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December 23, 2005

VIA ELECTRONIC FILING

The Honorable Magalie R. Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

**Re: California Independent System Operator Corporation
Docket No. ER06-227-000**

Dear Secretary Salas:

Attached please find the Motion for Leave to File Answer and Answer of the California Independent System Operator Corporation, submitted in the above-captioned docket.

Thank you for your assistance in this matter.

Respectfully submitted,

/s/ Bradley R. Miliauskas
Bradley R. Miliauskas

Counsel for the California Independent System
Operator Corporation

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

California Independent System)
Operator Corporation) Docket No. ER06-227-000

**MOTION FOR LEAVE TO FILE ANSWER AND ANSWER OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

Pursuant to Rule 213 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. § 385.213 (2005), the California Independent System Operator Corporation (“ISO”)¹ submits its answer to the motions to intervene submitted in the captioned proceeding, and pursuant to Rules 212 and 213 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. §§ 385.212, 385.213, the ISO moves to file an answer, and files its answer, to the motion to intervene and protests submitted in the captioned proceeding. This proceeding concerns in relevant part the ISO’s unilateral filing of an Interim Operations Agreement (“IOA”) between the ISO and the City and County of San Francisco (“CCSF”) on November 17, 2005 (“IOA Filing”).

I. BACKGROUND

The purpose of the IOA is to govern the operational relationship between the ISO and CCSF with respect to CCSF’s power transactions that are delivered to the Sacramento Municipal Utility District (“SMUD”) Control Area at the Standiford Interconnection and that are delivered to the Turlock Irrigation District

¹ Capitalized terms not otherwise defined herein have the meanings set forth in the Master Definitions Supplement, Appendix A to the ISO Tariff.

("TID") Control Area at the Oakdale Interconnection over transmission facilities that are not part of the ISO Controlled Grid. Transmittal Letter for IOA Filing at 4. The ISO proposed to make the IOA effective as of the later of December 1, 2005, or the date that the IOA is accepted for filing and made effective by the Commission. *Id.*

The ISO submitted the IOA in order to address issues raised by CCSF relating to two events that were planned to occur on December 1, 2005: the transfer of Modesto Irrigation District's ("MID's") system and the 500 kV California-Oregon Transmission Project ("COTP") transmission line from the ISO Control Area to the SMUD Control Area, and the implementation of the new TID-operated Control Area. *Id.* at 2-3.

MID and the Transmission Agency of Northern California ("TANC") have filed motions to intervene that raise no substantive issues. TID has submitted a filing that was styled as a motion to intervene but that raises a number of substantive issues. PG&E submitted a motion to intervene and protest. CCSF submitted a motion to intervene, protest, and request for suspension on November 23, 2005, and submitted a supplemental protest on December 8, 2005.

II. MOTION FOR LEAVE TO FILE ANSWER

The ISO requests waiver of Rule 213(a)(2) (18 C.F.R. § 213(a)(2)) to permit it to make an answer to CCSF's, TID's, and PG&E's protests. 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). The present answer only responds to CCSF's December 8, 2005, substantive protest, because CCSF's November 23, 2005, filing, although styled in part as a protest, did not raise any substantive issues, and in the November 23 filing, CCSF requested suspension only in the event that the Commission acted on the ISO's filing in the proceeding prior to December 1, 2005 – which the Commission did not do.

III. STATEMENT OF ISSUES

In accordance with Rule 203(a)(7), 18 C.F.R. § 385.203(a)(7), the ISO provides this Statement of Issues.

1. The fact that CCSF's transmission facilities do not form part of the ISO Controlled Grid has no bearing on the issues raised by CCSF beyond those already addressed by the ISO in the IOA or this answer.
2. The ISO has in the IOA and this answer made all required accommodation of CCSF's Existing Contract with PG&E and all reasonable accommodation of CCSF's power sales agreements with TID and MID and the Raker Act.
3. CCSF should be required to submit schedules into the ISO's scheduling system through a Scheduling Coordinator ("SC")

in accordance with the ISO's scheduling timelines in view of the operational considerations raised by the ISO.

