

ATTACHMENT 1

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

California Independent System Operator Corporation)	Docket No. ER98- 1499-000, et al.
---	---	--

OFFER OF SETTLEMENT

Introduction

Pursuant to Rule 602 of the Federal Energy Regulatory Commission's (the "Commission") Rules of Practice and Procedure, 18 C.F.R. § 385.602 (1999), the California Independent System Operator Corporation ("ISO") hereby submits this Offer of Settlement. In support of this Offer of Settlement, the ISO states as follows:

These consolidated dockets involve the terms and conditions of the ISO's Meter Service Agreement for Scheduling Coordinators ("MSA/SC") and the ISO's Meter Service Agreement for ISO Metered Entities ("MSA/ISOME" collectively the MSA/SC and MSA/ISOME are referred to as "MSAs"). The purpose of the MSA/SC is to establish the terms and conditions on which a Scheduling Coordinator shall provide Settlement Quality Meter Data (Meter Data gathered, edited, validated, and stored in a specific settlement-ready format for Settlement and auditing purposes) for the metered entities that it represents to the ISO's

revenue meter data acquisition and processing system.¹ The MSA/SC also requires the Scheduling Coordinator to ensure that the metered entities it represents adhere to the requirements and standards for metering facilities set by the Local Regulatory Authority or, in the event that the Local Regulatory Authority has no such requirements, to the requirements of the ISO.

The purpose of the MSA/ISOME is to establish the terms and conditions upon which the ISO shall certify the data for the ISO Metered Entities, including: (1) any of the following entities that is directly connected to the ISO Controlled Grid: (a) a Generator (unless it sells all of its Energy and Ancillary Services to the Utility Distribution Company ("UDC") in whose Service Area it is located), (b) an Eligible Customer under the ISO Tariff, or (c) an End User (other than an End User who purchases all of its Energy from the UDC); or (2) either a Participating Generator, Participating Load, or a Participating Transmission Owner in relation to its Tie Point Meters with other Transmission Owners or Control Areas.

On January 16, 1998, the ISO submitted for filing executed MSA/ISOMEs with Pacific Gas and Electric Company (Docket No. ER98-1499-000), Midway Sunset Cogeneration Company (Docket No. ER98-1500-000), San Diego Gas & Electric Company (Docket No. ER98-1501-000), Southern California Edison

¹ Capitalized terms not otherwise defined herein are used in the sense given in the Master Definitions Supplement, Appendix A to the ISO Tariff.

Company (Docket No. ER98-1502-000), and Texaco Exploration and Production, Inc. (Docket No. ER98-1503-000).

Numerous parties filed motions to intervene in these proceedings including: Public Utilities Commission of the State of California, the City and County of San Francisco; The Metropolitan Water District of Southern California; the Modesto Irrigation District; Southern California Edison Company; the Transmission Agency of Northern California; and the Western Area Power Administration.

On March 12, 1998, the Commission issued an order granting all the motions to intervene pending at that time and conditionally accepting the agreements for filing to be effective commensurate with the start of ISO operations. California Independent System Operator Corporation, 82 FERC ¶ 61.252, 61,011-12. On March 30, 1998, the Commission issued an order conditionally accepting additional MSAs and granting further interventions.² These agreements included MSA/ISOMEs with the Western Area Power Administration, Sierra Nevada Region (Docket No. ER98-1909-000), Long Beach Generating, L.L.C. (Docket No. ER98-1911-000), El Segundo Power, L.L.C

² California Independent System Operator Corporation, 82 FERC ¶ 61.325. These intervenors included San Diego Gas & Electric Company; the City of Redding, California; the Sacramento Municipal Utility District; Long Beach Generating, LLC; El Segundo Power, LLC; the City of Anaheim, California; Electric Clearinghouse, Inc.; Enova Energy, Inc.; and the Northern California Power Agency. The Cogeneration Association of California ("CAC") intervened orally at the March 1998 prehearing conference.

