

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

California Independent System)
Operator Corporation) Docket No. ER05-407-____

**ANSWER OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
TO MOTIONS TO INTERVENE, AND MOTION FOR LEAVE TO FILE
ANSWER, AND ANSWER TO COMMENTS AND PROTESTS**

Pursuant to Rules 212 and 213 of the Commission's Rules of Practice and Procedure,¹ the California Independent System Operator Corporation ("ISO")² submits its Answer to Motions to Intervene, Motion to File Answer, and Answer to Comments and Protest in the above-identified docket.

On December 30, 2004, the ISO submitted for filing and Commission acceptance a "MID Operations Agreement" (the "Agreement") between the ISO and Modesto Irrigation District ("MID"). The purpose of the Agreement is to accommodate a change in Control Area boundaries related to the decision of the Western Area Power Administration – Sierra Nevada Region ("Western") to join the Control Area of the Sacramento Municipal Utility District ("SMUD") as of January 1, 2005. More specifically, the filing addressed the use by MID of its own facilities that are within the ISO Control Area but are not part of the ISO Controlled Grid (*i.e.*, MID has not executed the Transmission Control Agreement

¹ 18 C.F.R. §§ 385.212, 385.213

² Capitalized terms not otherwise defined herein have the meaning set forth in the Master Definitions Supplement, Appendix A to the ISO Tariff.

placing the facilities under the ISO's Operational Control). In its filing, the ISO requested that the Agreement be made effective as of January 1, 2005.

In response to the ISO's filing, a number of parties submitted motions to intervene, comments, and protests.³ The ISO does not oppose any of the motions to intervene. The protests, however, raise certain issues regarding which the ISO believes additional information would assist the Commission's deliberations. The ISO therefore requests leave to file an answer, and files its answer, to the protests.⁴ As explained below, the protests are without merit and the Commission should accept the filing without modification. Further, the ISO and MID have met to discuss the comments filed by MID and have jointly agreed to language that resolves all of MID's concerns. The ISO offers this revised language to the Agreement below, that if accepted by the Commission could be included in a compliance filing.

I. ANSWER

The two protests, filed by SCE and PG&E, do not raise any issues that merit a hearing or delay of this proceeding. SCE misunderstands how the Agreement allocates costs, and the Commission has already rejected virtually identical SCE arguments on cost allocation in another docket. PG&E's concerns

³ Motions to intervene and protest were filed by Pacific Gas and Electric Company ("PG&E") and Southern California Edison Company ("SCE"). A motion to intervene, comments, and a request for clarification was filed by MID. Motions to intervene were filed by the California Public Utilities Commission, Northern California Power Agency, and Turlock Irrigation District ("TID").

⁴ The ISO requests waiver of Rule 213(a)(2) (18 C.F.R. § 385.213(a)(2)) to permit it to make this answer. Good cause for this waiver exists here because the answer will aid the Commission in understanding the issues in the proceeding, provide additional information to assist the Commission in the decision-making process, and help to ensure a complete and accurate record in this case. See, e.g., *Entergy Services, Inc.*, 101 FERC ¶ 61,289, at 62,163 (2002); *Duke Energy Corporation*, 100 FERC ¶ 61,251, at 61,886 (2002); *Delmarva Power & Light Company*, 93 FERC ¶ 61,098, at 61,259 (2000).

involve the interconnection agreement between PG&E and MID, an Existing Contract that the ISO honors, but that dispute need not be resolved as part of this proceeding. MID's comments are also addressed.

A. SCE's Arguments on Cost Allocation Have Already Been Rejected by the Commission, and Those Arguments Should Again Be Rejected.

SCE argues that the allocation of costs under the Agreement results in unjust and unreasonable rates because of an alleged "waiver" of charges contained in the ISO Tariff.⁵ The Commission has already addressed this claim, rejecting it in the December 30 Order in Docket No. ER05-155.⁶ In that recent order, the Commission accepted the same cost allocation as contained in this Agreement, for two other agreements: (1) the "PACI-W Operating Agreement" between the ISO and Western and (2) the "Interim COTP Operations Agreement" ("ICOA") between the ISO and the Transmission Agency of Northern California ("TANC"). Just like this Agreement, the PACI-W Operating Agreement and the ICOA arose out of the settlement in Docket No. ER04-688, et al., that resulted in the termination of PG&E Rate Schedule No. 146, the Coordinated Operation Agreement ("COA"), and its replacement by the Owners Coordinated Operation Agreement ("OCOA"), and the termination of PG&E Rate Schedule No. 35, Contract 2947A with Western.⁷

⁵ SCE's protest filed on January 21, 2005 in this proceeding at p. 2 ("SCE Protest").