4. The additional work created by CCSF's exports to TID and MID requires application of a limited set of Grid Management Charge ("GMC") costs to assure non-discriminatory treatment for these transactions and to avoid shifting these costs to other entities.
5. The ISO's obligation under its agreement with the Western Electricity Coordinating Council ("WECC") to ensure that generators in the Control Area are subject to the WECC Reliability Management System requirements justifies inclusion of the applicable provisions in the IOA.
6. The issues raised by TID either should be pursued directly with CCSF or are addressed in this IOA or the Interconnected Control Area Operating Agreement ("ICAOA") between TID and the ISO.
7. PG&E may be correct in its assertion that it is inappropriate to refer to the SC for CCSF in the IOA provision regarding liability, as it is not a party to the agreement.

IV. ANSWER

The ISO appreciates CCSF's acknowledgment of the ISO's efforts to accommodate CCSF's special circumstances in the IOA. Moreover, the ISO appreciates CCSF's explanations of the concerns that have caused it to protest

some provisions of the IOA. Since the filing of the IOA, the ISO and CCSF have engaged in additional discussions in an attempt to understand the issues and to consider revisions to the IOA that might address CCSF's special circumstances without compromising the ISO's ability to operate the Control Area or unfairly advantaging CCSF. Inasmuch as those discussion have to date not resolved the issues, the ISO is filing this answer in order to provide the Commission more complete information regarding the underlying premises for the provisions of the IOA as filed by the ISO.

A. CCSF Misconstrues the Relevance of Whether CCSF's Transmission Facilities Are Part of the ISO Controlled Grid

CCSF emphasizes that the CCSF-owned transmission facilities used for deliveries to TID and MID are not part the ISO Controlled Grid but that the IOA would nonetheless dictate the terms of use of those CCSF-owned transmission facilities. In this regard, CCSF asserts, the IOA is inconsistent with FERC precedent and the Raker Act (38 Stat. 242 (1913)). CCSF at 7-9.

CCSF's argument proceeds from a misunderstanding of the role of the IOA. The IOA governs the rates and terms of a new service that the ISO provides CCSF. The fact that CCSF's transmission facilities are not part of the ISO Controlled Grid is not relevant to this new service.

The imposition of the new Control Area boundaries significantly changes the circumstances of the operation of CCSF's non-ISO Controlled Grid facilities. Although CCSF previously was insulated from having to submit schedules for its transactions with TID and MID to the ISO by the fact that the transactions were "behind-the-meter," *i.e.*, the ISO did not "see" these transaction because they

occurred entirely within the “bubble” of the facilities owned by CCSF, TID, and MID internal to the ISO Control Area, the imposition of the new Control Area boundaries has converted these transactions into Control Area interchange – which necessitates their scheduling with the Control Area operator managing the power flows between Control Areas. CCSF must obtain this service from the ISO, as the Control Area operator.

Recognizing that the services that the ISO provides in connection with transactions that do not use the ISO Controlled Grid are limited, the ISO has incorporated into the IOA numerous special provisions establishing appropriate exemptions for CCSF, its facilities, and its transactions with MID and TID from various provisions of the ISO Tariff. In doing so, the ISO has used as a starting point the general form of agreements it had negotiated with TANC, TID, and MID applicable to their interests in non-ISO Controlled Grid facilities at an ISO Control Area boundary, which agreements had been accepted by the Commission and for which the Commission recently accepted the ISO’s notices of termination in conjunction with the departure of the COTP, TID, and MID from the ISO Control Area.²

² See *California Independent System Operator Corporation*, 109 FERC ¶ 61,391 (2004), *reh’g denied*, 111 FERC ¶ 61,363 (2005) (accepting Interim COTP Interim Operations Agreement between the ISO and TANC); Letter Order, Docket No. ER06-41-000 (issued Dec. 1, 2005) (accepting notice of cancellation of COTP Interim Operations Agreement); *California Independent System Operator Corporation*, 110 FERC ¶ 61,196, *reh’g denied and clarification granted*, 111 FERC ¶ 61,360 (2005) (accepting Interim Operations Agreement between the ISO and TID, and accepting Operations Agreement between the ISO and MID); Letter Order, Docket No. ER06-60-000 (issued Dec. 8, 2005) (accepting notice of cancellation of Interim Operations Agreement between the ISO and TID); Letter Order, Docket No. ER06-40-000 (issued Nov. 14, 2005) (accepting notice of cancellation of Operations Agreement between the ISO and MID).