(Docket No. ER98-1913-000); City of Anaheim, Public Utilities Department (Docket No. ER98-1914-000), and California Department of Water Resources (Docket No. ER98-2114-000); and MSA/SCs with QST Energy Trading, Inc. (Docket No. ER98-1842-000); City of Vernon, Department of Light and Power (Docket No. ER98-1843-000), Citizens Power Sales (Docket No. ER98-1844-000), Southern Company Energy and Marketing, L.P. (Docket No. ER98-1845-000), Electric Clearinghouse, Inc. (Docket No. ER98-1846-000), Enova Energy, Inc. (Docket No. ER98-1847-000), San Diego Gas & Electric Company (Docket No. ER98-1848-000), the Northern California Power Agency (Docket No. ER98-1849-000), Automated Power Exchange, Inc. (Docket No. ER98-1850-000), Enron Power Marketing, Inc. (Docket No. ER98-1851-000), Symmetry Device Research, Inc. (Docket No. ER98-1852-000), NorAm Energy Services, Inc. (Docket No. ER98-1853-000), LG&E Marketing, Inc. (Docket No. ER98-1854-000), Illinova Marketing, Inc. (Docket No. ER98-1855-000), Duke Energy Trading & Marketing, L.C.C. (Docket No. ER98-1856-000), Salt River Project Agricultural Improvement and Power District (Docket No. ER98-1857-000), PG&E Energy Services (Docket No. ER98-1858-000), Vitol Gas & Electric, L.C.C. (Docket No. ER98-1859-000), Portland General Electric Company (Docket No. ER98-1860-000), California Power Exchange Corporation (Docket No. ER98-1861-000), Arizona Public Service Company (Docket No. ER98-1862-000), Power Resource Managers, L.L.C. (Docket No. ER98-1863-000), California Polar Brokers (Docket No. ER98-1864-000), AIG Trading Corporation (Docket No. ER98-1865-000),

Edison Source (Docket No. ER98-1866-000), PacifiCorp (Docket No. ER98-1867-000), Montana Power Trading & Marketing Company (Docket No. ER98-1868-000), Southern California Edison Company (Docket No. ER98-1869-000), Avista Energy, Inc. (Docket No. ER98-1888-000), City of Seattle, City Light Department (Docket No. ER98-1889-000), City of Riverside, California (Docket No. ER98-1891-000), Western Area Power Administration, Sierra Nevada Region (ER98-1924-000), Long Beach Generating, L.L.C. (Docket No. ER98-1925-000), El Segundo Power (Docket No. ER98-1926-000), and the California Department of Water Resources (Docket No. ER98-2122-000).

In both the March 12, 1998 and the March 30, 1998 Orders, the Commission required that the ISO modify the MSAs consistent with its order of December 17, 1997 in Pacific Gas and Electric Company, et al., 81 FERC ¶ 61,320. The Commission also established a hearing to determine the reasonableness of the proposed MSAs.

Prehearing conferences were held in these proceedings on March 17, 1998 and on April 15, 1998. On April 30, 1998, the Commission issued a letter order conditionally accepting the MSA/ISOMEs with Salt River Project Agricultural Improvement and Power District (Docket No. ER98-2113-000), Oeste Power Generation, L.L.C. (Docket No. ER98-2291-000), Mountain Vista Power Generation, L.L.C. (Docket No. ER98-2292-000), Alta Power Generation, L.L.C. (Docket No. ER98-2294-000), and Ocean Vista Power Generation, L.L.C.

(Docket No. ER98-2295-000) and consolidated these dockets in the ongoing proceeding.

On June 1, 1998, the ISO submitted its compliance filing incorporating the modifications to the MSAs required by the Commission's December 17, 1997, March 12, 1998, and March 30, 1998 Orders. By letter order dated June 25, 1998, the Commission conditionally accepted MSA/ISOMEs with AES Alamitos (Docket No. ER98-2998-000), AES Redondo Beach (Docket No. ER98-2999-000), and AES Huntington Beach (Docket No. ER98-3003-000) and consolidated these dockets in the ongoing proceeding. By letter order dated June 30, 1998, the Commission conditionally accepted MSA/ISOMEs with Wheelabrator Martell, Inc. (Docket No. ER98-2947-000), Duke Energy Oakland, L.L.C. (Docket No. ER98-3017-000) Duke Energy Morro Bay, L.L.C. (Docket No. ER98-3020-000), and Duke Energy Moss Landing, L.L.C. (Docket No. ER98-3022-000) and MSA/SCs with Modesto Irrigation District (Docket No. ER98-2949-000) and British Columbia Power Exchange (Docket No. ER98-2978-000) and consolidated these dockets in the ongoing proceeding.³