⁶ *California Independent System Operator Corp.*, 109 FERC ¶ 61, 391 at PP 25, 34, 37, 39 -43 (2004), *rehearing pending* ("December 30 Order").

⁷ FERC Docket Nos. ER04-688 and ER04-693. On October 21, 2004, PG&E filed the OCOA in Docket ER04-693-001. It was accepted on December 3, 2004 in *Pacific Gas and Electric Company*, 109 FERC ¶ 61,255 (2004) at Appendix B.

Making the same error that it made in its protest in Docket No. ER05-155, SCE again fails to recognize that this Agreement concerns capacity that is not under ISO Operational Control and that is not part of the ISO Controlled Grid.⁸ For that reason, the Access Charge, Congestion, Neutrality, and UFE will not apply because the ISO Controlled Grid is not used.

Under the Agreement, the ISO will allocate charges associated with non-self-provided Ancillary Services, Imbalance Energy, and Losses to MID's Load in connection with all Control Area transactions.⁹ If a MID transaction uses the ISO Controlled Grid, all applicable ISO Tariff charges apply. As stated in the Transmittal Letter:

MID shall be responsible for all their costs incurred in connection with operating and maintaining their Electric Systems including their ownership interests in the COTP. Nothing in this Agreement is intended to affect the rates and charges paid by transmission service customers of the ISO for use of the ISO Controlled Grid. Transmission service customers of the ISO using the ISO's markets or the ISO Controlled Grid shall pay rates and charges in accordance with the ISO Tariff. If the Scheduling Coordinator for MID schedules transactions using their COTP ownership rights or transactions from the SMUD Control Area which do not use the ISO Controlled Grid then the Scheduling Coordinator for MID shall be responsible for procuring or self-providing: (1) Ancillary Services consistent with the requirements of the Control Area in which the Load is served; (2) Imbalance Energy which occurs during the period after a curtailment has occurred and the associated Schedules are changed; and (3) losses consistent with the requirements of the ISO. For the transactions scheduled under this Agreement, the ISO shall impose charges for Ancillary Services if the Load is served in the ISO Control Area, Imbalance Energy, and losses, but only to the extent that such services and losses are not self-provided by the Scheduling Coordinator for MID. In addition the ISO will charge MID the Grid Management Charge in accordance with the ISO Tariff, provided that, if FERC accepts or approves the pending settlement in Docket No. ER04-115-000 et al, then the provisions of that settlement shall govern MID's obligations with

⁸ See the transmittal letter filed by the ISO on December 30, 2004 in this proceeding at p. 2 ("Transmittal Letter").

⁹ See the Transmittal Letter at 4.

respect to the GMC, for as long as that settlement remains in effect. The ISO shall not charge the Scheduling for MID for any other charge types outside of Section 6.3 of the Interim Operations Agreement, if such transactions do not use the ISO Controlled Grid.¹⁰

Despite this clear explanation of the cost allocation in the Agreement, SCE contends that the ISO should provide even more cost support related to the actual impact of these allocations on other customers.¹¹ The ISO has provided a sufficient basis to support the cost allocation; any further analysis would be costly and without benefit.

SCE also argues that the negotiated settlement in ER04-688, et al., is not related to the cost allocation under this Agreement, and alternatively argues that if it had known of the cost allocation in the settlement, it would not have agreed to that settlement. First, it is the negotiated settlement that necessitated resolution of the transmission rights of MID once the Western agreements terminated; previously the rights addressed under the Agreement were scheduled as part of PG&E's Existing Contract obligation under the COA that terminated on January 1, 2005. The waiver of a limited number of costs was part and parcel of the negotiated terms that produced the resolution reflected in the Agreement, and is consistent with the PACI-W Operating Agreement and the ICOA. As explained in the attached comments of TANC in support of the cost allocation in ER05-155, the cost allocation in this Agreement is modeled after Sections 6.3 and 7.1 of the ICOA.¹² Second, the terms of the settlement and the ICOA and PACI-W Operating Agreement were submitted to the Commission; thus, SCE certainly

¹⁰ Transmittal Letter at 4.

¹¹ SCE Protest at 4.

