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August 8, 2002

The Honorable Magalie R. Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

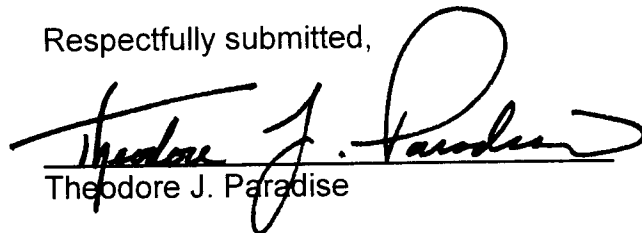
**Re: California Independent System Operator Corporation
Docket Nos. ER01-313-000, et al.**

Dear Secretary Salas:

Enclosed for filing with the Commission are one original and 14 copies of the California Independent System Operator's Motion to Amend and Correct the Record in the above-captioned proceeding. Also enclosed are two extra copies of the filing to be time/date stamped and returned to us by the messenger.

Thank you for your assistance in this matter.

Respectfully submitted,



Theodore J. Paradise

Counsel for the California Independent System
Operator Corporation

CC: The Honorable Bobbie J. McCartney
Service List

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

)	Docket Nos.	ER01-313-000
California Independent System Operator Corporation)		ER01-313-001
)		
Pacific Gas and Electric Company)	Docket Nos.	ER01-424-000
)		ER01-424-001
)		
)		(Consolidated)
)		

MOTION OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION TO CORRECT THE RECORD

I. Introduction

Pursuant to Rule 212 of the Federal Energy Regulatory Commission’s (“Commission”)¹ Rules of Practice and Procedure, 18 C.F.R. § 385.212 (2001), the California Independent System Operator Corporation (“ISO”) hereby submits its motion to correct certain statements contained in the record of the above-captioned proceeding. As discussed below, the ISO’s correction only relates to statements concerning the methodology used to assess the Market Operations Charge to specific transactions involving the Southwest Power Link (“SWPL”). The correction regarding the methodology does not affect the holding of the Initial Decision: that the ISO possesses authority to assess SWPL transactions the Market Operations Charge of the Grid Management Charge (“GMC”) under its filed open access transmission tariff (“Tariff”) language.²

¹ Capitalized terms not otherwise defined herein are defined in the Master Definitions Supplement, Appendix A to the ISO Tariff, as filed August 15, 1997 and subsequently revised.

² *California Independent System Operator Corp., et al.*, 99 FERC 63,020 at 65,136 (2002).

II. Background

The GMC is the rate assessed by the ISO on Scheduling Coordinators (“SCs”) and Other Appropriate Parties to recover the costs of the ISO’s start-up, debt and on-going capital, and operation and maintenance costs. On November 1, 2000, the ISO submitted to the Commission its unbundled GMC charge for filing (“November 1 filing”).³ The unbundled GMC separated what had been a bundled rate into three separate “Service Categories”: 1) Control Area Services, 2) Market Operations, and 3) Congestion Management. Amendments to the ISO’s Tariff, submitted as part of the November 1 filing, specified the billing determinants for each of the three Service Categories. The Service Category pertinent to this discussion is the Market Operations Charge.⁴ The billing determinant for the Market Operations Charge is provided in the ISO Tariff at Section 8.3.3:

The Market Operations Charge for each Scheduling Coordinator is calculated as the product of the rate for the Market Operations Charge and the Scheduling Coordinator’s total purchases and sales of Ancillary Services, Supplemental Energy, and Imbalance Energy (both instructed and uninstructed). The rate for the Market Operations Charge is determined by dividing the GMC costs allocated to this service category by the total purchases and sales of Ancillary Services, Supplemental Energy and Imbalance Energy (both instructed and uninstructed) according to the formula in Schedule 1 of this Tariff.

In response to the ISO’s November 1 filing, San Diego Gas and Electric Company (“SDG&E”) submitted testimony on August 17, 2001 opposing the ISO’s application of the Market Operations Charge to certain transactions occurring on the SWPL transmission lines.