³ The ISO has filed additional MSAs that have been accepted by the Commission subject to the outcome of this proceeding including MSA/ISOMEs with Burney Forest Products (Docket No. ER98-3221-000), Simpson Paper (Docket No. ER98-3609-000), Simpson Redwood (Docket No. ER98-3611-000), Martinez Refining (Docket No. ER98-3612-000), Ormond Beach (Docket No. ER98-3693-000), Calpine Geysers (Docket No. ER98-3803-000), Sierra Pacific Industries (Docket No. ER98-4279-000), Mt. Poso Cogeneration (Docket No. ER98-4573-000), Monsanto (Docket No. ER98-243-000), Sunlaw Cogeneration Partners I (Docket No. ER99-1188-000); Big Creek Water Works (Docket No. ER99-1735-000), Tosco Refining (Docket No. ER99-1736-000), Cabrillo Power I

In accordance with the procedural schedule established in these proceedings, the ISO filed its Direct Testimony on October 8, 1998. The ISO's testimony indicated certain modifications the ISO was willing to make to the filed agreements to address concerns raised by intervenors in this proceeding. Exhibit No. ISO-1, Direct Testimony of Deborah A. Le Vine at 12-13 and Exhibit Nos. ISO-6 and ISO-7.

On December 11, 1998, one participant, CAC, submitted Answering Testimony. On February 1, 1999, the Commission Trial Staff filed an unopposed motion requesting that the ISO file supplemental testimony explaining its position on the issues raised by CAC. This motion was granted on February 2, 1999, and on February 19, 1999 and February 26, 1999, the ISO filed Supplemental Direct Testimony.

On April 30, 1999, the Commission Trial Staff filed Direct Testimony. On May 14, 1999, Southern California Edison Company filed Cross-Answering Testimony.

(Docket No. ER99-1779-000), Cabrillo Power II (Docket No. ER99-1776-000), Harbor Cogeneration (Docket No. ER98-1879-000) Southern Energy Potrero, L.L.C. (Docket No. ER99-2120-000), Southern Energy Delta, L.L.C. (Docket No. ER99-2118-000) and Duke Energy South Bay (Docket No. ER99-2443-000) and MSA/SCs with Gardner Energy Group (Docket No. ER98-3343-000), Hafslund Energy (Docket No. ER98-3342-000), City of Anaheim, California (Docket No. ER98-4654-000), City of Banning, California (Docket No. ER99-714-000), City of Azusa, California (Docket No. ER99-704-000), PacifiCorp (Docket No. ER99-1621-000), Idaho Power (Docket No. ER99-1737-000), and Miecoco, Inc. ER99-2455-000).

The intervenors in these proceedings have raised a variety of concerns with respect to the MSAs. In an effort to resolve these proceedings in a mutually acceptable manner, the ISO, the intervenors and the Commission Trial Staff have been engaged in extensive settlement discussions. As a result of these efforts, the parties reached a resolution of these proceedings, which is embodied in this Offer of Settlement. If accepted by the Commission, this Offer of Settlement would resolve all the issues pertaining to the MSAs set for hearing in these dockets.

Article I

Revisions to the MSAs and Other Conditions

All issues pertaining to the MSAs at issue in these consolidated dockets are settled as follows:

- 1.1 The ISO and the respective Market Participant shall execute a revised MSA/SC to be fully consistent with the revised pro forma MSA/SC attached to this Offer of Settlement as Attachment A.

- 1.2 The revised pro forma MSA/SC set forth in Attachment A will be the basis for any future negotiations between the ISO and any Market Participant and the terms thereof will be varied only to the extent necessary to preserve Existing Rights or to reflect specific or unique circumstances of

the Generating Unit or the Market Participant involved. Therefore, the parties do not intend that the Commission's acceptance of this Offer of Settlement or of a MSA/SC incorporating the terms of Attachment A will foreclose a future MSA/SC entered into by the ISO and any Market Participant from preserving Existing Rights or reflecting specific or unique circumstances of that Market Participant.