¹² See the attached comments of TANC filed on November 22, 2004 in Docket No. ER05-155 at para. 13 and 14 (at pp. 7-9) ("TANC Comments").

had sufficient notice of the settlement. Third, the settlement and the Agreement provide a cost allocation that is just and reasonable, especially because it is for MID's use of MID's facilities that are within the ISO Control Area but are not ISO Controlled Grid facilities. For example, by accepting responsibility for the costs of non-self-provided Ancillary Services, Imbalance Energy and Losses, MID is accepting charges for which the Commission has previously ruled it is not responsible (although the matter is pending rehearing) and it is also helping assure the reliability of the ISO Control Area.

Contrary to any implication made by SCE, the ISO is not filing "piecemeal" agreements in an effort to avoid scrutiny of this cost allocation by the Commission or Market Participants.¹³ Rather, the ISO has been open from the beginning as to the scope of the cost allocation that was agreed to in the settlement. Even in Docket No. ER05-155, the ISO described why both TID and MID would be entitled to treatment similar to that provided to TANC and Western.¹⁴ It was only due to the extent of year-end activities that both the TID and MID agreements were not included in the ISO filing that resulted in Docket No. ER05-155.

As a corollary to its unjust and unreasonable argument, SCE also contends that the cost allocation under the Agreement results in the application of the ISO Tariff in a "discriminatory manner."¹⁵ As explained above, the ISO Tariff is not violated by this cost allocation, and in fact, because of the December

¹³ SCE Protest at 4.

¹⁴ See the answer of the ISO filed on December 8, 2004 in Docket No. ER05-155 at p. 9-10 and at fn. 8.

¹⁵ SCE Protest at 5.

30 Order, it would be a discriminatory result if the Commission did not accept the cost allocation in the Agreement, since otherwise TANC and Western, as parties directly affected by the change in Control Area boundaries, would receive the settlement cost allocation, but MID, similarly affected, would not.

As TANC noted in its comments (which are attached), any party can pick apart one element of the comprehensive settlement negotiations.¹⁶ While the ISO might have preferred to keep the existing cost structure in place, it is equally true, as reflected in TANC's comments, that the COTP participants would have preferred even greater exemptions. Accordingly, the ISO submits that this Agreement, together with the other elements of the comprehensive settlement, provide a significant benefit to the ISO market and do not lead to unjust and unreasonable or discriminatory rates. Further, absent this Agreement, the ISO would be left with transmission facilities not under some agreement with the ISO for operation, scheduling, and settlement simply because they are non-ISO Controlled Grid located in the ISO Control Area. This could impact the reliability of the Control Area if the ISO does not have knowledge of transactions that enter or exit the ISO Control Area.

B. Any Dispute Between PG&E and MID Over the Scope of the PG&E Interconnection Agreement with MID are Best Resolved in a Separate Proceeding, if needed.

PG&E objects to the extent that the Agreement imposes any new obligations on PG&E that it did not already have with respect to its relationship with MID. PG&E points out that it was not consulted in advance of the filing of the Agreement, and that it has not agreed to undertake any new actions or

¹⁶ TANC Comments at 8.

assume new obligations.¹⁷ The ISO agrees in the sense that the Agreement is not intended to, and does not, impose any new obligations or requirements on PG&E beyond those that PG&E has already assumed in its relationship with MID or with the ISO.¹⁸ Rather, the Agreement sets forth MID's obligations. To the extent PG&E's contractual obligations to MID are mentioned, it is only in the context of describing the manner in which MID will fulfill its obligations under the Agreement.

PG&E contends that the Agreement must be clear that MID will either act as its own Scheduling Coordinator with the ISO, or that MID will designate a qualified third party that has agreed to act in that capacity for MID.¹⁹ PG&E states that it will not act as MID's Scheduling Coordinator, and that it consequently will not accept ISO charges for schedules that MID may be contemplating. PG&E's obligations with regard to MID's schedules and Load arise from the PG&E Interconnection Agreement with MID ("PG&E IA"), the ISO Tariff and PG&E's Responsible Participating Transmission Owner Agreement with the ISO. Those obligations are what they are, and cannot be altered by an Agreement to which PG&E is not a party. To the extent MID, PG&E, or the ISO have a disagreement regarding those obligations, they must be resolved in proceedings concerning the underlying agreements and tariffs. The scope of PG&E's obligations under the PG&E IA or other controlling instruments is not a matter that needs to be resolved in this proceeding.