In the IOA, as in the recently-terminated TANC, TID, and MID agreements, the ISO has proposed terms that would require the submittal of schedules for CCSF's transactions across the new Control Area interties into the ISO's scheduling system, as further described in Section IV.D below. Also as in the TANC, TID, and MID agreements, the IOA would exempt CCSF from most ISO charges but would not provide an exception to the application of the ISO's GMC or of other potential charges for services that CCSF would be able to avoid through self-provision of the services – which charges and services are directly related to the conversion of the CCSF transactions with TID and MID into Control Area interchange transactions that must be managed by the ISO as the Control Area operator. The ISO submits that the general approach adopted in the IOA should be determined by the Commission to be acceptable in this case just as it was determined to be acceptable with regard to similar circumstances in the case of the TANC, TID, and MID agreements.

B. In the IOA, the ISO Has Made All Reasonable Accommodations to Permit Continued Performance Under CCSF's Agreements in Accordance with the ISO Tariff and Commission Orders

CCSF argues that the IOA violates the requirement that the ISO honor Existing Contracts in that it is inconsistent with the Interconnection Agreement ("IA") between CCSF and PG&E. Further, CCSF argues, the IOA does not fully honor the Amended and Restated Long Term Power Sales Agreements ("PSAs") between CCSF and MID and between CCSF and TID. CCSF at 9-11.

Existing Contracts are defined in Appendix A to the ISO Tariff as "[t]he contracts which grant *transmission* service rights in existence on the ISO

Operations Date” (Emphasis added.) Existing Rights are those rights of a Non-Participating Transmission Owner under an Existing Contract and are defined in Section 2.4.4.4.1 of the ISO Tariff as falling “into one of three general categories: firm transmission service, non-firm transmission service, and conditional firm transmission service”. The ISO’s obligations under the ISO Tariff involve honoring Existing Rights. ISO Tariff, § 2.4.4.1.1. Consistent with Commission orders, the ISO interprets its obligation broadly, to include all terms and conditions regarding such transmission service.³

Although CCSF has Existing Rights on PG&E’s transmission facilities under the IA, it is not terms and conditions regarding transmission service that are at issue. Rather, it is terms and conditions that involve inter-Control Area schedules that are not part of the transmission service provided under the IA. The ISO’s tariff obligation does not run to those terms and conditions. Nonetheless, contrary to CCSF’s assertion and consistent with the ISO’s general practices in this regard and the tenor of Commission guidance, the ISO intends to honor the provisions of the IA between CCSF and PG&E and believes the IOA is written in a manner that does so – with the minor exceptions necessitated by Control Area operational needs and described in response to particular CCSF arguments below. In the event of a dispute regarding the interpretation of the terms of the IA, however, the ISO is obligated to abide by the operating instructions of the Participating Transmission Owner (*i.e.*, PG&E), and not the interpretation of the IA proffered by CCSF. See ISO Tariff, § 2.4.4.4.1.1.

³ The Commission has instructed the ISO to honor all contracts that “pertain to the use of a Non-Participating Transmission Owner’s transmission system.” *Pacific Gas and Electric Co.*,

The ISO on the other hand does not consider the provisions of the ISO Tariff, including the definition of an “Existing Contract” or an “Existing Right,” to require the ISO to “honor” the terms of CCSF’s PSAs with TID and MID for sales of power. While the ISO has attempted in the IOA to include provisions that would facilitate the continued delivery of Energy from CCSF to TID and MID pursuant to the PSAs, the ISO found it necessary to include provisions in the IOA that may have an effect on CCSF’s transactions under the PSAs in order to ensure compatibility with the ISO’s systems and processes. The ISO submits that its accommodations go as far as reasonable and appropriate to permit the continued performance under the PSAs.

