based on their total negative Uninstructed Imbalance Energy over those intervals in which the incoming Schedules took place.

The Energy exchanged through the Letter Agreement is exempted from any Unaccounted for Energy, Grid Management Charge, Wheeling, Ancillary Services charges and neutrality allocation.

V. Request for Waiver

The ISO respectfully requests a waiver of FPA Section 205(d), which would require this Letter Agreement to go into effect no earlier than 60 days after it is filed. Granting the waiver will permit the power exchange arrangement to be effective as of the date that the ISO and BPA implemented their more formalized exchange arrangements. The ISO regrets the delay in filing this Agreement, which was caused by the ISO's desire to include the Settlement methodology with this submission. Responding to the emergency situation and implementing the Commission's December 15, 2000, April 26, 2001, and June 19, 2001 remedial orders has been a priority. Accordingly, the ISO was not able to finalize the Settlement process for the power exchange until recently. Granting the requested waiver, therefore, is appropriate.

VI. Expenses

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.

VII. Service

Copies of this filing have been served on the Bonneville Power Administration and the California Public Utilities Commission.

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

- (1) the Letter Agreement (Attachment A);
- (2) the WSPP Agreement (Attachment B);
- (3) the August 10, 2001 Market Notice (Attachment C);
- (4) a Notice of Filing suitable for publication in the Federal Register (and one 3 ½-inch diskette version of the Notice saved in WordPerfect format) (Attachment D); and
- (5) a Certificate of Service (Attachment E).

Also included are two additional copies of the filing to be date-stamped and returned with our messenger.

VIII. Correspondence

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

Roger E. Smith*
Deborah A. Le Vine
California Independent System
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151 Blue Ravine Road
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* Individuals designated for service pursuant to Rule 203(b)(3),
18 C.F.R. § 385.203(b)(3).¹

Respectfully submitted,

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¹ In addition to Mr. Smith and Ms. Moore, the ISO respectfully requests that Ms. Le Vine be included on the Official Service List. Mr. Smith and Ms. Le Vine work in separate buildings, and it would be of significant assistance to the ISO if both were included on the list.

CERTIFICATE OF SERVICE

I hereby certify I have this day served this document upon Bonneville Power Administration and the California Public Utilities Commission in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated Washington, DC, this 20th day of August, 2001.

Julia Moore