SWPL is a 292 mile 500 kV transmission line from SDG&E’s Miguel substation to the Palo Verde switchyard in Arizona. Pursuant to contracts executed in 1981 and 1983 (the

³ On December 29, 2000, the Commission accepted the Unbundled GMC for filing to become effective January 1, 2001 and set it for hearing. *California Independent System Operator Corporation*, 93 FERC ¶ 61,337 (2000).

“Contracts”), SDG&E transferred portions of SWPL to Arizona Public Service Company (“APS”) and Imperial Irrigation District (“IID”). Consequently, SWPL is now owned jointly by SDG&E, APS and IID. To the extent required by the Contracts and its electric power transactions within the ISO Control Area, SDG&E submits schedules to the ISO for SWPL transactions. In order to minimize its liability in the Imbalance Energy market for Energy associated with transmission line losses, SDG&E schedules so-called “phantom load” (“Load Accommodation”) for SWPL transactions. Because the ISO currently requires a balanced portfolio, the Load Accommodation is accompanied by greater generation, typically purchased via an inter-SC trade and scheduled to balance the Load Accommodation schedule. Because purchases and sales of Imbalance Energy are computed on a net basis for energy settlement purposes, the Load Accommodation and accompanying generation can offset actual line losses. Thus, as SDG&E self-provides its Imbalance Energy needs, its exposure to the spot or Imbalance Energy market is reduced.⁵ Therefore, by accommodating SDG&E’s Load Accommodation, the ISO gives full credit to SDG&E for its ‘self-provision’ of actual Imbalance Energy.

In its August 17 testimony, SDG&E argued that the ISO did not possess the authority to assess the Market Operations Charge on the Energy schedules that SDG&E submits to the ISO for APS and IID portions of SWPL.

⁴ The Service Category titled “Market Operations” charge was subsequently changed to the Ancillary Services and Real Time Energy Operations charge in a filing made by the ISO on November 2, 2001 in Docket No. ER02-250-000, *et al.*

⁵ ISO Tariff at Section 11.2.4.1.

III. Discussion

1. The ISO Assesses The Market Operations Charge Based On Gross Imbalance Energy Transactions, Not Net

While the testimony presented by the ISO on the issue of whether the ISO possessed the authority to assess the Market Operations Charge to SDG&E as SC for SWPL transactions (the issue raised by SDG&E) was accurate, the ISO's explanation regarding how the ISO bills the Market Operations Charge for such transactions was not. The ISO explained that the Market Operations Charge was assessed by determining the difference between the pre-scheduled load/generation to cover line losses and the actual line losses that occurred, that is, the "net" difference.⁶ While this is how the quantity of actual Imbalance Energy needed to meet the difference between load and generation is determined for settlement of the sale of such energy, the billing determinant for the Market Operations Charge is based on "total purchases and sales," that is, on the *gross* Imbalance Energy components of a transaction, not net. In a SWPL transaction for IID, for example, SDG&E schedules an import, an export, and an inter-SC trade of Energy and Load. There are no "meter readings" associated with the import and export, which are all deemed delivered. The absolute value of the deviation between the actual load consumed (zero in this case) versus the amount scheduled as a Load Accommodation will trigger the first Market Operations Charge, as it is a deviation from the scheduled load. This transaction is deemed a sale of Imbalance Energy to the ISO on which the ISO assesses the Market Operations Charge. Similarly, the transmission losses assessed on SDG&E's import transactions are deemed a purchase of Imbalance Energy from the ISO on which again the ISO assesses the Market Operations Charge.

⁶ The inaccuracies of the record regarding the methodology employed for assessing the Market Operations charge are reflected in footnote 27 at page 37 of the ISO's Initial Brief and footnote 43 on page 63 of the ISO's Reply Brief.

It is this distinction between how the transactions of Imbalance Energy are settled by the ISO and how the ISO subsequently bills for the administrative costs, *i.e.*, the Market Operations Charge, associated with the transactions used to minimize such Imbalance Energy charges that has been the cause of some confusion now in the record.