C. Although the ISO Is Not Required by the ISO Tariff or Commission Precedent to Make any Accommodations for Exports of Ancillary Services by CCSF Across the New Control Area Interties, the ISO Would Be Prepared to Make Accommodations That Meet Certain Conditions in Order to Resolve the Issues in this Proceeding

CCSF points out that Section 4.1 of the IOA is limited to scheduling exports of Energy to MID and TID, and therefore appears to prevent CCSF from exercising its right (and, in some instances, its obligation) to sell ancillary services to MID and TID pursuant to the IA and the PSAs. Consistent with the ISO’s obligation to honor Existing Contracts, the IOA should specifically allow exports of ancillary services, according to CCSF. CCSF at 12-13. Similarly, TID points out that the scheduling provisions of the IOA do not mention the means by which CCSF will schedule the spinning reserves that CCSF makes available to TID under the TID-CCSF PSA. TID at 5.

81 FERC ¶ 61,122, at 61,471 (1997).

CCSF and TID are correct that the IOA does not specify any accommodation by the ISO of the export of Ancillary Services, including Spinning Reserve, by CCSF across the new Control Area interties. The ISO omitted any provision to this effect from the IOA because the ISO does not currently accommodate the export of Ancillary Services by any entity from the ISO Control Area – and the ISO’s systems are not currently configured to make such an accommodation. The ISO submits that it is not required to make this sort of accommodation under the terms of the ISO Tariff or any Commission precedent. While the IA may have permitted CCSF’s sales of Ancillary Services to TID and MID while all three entities were within the same Control Area, the ISO submits that the IA did not anticipate such sales being exports from the Control Area. Moreover, the ISO Tariff provisions and ISO systems constraints and practices in this regard were public knowledge and should have been recognized by TID, MID, and CCSF at the time TID and MID determined to move their systems out of the ISO Control Area. The ISO should not be obligated to make special accommodations for entities that made these choices with full knowledge of the consequences for their prior operations.

All that being said, if it would resolve the issues in this proceeding, the ISO would be prepared to include a provision in the IOA that would allow for the sale of Ancillary Services to TID and MID if it could be accomplished in a manner consistent with the ISO’s systems and practices, did not impose an undue burden on the ISO, and was limited to the unique circumstances of CCSF as described in this proceeding. Any accommodation in this regard would

necessarily have to rely on a “manual work-around” process, which the ISO would only be willing to implement based on (1) CCSF’s commitment to provide telemetry to the ISO’s Energy Management System from CCSF’s Generating Units, (2) the non-participating status of CCSF’s Generating Units with regard to the ISO’s markets, (3) the fact that CCSF’s Ancillary Services sales to TID and MID would not use the ISO Controlled Grid, and (4) the cooperation of all parties to place into effect these manual processes and the necessary daily communications.

D. CCSF Should Be Required to Submit Schedules into the ISO’s Scheduling System Through an SC and Should Be Required to Use the ISO’s Scheduling Infrastructure System

CCSF asserts that under the IA schedules that do not use PG&E’s transmission system (now the ISO Controlled Grid) can be adjusted by voice communication up to twenty minutes prior to the hour. Sections 7.1 and 7.2 of the IOA require CCSF to meet the scheduling deadlines of the ISO and Section 2 of the IOA requires CCSF to use an SC in order to provide schedules to the ISO. CCSF claims that those sections would limit CCSF’s scheduling rights under the IA in contravention of the requirement to honor Existing Contracts and impose market restrictions on transactions that do not use the ISO Controlled Grid. CCSF at 13-14. TID also argues that the requirement to use an SC and the scheduling timelines imposes costs on both CCSF and TID that currently do not exist and should not exist. TID at 5-6.