¹⁷ See the PG&E protest filed on January 21, 2005 in this proceeding at pp. 3-4 ("PG&E Protest").

¹⁸ The ISO and PG&E have executed the Responsible Participating Transmission Owner Agreement that requires PG&E to coordinate MID's information with the ISO, among other things.

¹⁹ PG&E Protest at 5-6.

C. PG&E Should Not be Concerned About the Redacted Portions of the Filing.

PG&E expresses a concern that Schedule 2 of the filing was redacted under 18 C.F.R. § 388.112 based on the ISO's concern that public disclosure could impair system operations, unnecessarily reveal sensitive information, and pose significant security problems as to the facilities referenced therein.²⁰ Schedule 2 provides the particulars of MID Scheduling, including what SC ID MID will be using, contract reference numbers for MID's transmission ownership rights on the California-Oregon Transmission Project, and the template and tagging requirements that MID must abide by. All of this information is market sensitive and PG&E has no need to know this information.

D. The Comments of MID Are Resolved.

In its comments, MID does not object to Commission acceptance of the Agreement, but states that it would like to "submit clarifying amendments" to the agreement if its further discussions with the ISO merit such amendments.²¹ In particular, MID notes that it would like to pursue amendment of the agreement to clarify the term "Parties" in the Agreement, and change some of the phrasing elsewhere in the Agreement. The ISO has met with MID to discuss these issues, and as a result of that meeting, the ISO and MID have agreed to propose two changes to the filed Agreement. Specifically, the ISO proposes to insert at Original Sheet No. 2, at the end of paragraph "(2)", the following phrase:

, hereinafter, sometimes referred to collectively as "Parties" and individually as a "Party".

²⁰ See Transmittal Letter at 5 and the PG&E Protest at 4.

²¹ See the MID comments filed on January 21, 2005 in this proceeding at p. 5, para. 13.

The ISO further proposes to insert at Original Sheet No. 8, after the word "behalf," on line four in Section 4.4, the following phrase:

consistent with PG&E's obligations under the Responsible Participating Transmission Owner Agreement executed between the ISO and PG&E,

These two insertions would be appropriate for a compliance filing in this proceeding.

II. CONCLUSION

Wherefore, for the foregoing reasons, and following the Commission's decision in its December 30 Order, the ISO respectfully requests that the Commission accept the filing and require the ISO to make a compliance filing to address the two issues resolved between the ISO and MID as described in Part I.D. of this Answer.

Respectfully submitted,



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Date: February 7, 2004

ATTACHMENT

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

California Independent System Operator)
Corporation) Docket No. ER05-155-000

**MOTION TO INTERVENE AND COMMENTS
OF THE
TRANSMISSION AGENCY OF NORTHERN CALIFORNIA**

The Transmission Agency of Northern California ("TANC"), by and through counsel, Wallace L. Duncan, James D. Pembroke, Michael Postar and Lisa S. Gast, Duncan, Weinberg, Genzer & Pembroke, P.C., 1615 M Street, N.W., Suite 800, Washington D.C. 20036, respectfully tenders for filing this Motion to Intervene and Comments ("Motion") in the above-captioned proceeding. In support thereof, TANC states as follows:

I. PRELIMINARY STATEMENT

1. TANC tenders this Motion pursuant to Sections 205 and 206 of the Federal Power Act ("FPA"), 16 U.S.C. §§ 824d and 824e (2000 & West Supp. 2001), Rules 212 and 214 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission ("Commission"), 18 C.F.R. §§ 385.212 and 385.214 (2004) and the Commission's November 8, 2004 Notice of Filing establishing November 22, 2004 as the date by which motions to intervene and comments are to be filed in this proceeding.