- 1.3 If the ISO submits a new MSA/SC or a revision to an existing MSA/SC that incorporates terms that vary from the pro forma terms and conditions pursuant to section 1.2 of this Offer of Settlement, the ISO will identify in its transmittal letter the revisions and the specific or unique circumstances that necessitated a departure from the pro forma MSA/SC.
- 1.4 The ISO and the respective Market Participant shall execute revised MSA/ISOMEs to be fully consistent with the revised pro forma MSA/ISOME attached to this Offer of Settlement as Attachment B.
- 1.5 The revised pro forma MSA/ISOME set forth in Attachment B will be the basis for any future negotiations between the ISO and any Market Participant and the terms thereof will be varied only to the extent necessary to preserve Existing Rights or to reflect specific or unique circumstances of the Generating Unit or the Market Participant involved.

Therefore, the parties do not intend that the Commission's acceptance of this Offer of Settlement or of a MSA/ISOME incorporating the terms of Attachment B will foreclose a future MSA/ISOME entered into by the ISO and any Market Participant from preserving Existing Rights or reflecting specific or unique circumstances of that Market Participant.

1.6 If the ISO submits a new MSA/ISOME or a revision to an existing MSA/ISOME that incorporates terms that vary from the pro forma terms and conditions pursuant to section 1.5 of this Offer of Settlement, the ISO will identify in its transmittal letter the revisions and the specific or unique circumstances that necessitated a departure from the pro forma MSA/ISOME.

1.7 For purposes of settlement, the ISO and CAC have agreed with respect to the projects listed in Attachment C of this Offer of Settlement (the "CAC Projects") as follows:

1.7.1 The ISO will work with CAC, the CAC Projects, and consultants or meter service companies retained by CAC and the CAC Projects in the development of estimates of the scope of work and costs necessary to bring the CAC Projects into compliance with the ISO's revenue metering requirements.

1.7.2 If the estimate developed pursuant to section 1.7.1 exceeds \$125,000 or if the actual revenue metering and communication installation costs, excluding annual operations and maintenance expense ("O&M"), telemetry charges, Remote Intelligent Gateway System ("RIGS") costs and MCI usage costs, for a CAC Project exceed the greater of: (1) \$125,000 or (2) the estimate developed in section 1.7.1 plus inflation measured by Bureau of Labor Statistics general Consumer Price Index multiplied by a factor of 1.15, then the ISO commits to work with CAC and the CAC Project in an effort to determine what, if any, actions can be taken to reduce the expense of compliance while still providing the ISO the required Metering Data in a format compatible with the ISO's data processing systems.

1.7.3. If the CAC Project and the ISO are unable to reach an agreement based on the collaborative effort in section 1.7.2 and if the ISO does not grant the project an exemption from the relevant ISO metering requirements, then that CAC Project will have the right to file a petition under section 206 of the Federal Power Act, contending that the ISO metering requirements are unjust and unreasonable as applied to that CAC Project. The ISO will not be able to contend in any such action that the CAC Project failed to

raise such arguments in this proceeding, FERC Docket No. ER98-1499-000.

- 1.8 For Generators other than the CAC Projects, the ISO commits to work with these Generators if the revenue metering and communication installation costs, excluding annual O&M, telemetry charges, and RIGS and MCI usage costs, for their project exceed \$125,000 plus inflation measured beginning on the effective date of this Offer of Settlement by Bureau of Labor Statistics general Consumer Price Index in an effort to determine what, if any, actions can be taken to reduce the expense of compliance while still providing the ISO the required Metering Data in a format compatible with the ISO's data processing systems. If the Generator and the ISO are unable to reach an agreement with respect to metering based on these collaborative efforts and if the ISO does not grant the project an exemption from the relevant ISO metering requirements, then that Generator will have the right to file a petition under section 206 of the Federal Power Act, contending that the ISO metering requirements are unjust and unreasonable as applied to that project. The ISO will not be able to contend in any such action that the Generator failed to raise such arguments in this proceeding, FERC Docket No. ER98-1499-000. Nothing in this Offer of Settlement shall be deemed to prevent the ISO from working with any Generator or other

Market Participant in an effort to comply with the ISO's revenue metering requirements.