The method the ISO utilized to assess the Market Operations Charge has been applied consistently to all SCs since the charge was made effective on January 1, 2001. It is also important to understand that all SCs, whether they utilize 'Load Accommodation' arrangements for limiting spot market liability or not, are assessed the Market Operations Charge in the *same* manner, *i.e.*, on a gross basis as specified by the billing determinant.

2. Correcting The Record Does Not Affect The Holding Of The Initial Decision That SWPL Transactions May Be Assessed the Market Operations Charge

The details of how the Market Operations Charge was assessed to Market Participants, included any utilizing 'Load Accommodation,' was not at issue in the 2001 GMC proceeding. What was at issue was the ISO's ability to assess and bill the Market Operations Charge to SDG&E for SWPL transactions in the same way it assesses and bills that charge to other Scheduling Coordinators. SDG&E had presented various arguments which hinged on (1) whether SWPL transactions occurred on the ISO Controlled Grid; (2) whether the ISO could charge the Market Operations Charge on non-ISO Controlled Grid facilities; and (3) whether assessing the Market Operations Charge on SWPL transactions was discriminatory. The Initial Decision rejected SDG&E's arguments that the ISO lacked the necessary authority to assess SDG&E the Market Operations Charge on SWPL transactions, stating:

SDG&E is assessed the administrative costs of providing this Imbalance Energy for losses associated with SWPL Energy as part of the MO charge. This is based upon the ISO's billing determinant for the MO charge: "...total purchases and sales of Ancillary Services, Supplemental Energy, and Imbalance Energy (both instructed and uninstructed)." Whether SWPL transmission facilities are, or are not, a part of the ISO

Controlled Grid is not material to whether these facilities may be assessed the MO charge. Transactions assessed the MO charge "...are not limited to transactions using the ISO Controlled Grid."

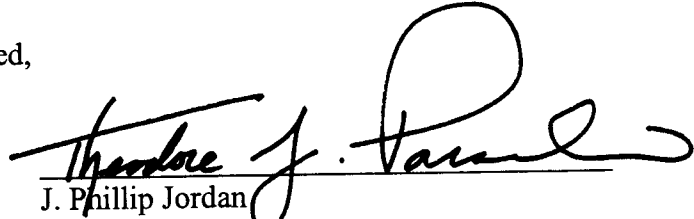
99 FERC at 65,136 (citations omitted). The Initial Decision also rejected SDG&E's arguments regarding discrimination. *Id.* at 65,136-37.

The Initial Decision did recite the ISO's description of the ISO's methodology for assessing the Market Operations Charge to SWPL transactions, stating that "it is just and reasonable for SWPL Energy schedules to be assessed a share of the MO charge in this manner." *Id.* at 65,136. As noted above, however, at issue in the GMC proceeding was whether the ISO possessed the authority to assess SWPL transactions the Market Operations Charge, and whether the ISO's doing so was discriminatory, not the methodology of how the ISO charges all SCs for that service category. The holding of the Initial Decision, that the ISO possesses the authority to assess the Market Operations Charge on SWPL transactions under the ISO's filed billing determinant and that such an assessment is not discriminatory, is not undermined or affected by the details of how that billing determinant has been applied, not only to SWPL, but to all Market Participants similarly situated.

IV. Conclusion

WHEREFORE, the ISO respectfully requests that the Commission accept the ISO's correction of the record in this proceeding, as set forth above.

Respectfully submitted,



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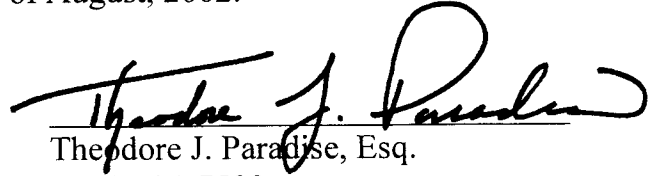
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Dated: August 8, 2002

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all parties on the official service list compiled by the Secretary in the above-captioned proceedings, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Washington, DC this 8th Day of August, 2002.


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