As discussed in Section IV.B above, although the ISO is willing to honor the relevant terms of the IA to the extent feasible even when it is not required to

do so, certain terms would interfere with the ISO's ability to efficiently operate the Control Area. In this case, the ISO does not believe that it is required to honor provisions of the IA that may have previously authorized schedule changes on the basis of voice communication. Merely because the IA may have permitted CCSF in-Control Area schedules that do not use PG&E's transmission system to be adjusted by voice communication up to twenty minutes prior to the hour when PG&E was responsible for handling all of CCSF's scheduling, it does not follow that the IA requires the ISO to accommodate schedule changes inconsistent with the timelines of the ISO's automated scheduling systems now that these schedules have become Control Area interchange schedules. Because accommodating such adjustments would seriously interfere with the ISO's ability to fulfill its Control Area scheduling responsibilities, the ISO has omitted this flexibility from the IOA. Moreover, as discussed in Section IV.C above, the ISO Tariff provisions and ISO systems in this regard were public knowledge and should have been recognized by TID, MID, and CCSF at the time TID and MID determined to move their systems out of the ISO Control Area. The ISO should not be obligated to make special accommodations for entities that made these choices with full knowledge of the consequences for their prior operations.

The ISO believes that the maintenance of the reliability of the Control Area interties requires that Schedules be submitted into the ISO's scheduling systems by an SC. The ISO's Scheduling Infrastructure ("SI") system is its primary grid operations system, as well as its means of scheduling use of transmission, assuring adequate operating reserves, and power flow modeling to anticipate

and mitigate transmission line overloads. The SI system is also the “front end” to the ISO’s Energy Management System/Automatic Generation Control system, which is used to help manage real-time interchange with adjacent Control Areas. The SI system is the only direct link from the ISO’s scheduling system to the ISO’s congestion management and real-time operating systems. It is the means by which the ISO is able to manage the scheduling and power flow associated with the thousands of individual Schedules and market bids that the ISO receives for every hour. This is especially important given the ISO’s need to schedule and operate the 52 individual interties between the ISO Control Area and the 12 other Control Areas with which the ISO Control Area will be interconnected with the addition of TID.

TID has expressly agreed in its ICAOA with the ISO that interchange schedules must be submitted through the ISO’s SI system for one of its two new interties with the ISO Control Area (the Westley intertie) but not for the other intertie (the Oakdale Interconnection with CCSF). TID based this distinction on the fact that CCSF’s transmission facilities in the ISO Control Area that connect to the TID Control Area are not part of the ISO Controlled Grid. However, this distinction is entirely irrelevant to the ISO’s obligations and methods for reliable operation of the ISO Control Area and its interties with adjacent Control Areas. The Oakdale Interconnection will be just one of the 52 interties that the ISO necessarily must use its SI system to manage, as discussed above. The fact that CCSF’s facilities are not formally part of the ISO Controlled Grid in no way changes the ISO’s responsibilities as a Control Area operator to operate the

Oakdale Interconnection reliably in just the same manner as it operates every other ISO Control Area intertie. Consequently, it would make no sense from the standpoint of operational reliability for the ISO to operate one of its two interties with TID through use of its SI system, but not to operate the other intertie in the same manner.

Every other entity scheduling interchange between the ISO Control Area and a neighboring Control Area, inclusive of other municipal and federal entities such as the Western Area Power Administration, Northern California Power Agency, SMUD, and MID, submits these hourly Schedules into the ISO's scheduling system electronically through an SC, in recognition of the importance of these ISO systems as its means of managing a very large and complex grid and Control Area. This is the case for both interties where the transmission facilities at the intertie are part of the ISO Controlled Grid and those where the transmission facilities are not part of the ISO Controlled Grid. There is no good reason why interchange schedules between the ISO Control Area and the new TID Control Area should be treated differently, such as through an exception to be administered manually via spreadsheet or by phone. This is particularly the case given the potential adverse impact on reliable operations if the ISO were to have to endeavor to create special arrangements to accommodate TID's and CCSF's unwillingness to follow the scheduling practices employed with respect to every other Control Area adjacent to the ISO Control Area – even as TID attempts to demonstrate its ability to operate a Control Area reliably at the very

outset of its existence, which it has decided to establish with full knowledge of the requirements of the ISO's scheduling systems.