- 1.9 For purposes of settlement, the ISO confirms that with respect to section 2.2.2 of the MSA/SC the only precondition for termination in the pro forma MSA/SC agreement is the provision of notice by the SC as specified in that provision. Similarly, the ISO confirms that with respect to section 2.2.2 of the MSA/ISOME the only precondition for termination in the pro forma MSA/ISOME is the provision of notice by the ISOME as specified in that provision.

Article II

General Terms and Conditions

- 2.1 Supporting or failing to oppose this Offer of Settlement by any party shall not be deemed in any respect to constitute an admission by such party that any allegation or contention made by any other party in these proceedings is true or valid. This Settlement represents a negotiated compromise for the sole purpose of settling the captioned dockets. No signatory, participant, or affiliate of any party shall be deemed by virtue of this Offer of Settlement to have approved, accepted, agreed to, or consented to any fact, concept, theory, rate methodology, principle or method relating to jurisdiction, prudence, reasonable cost of service, cost

classification, cost allocation, rate design, ISO Tariff provisions, or the matters underlying or purported to underlie any of the resolutions of issues provided herein. In addition, nothing in this Offer of Settlement and nothing in these MSAs is intended to set any precedent for or otherwise prejudice the terms and conditions of any agreement that the ISO may require from Metered Subsystems in order to undertake transactions utilizing a System Unit, as defined in the ISO Tariff.

- 2.2 The Commission's acceptance of the Offer of Settlement shall not constitute approval of, or precedent regarding, any principle or issue in this proceeding and shall not relieve the Commission or any party, or affiliate thereof, of the burden, under Section 205 or 206 of the Federal Power Act, to establish the justness and reasonableness of any aspect of any superseding amendment or agreement. Nothing herein shall affect any party's rights under Existing Contracts. No provision of this Offer of Settlement or the revised pro forma MSAs in Attachment A and Attachment B shall be deemed to waive the right of any party to protest, or challenge in any manner, whether a MSA, or any action or proceeding arising under or relating to a MSA, is subject to the jurisdiction of the Federal Energy Regulatory Commission.

2.3 This Offer of Settlement is submitted with the strong desire that it be accepted by the Commission in its entirety. In the event that the Commission does not by order accept the Offer of Settlement and the revised pro forma MSAs in their entirety, each party shall have thirty days to notify the Commission, the ISO, Commission Trial Staff, and the other parties that it objects to the modifications required by the Commission. If no such objection is made, the changes required by the Commission shall become part of this Offer of Settlement. If such an objection to the modification is made, this Offer of Settlement shall be deemed withdrawn and, upon such withdrawal, it shall not constitute any part of the record in this proceeding or be used for any purpose.

2.4 The discussions among the participants that have produced this Offer of Settlement have been conducted on the explicit understanding, pursuant to Rule 602(e) of the Commission's Rules of Practice and Procedure, that, unless approved by the Commission, all offers of settlement and any comments on offers are privileged and not admissible as evidence against any participant who objects to their admission and that any discussion of the participants with respect to offers of settlement is not subject to discovery or admissible in evidence.

2.5 In the event the Commission approves this Offer of Settlement without modification, the Settlement shall become effective when the order accepting it becomes final and nonappealable under the terms of the Federal Power Act. In the event the Commission approves the Settlement with modification and no objection is lodged as specified in Section 2.3, the Settlement shall become effective when the order accepting the Settlement as modified becomes final and nonappealable under the terms of the Federal Power Act.

Conclusion

The Offer of Settlement presents an acceptable resolution of the issues in this proceeding and should be accepted by the Commission.

Respectfully submitted,



N. Beth Emery
Vice President and General Counsel
Roger E. Smith
Senior Regulatory Counsel
The California Independent
System Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630



Edward Berlin
Kenneth G. Jaffe
David B. Rubin
Sean A. Atkins
Swidler Berlin Shereff Friedman, LLP
3000 K Street, N.W.
Washington, D.C. 20007-3851

Dated: September 10, 1999