2. TANC requests that correspondence, pleadings and other documents with regard to this proceeding be served on the following, whose names are to be placed on the Commission's official service list in accordance with Rule 203, 18 C.F.R. § 385.203 (2004):

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II. DESCRIPTION OF THE PARTIES

3. TANC is a joint exercise of powers agency organized and existing under the laws of the State of California and is a “municipality” as defined in Section 3(7) of the FPA, 16 U.S.C. § 796(7) (2000). Among TANC’s purposes is the provision of electric transmission facilities and services for the use of its Members.¹ TANC is a Participant in, and the Project Manager of, the California-Oregon Transmission Project (“COTP”), a 500 kV transmission project extending from the California-Oregon border to near Pacific Gas and Electric Company’s (“PG&E”) Tesla Substation in central California. TANC also has an allocation of 300 MW of firm bi-directional service over PG&E’s transmission system between PG&E’s Tesla and Midway Substations pursuant to the South of Tesla Principles (“SOTP”).² TANC’s SOTP Entitlement is allocated

¹ TANC’s Members are the California cities of Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Palo Alto, Redding Roseville, Santa Clara, and Ukiah; the Sacramento Municipal Utility District; the Modesto Irrigation District; and the Turlock Irrigation District. The Plumas-Sierra Rural Electric Cooperative is an associate member of TANC.

² PG&E FERC Rate Schedule No. 143.

among certain Members of TANC. For purposes of this proceeding, TANC, as the Project Manager of the COTP, represents the interests of the non-PTO COTP Participants.³

4. The California Independent System Operator Corporation (“ISO”) is a California nonprofit public benefit corporation, organized pursuant to the Nonprofit Public Benefit Corporation Law for the charitable purposes set forth in Chapter 2.3, Part 1, Division 1 of the Public Utilities Code of the State of California. The ISO, created at the direction of the California Legislature and the California Public Utilities Commission, is organized specifically to ensure efficient use and reliable operation of the electric transmission grid in California. The ISO is a “public utility” as that term is defined in Section 201 of the FPA, 16 U.S.C. § 824(e)(2000), and is subject to the jurisdiction of this Commission.

III. BACKGROUND

5. On November 1, 2004, the ISO tendered for filing the “Interim COTP Operations Agreement” (“ICOA”) between the ISO and TANC. In the same filing, the ISO tendered the “PACI-W Operating Agreement” between the ISO and Western. The ISO states that the agreements tendered for filing effectuate a settlement filed in FERC Docket No. ER04-693-001, which, if accepted, would result in the termination of PG&E Rate Schedule FERC No. 146, the Coordinated Operations

³ The non-PTO COTP Participants consist of the Western Area Power Administration (“Western”), Shasta Dam Area Public Utility District (City of Shasta Lake), Carmichael Water District, San Juan Suburban Water District, TANC, Alameda, Healdsburg, Lodi, Lompoc, Palo Alto, Redding, Roseville, Santa Clara, Ukiah, Plumas-Sierra Rural Electric Cooperative, Sacramento Municipal Utility District, Modesto Irrigation District and Turlock Irrigation District.

Agreement ("COA"), and the replacement of the COA with the Owners Coordinated Operation Agreement ("OCA").⁴ The ISO requests that the OCA be made effective on January 1, 2005, consistent with the proposed effective date of the OCA.

6. The COA became effective on March 17, 1993, when the COTP (a 500-kV line between southern Oregon and central California) became operational.⁵ Since then, the COA has governed the coordinated operation of the COTP with the portion of the two 500-kV AC lines of the Pacific Northwest-Pacific Southwest Intertie located in northern and central California (the "Pacific AC Intertie" or "PACI"), which includes the "PACI-W," owned by Western, and the "PACI-P" owned by PG&E.⁶

7. In Docket No. ER04-693-000, PG&E proposes to terminate the COA, together with several related agreements with Western and others, on January 1, 2005 and, at the same time, implement the OCA. Among other agreements that PG&E proposes to terminate, it proposes the termination of Contract No. 2947A between Western, PG&E, Southern California Edison Company ("SCE") and San Diego Gas & Electric Company ("SDG&E") (collectively, the "Companies"). Under that contract, the Companies have had the use of Western's Malin-Round Mountain 500 kV line, subject to reserving 400 MW for service to Western from the Round Mountain Substation to the Tracy Substation. In FERC Docket No. ER04-688-000, PG&E has tendered for filing the Transmission Exchange Agreement ("TEA") among PG&E, the ISO and Western.

⁴ Transmittal Letter at 1.

⁵ The ISO erroneously states the commercial operation date of the COTP was in 1992. Transmittal Letter at 1.

⁶ The combined three 500-kV lines are known collectively as the California-Oregon Intertie ("COI").

Although PG&E has elected not to characterize the TEA as a successor agreement to Contract No. 2947A, PG&E has acknowledged that the TEA is similar to Contract No. 2947A in that each party providing transmission service also receives service, in different amounts and between different points, and the amounts to be provided by the ISO and Western are similar to the amounts provided under Contract No. 2947A by the Companies and Western. Importantly, Western's rights to 400 MW of service between Round Mountain and Tracy Substation are preserved.

