

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Pacific Gas and Electric Company	)	Docket Nos. ER98-495-000
	)	ER98-1614-000
	)	ER98-2145-000
)	
Duke Energy Moss Landing LLC	)	Docket Nos. ER98-2668-000
	)	ER98-4300-000
	)	ER99-1127-000
Duke Energy Oakland LLC	)	ER98-2669-000
	)	ER98-4296-000
	)	ER99-1128-000
)	
San Diego Gas and Electric Company	)	Docket Nos. ER98-496-000
	)	ER98-2160-000
)	
Southern California Edison Company	)	Docket Nos. ER98-441-000
	)	ER98-2550-000
)	
Southern California Edison Company	)	Docket Nos. ER98-441-001
Pacific Gas and Electric Company	)	ER98-495-001
San Diego Gas and Electric Company	)	ER98-496-001
Duke Energy Moss Landing LLC	)	ER98-4300-001
Duke Energy Moss Landing LLC	)	ER98-2668-004
Duke Energy Oakland LLC	)	ER98-2669-003
Duke Energy Oakland LLC	)	ER98-4296-001

**INITIAL COMMENTS OF
THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
IN SUPPORT OF OFFER OF SETTLEMENT**

Pursuant to Rule 602(f) of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission (“Commission”), 18 C.F.R. § 385.602(f) (1998), and the Chief Administrative Law Judge’s March 16, 1999 Order, the California Independent System Operator Corporation (“ISO”) hereby submits its

initial comments in support of the Offer of Settlement (“Settlement”) filed on April 2, 1999, by El Segundo Power LLC, Pacific Gas and Electric Company, Duke Energy Moss Landing LLC, Duke Energy Oakland LLC, Duke Energy South Bay, LLC, San Diego Gas & Electric Company, Williams Energy Marketing & Trading Company, Reliant Energy Etiwanda, L.L.C., Reliant Energy Mandalay, L.L.C., Southern Energy Delta, L.L.C., Southern Energy Potrero, L.L.C., Cabrillo Power I LLC, Cabrillo Power II LLC, Geysers Power Company, LLC, the California Electricity Oversight Board, Southern California Edison Company, Enron Power Marketing, Inc., and the ISO in the above-captioned dockets.

Furthermore, as required by Section II C of the February 4, 1999 Memorandum of Agreement to Finalize Settlement¹, the ISO is also submitting the Affidavit of Eric W. Hildebrandt of the ISO’s Market Surveillance Unit supporting the Settlement. In his Affidavit, Mr. Hildebrandt summarizes the market distortions created by the current design of Reliability Must-Run (“RMR”) Contracts, and explains why the changes that would be put in place upon Commission approval of the Settlement would facilitate the elimination of those distortions and thereby promote the efficiency of California’s electricity markets.

The ISO supports the proposed Settlement as fair and reasonable and recommends that it be certified to the Commission for approval in an expedited manner.

¹ The Memorandum of Agreement was memorialized in the Order of Chief Judge Receiving and Filing Memorandum of Agreement to Finalize Settlement, Docket Nos. ER98-495-000 et. al., February 5, 1999.

The redesign of the RMR Contract, pursuant to which the ISO procures essential reliability services, has been the subject of intensive negotiations for more than two years. The Settlement filed on April 2, 1999, while leaving a number of issues for litigation or future negotiation, would resolve the basic structural design of the RMR Contract and would put in place uniform terms and conditions. Further, the Settlement would resolve, for a rate freeze period extending through December 31, 2001, the revenue requirement of each of the RMR Owners, subject to specified modifications.

The ISO firmly believes that the Settlement, as filed, represents a fair resolution of the resolved issues. The end result that has been achieved is the product of an intensive give-and-take, as is to be expected of any complex, successful negotiation process. In the final analysis, while no participant can claim total victory, one conclusion can be offered with certainty: when the changes are put into effect following Commission approval of the Settlement, the efficiency of California's electricity markets will be improved significantly, while reliability is maintained. Consumers will be the direct beneficiaries. Moreover, approval of the Settlement will avoid unnecessary and costly litigation, avoid regulatory uncertainty and, by resolving most issues in these long-running proceedings that have occupied Commission resources for over a year, promote administrative efficiency.

For the benefits to consumers, and to the competitive marketplace to be fully realized, it is imperative that the design advances made possible by the Settlement be put in place at the earliest possible time, and certainly by June 1,

1999, to avoid continued consumer disservice during periods of high demand. Accordingly, the ISO urges immediate certification to, and expedited approval by, the Commission.

Conclusion

WHEREFORE, based on the foregoing, the ISO maintains that the Settlement represents a reasonable resolution of important issues in the captioned proceedings, warranting immediate certification and expedited approval.

Respectfully submitted,

N. Beth Emery
Vice President and General Counsel
Roger E. Smith, Regulatory Counsel
The California Independent System
Operator Corporation

Edward Berlin
J. Phillip Jordan
Mark R. Klupt
Swidler Berlin Shereff Friedman, LLP
Attorneys for the California Independent
System Operator Corporation

April 19, 1999

3043744