8. As part of the change in contractual and service arrangements which are proposed to commence on January 1, 2005, Western has determined that it will transfer its transmission facilities to the Control Area now operated by the Sacramento Municipal Utility District ("SMUD"), thus creating the "Expanded SMUD Control Area." At the same time, the non-PTO COTP Participants are in the process of determining whether to move the COTP from the ISO Control Area to another Control Area, specifically, to the Expanded SMUD Control Area. Inasmuch as arrangements have not been completed with either SMUD or the Bonneville Power Administration ("Bonneville"), which operates the Pacific Northwest Control Area, to accommodate the transfer of the COTP to a new Control Area by January 1, 2005, it was necessary to craft an interim arrangement with the ISO to ensure that service on the COTP was not interrupted or adversely affected when the new agreements became effective and operational on January 1, 2005. This interim arrangement between TANC and the ISO is known as the ICOA, which was filed by the ISO in this Docket.

IV. TANC'S COMMENTS IN CONDITIONAL SUPPORT FOR THE APPROVAL AND ACCEPTANCE OF THE INTERIM COTP OPERATIONS AGREEMENT

9. As TANC has explained at length in its Consolidated Comments filed on October 28, 2004 in Docket Nos. ER04-689-001, ER04-690-001 and ER04-693-001, the ICOA filed by the ISO in this Docket is essential to the reliable operation of the California-Oregon Interconnection ("COI"), and is an integral part of the Offers of Settlement and related Agreements tendered for filing by PG&E, Western and the ISO in Docket Nos. ER04-688-001, ER04-690-001 and ER04-693-001. It has been the position of TANC, its Members, and Western, throughout these proceedings, that these Offers of Settlement, related agreements and rate schedules and the ICOA are intended to be a package and that, if any of the agreements and rate schedules are rejected, materially changed in a manner which is unacceptable, or accepted subject to unacceptable conditions, the entire package should be re-examined and rebalanced. The ICOA is an essential element of that package. It has also been the position of TANC and its Members that, if any of the above circumstances occurred, the Commission should order that the existing agreements and rate schedules should continue in effect beyond January 1, 2005 and until an acceptable package of agreements is accepted and approved by the Commission.

10. In tendering the ICOA for filing,⁷ the ISO has recognized that the OCOA requires each party, either individually or collectively, to make arrangements with the Control Area Operator of the System and that the ISO is the Control Area Operator in the control area in which the COTP is located. The ISO has also acknowledged that the

⁷ Transmittal Letter at 5.

ICOA is necessary to ensure that the COTP is operated and scheduled in a reliable manner.⁸ The ISO also recognizes that the COTP Participants intend to move the COTP to a different control area as soon as possible in 2005, that the ISO will cooperate in moving the COTP to a new control area, and that the ICOA is, therefore, interim in nature.⁹

11. Importantly, Bonneville, in its Reply Comments on the Offer of Settlement tendered for filing in Docket No. ER04-693-000, recognized that:

... without an interim control area agreement [ICOA] with the CAISO as control area operator, termination of the existing Coordinated Operations Agreement (COA) prior to the dynamic scheduling mechanism becoming operational would not be in the public interest.¹⁰

12. Under these circumstances, "... Bonneville concurs with TANC that Commission acceptance of the settlement offer ... in this docket should be conditioned on Commission acceptance and approval of the ICOA."¹¹

13. The ICOA achieves benefits for both the ISO and the non-PTO COTP Participants. The non-PTO COTP Participants meet an important need of the ISO, to schedule transactions over the COTP using the non-PTO COTP Participants' rights in accordance with the ISO Tariff, the ISO scheduling protocols, procedures and timelines, except as specifically agreed to by the parties. See ICOA § 7.1. The non-PTO COTP

⁸ *Id.*

⁹ *Id.*

¹⁰ "Reply Comments of Bonneville Power Administration on Offer of Settlement," Docket No. ER04-693-000, November 2, 2004, at 2.

¹¹ *Id.* at 2-3.

Participants also agreed to use a Scheduling Entity that meets the same qualifications as a Scheduling Coordinator. *See id.* In addition, the ISO and non-PTO COTP Participants agreed to retain their present arrangements with respect to Grid Management Charges. *See id.* §§ 6.3 and 7.1. The ISO benefits from the ICOA by ensuring that its control area requirements are satisfied for major transmission facilities that are within the ISO control area but that are not part of the ISO Controlled Grid. That agreement ensures that users of the affected non-ISO Controlled Grid Facilities fully meet their obligations to the ISO without imposing costs that are not necessary to the ICOA.

14. An analysis of the ICOA must consider the benefits to the ISO and its customers in evaluating the terms under which ISO costs are assessed under this filing and the related settlement filings. The ISO and its customers (principally PG&E, SCE and SDG&E) benefit enormously from this filing by ensuring that use of the non-PTO COTP fully satisfies the ISO's control area requirements. They also benefit from the cost contribution made by the non-PTO COTP Participants. To achieve these benefits, the parties engaged in long and complex negotiations that literally spanned multiple agreements and multiple dockets. While any party to the negotiation can pick apart the elements of one agreement, such concerns cannot be considered in isolation. Certainly the non-PTO COTP Participants would have preferred lower costs and others would have preferred to assess greater costs. In the filed agreements, the parties achieved, on balance, a set of understandings to which all could agree. While no party to the negotiations, including the ISO, TANC, Western, PG&E or SCE could rightfully claim to have obtained everything that they had sought, each benefits from different components of the entire package of agreements in different ways such that one party may feel that it

gave up more in negotiations over one agreement while it benefited more in negotiations of another agreement. It is the totality of the package of agreements that must be evaluated, including with respect to the cost component of each agreement, not the individual components of each arrangement of the settlement. The ICOA and the PACI-W Operating Agreement are integral components of that package and must be evaluated as such. Only if the Commission finds the totality of the filings in Docket Nos. ER04-688-001, ER04-690-001 and ER04-693-001, along with the ISO's submittal in this docket, contrary to the public interest and not otherwise just and reasonable, should it entertain complaints against any component of this package. Approval of any one element of the package requires approval of the entire package of filings, and rejection of any one of these arrangements jeopardizes the entirety of a carefully constructed set of essential arrangements.

15. The Commission's commitment of resources to settling all of the elements of the replacement agreement, of which the ICOA and the PACI-W Operating Agreement are two such arrangements, demonstrated its recognition of the importance of this package of agreements. Both the ICOA and the PACI-W Operating Agreement are directly required by the OCOA, and are essential to implementation of the OCOA. The successful negotiation of the entire package produced a balanced result that will ensure reliable and coordinated operations, which cannot be replicated by rejecting any element of that package.

16. TANC strongly urges the Commission to reject any contention that terminating the COA, Contract 2947A and Contract 2948A does not require approval of the entire negotiated arrangement, including the ICOA and the PACI-W Operating

Agreement. Accepting termination of the referenced agreements without approval of the replacement agreements, including the agreements in this docket, will seriously damage the ISO's ability to ensure reliable and coordinated operations in California and the confidence of non-PTO COTP Participants in their ability to negotiate an arrangement that balances the interests of the ISO and the non-PTO COTP Participants that can be approved by the Commission.

V. CONCLUSION AND REQUEST FOR RELIEF

WHEREFORE, for the foregoing reasons, TANC respectfully requests that the Commission grant the following relief:

1. Grant TANC's Motion to Intervene and order that TANC be allowed to participate fully as a party to these proceedings;
2. Accept the ICOA and the PACI-W Operating Agreement, as filed by the ISO, subject to the following specific conditions:
 - A. That the ICOA and the PACI-W Operating Agreement shall become effective on January 1, 2005, only if the Offers of Settlement and agreements and rate schedules tendered for filing by PG&E, Western and the ISO in Docket Nos. ER04-688-001, ER04-690-001 and ER04-693-001 are accepted and approved by the Commission without material change or condition unacceptable to any party;
 - B. That, in the event that the condition specified in paragraph A above cannot be met by January 1, 2005, the effective date of the ICOA shall be deferred until such conditions have been met and that the agreements currently in effect, including the COA and Contract 2947A should be extended until such conditions are met.

3. Grant such other relief as the Commission may deem necessary and appropriate.

Dated: November 22, 2004

Respectfully Submitted,



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CERTIFICATE OF SERVICE

I certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding by U.S. Mail. Dated at Washington, D.C., this 22nd day of November, 2004.



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CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding by U.S. Mail.

Dated at Folsom, California, this 7th day of February, 2005

John Anders / by RMI

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