Notwithstanding the arguments by CCSF and TID that they should not be required to submit schedules across the new Oakdale Interconnection into the ISO's SI scheduling system through an SC, TID has initiated the operation of its new Control Area by using a certified SC, the ISO's SI scheduling system, and the ISO's scheduling timeframes for scheduling for this intertie, as has MID for the Control Area intertie at which its system connects to CCSF's facilities (the Standiford Interconnection). The ISO is optimistic that MID and TID or CCSF will continue to implement this approach and the ISO would certainly seek appropriate redress in the event this approach is discontinued.

The ISO Tariff provisions and ISO systems in this regard were public knowledge and should have been recognized by TID, MID, and CCSF at the time TID and MID determined to move their systems out of the ISO Control Area. The ISO should not be obligated to make special accommodations for entities that made these choices with full knowledge of the consequences for their prior operations.

E. CCSF's Exports to TID and MID Should Be Subject to the GMC

Section 6.3 of the IOA states that the ISO will charge the GMC to all CCSF transactions in accordance with the ISO Tariff, including transactions that are now exports from the ISO Control Area over facilities that are not part of the ISO Controlled Grid. CCSF asserts that the settlement-based provisions in Docket No. ER04-115 should not be deemed to bind CCSF, and the ISO should

not be permitted to impose GMC charges on CCSF without demonstrating that CCSF's transactions over non-ISO Controlled Grid facilities cause the ISO to incur additional costs. CCSF at 15-17.

The Commission has already concluded that transactions over non-ISO Controlled Grid facilities within the ISO Control Area *do* impose costs on the ISO and therefore should pay a portion of GMC. See Opinion No. 463, *California Independent System Operator Corp., et al.*, 103 FERC ¶ 61,114 at P 25 (2003), *reh'g denied*, Opinion No. 463-A, 106 FERC ¶ 61,032 (2004), *reh'g denied*, Opinion No. 463-B, 113 FERC ¶ 61,135 (2005). CCSF was an intervenor in that proceeding. The fact is that Load served by CCSF over non-ISO Controlled Grid facilities prior to the recent Control Area changes was always Control Area Gross Load (from 2001 through 2003) or Metered Control Area Load. The current GMC allocation, which includes the charges on exports about which CCSF complains, was established in Docket No. ER04-115-000, in which CCSF was also an intervenor. CCSF knew that the GMC was assessed in connection with its non-ISO Controlled Grid facilities and it knew that GMC was assessed in connection with exports. Therefore, the ISO must point out that CCSF's assertion that it "has never been faced with the prospect of liability for GMC charges associated with its off-grid transmission facilities," is somewhat misleading. Transactions on CCSF's facilities have always led to GMC charges to the same degree as transactions on any other non-ISO Controlled Grid facilities in the ISO Control Area. CCSF should not now be heard to complain that CCSF's transactions over non-ISO Controlled Grid facilities do not cause the ISO to incur additional costs.

In fact, most of CCSF's power flows use the ISO Controlled Grid, and have historically been subject to ISO GMC charges. Only a relatively small subset of all CCSF power deliveries use CCSF's own transmission for deliveries of power across what are now the new Control Area interties to MID and TID. For these power flows, CCSF will only pay GMC for ISO services as used to facilitate what are now exports from the ISO Control Area, *i.e.*, intertie scheduling and Control Area services, to which only four of the total of fifteen categories of ISO GMC charges apply. Thus, the issue of CCSF's exposure to additional ISO GMC charges is limited to transactions using the new interties, and then only to the extent that CCSF uses specific ISO services. CCSF should be willing to pay for ISO Control Area and scheduling services actually used, which impose incremental work on the ISO to provide these services. It would be unfair to require the costs of these ISO services that benefit CSSF to be subsidized by other ISO customers.

As noted, the current GMC allocation was established in Docket No. ER04-115-000. Although it did not set a precedent for future cases, it did establish the ISO's current GMC. And, while CCSF would be bound by the ISO Tariff language regardless of whether it was a party to the proceeding, as also noted it was in fact a party to the proceeding and did not protest the settlement. By stating that CCSF pays the GMC in accordance with the ISO Tariff, the IOA states nothing more than the obvious. CCSF pays the same charges that were applicable to its load and transactions before the IOA and does not pay those charges that were not. It is also important to note that any GMC assessed to

TANC, TID, or MID pursuant to their agreements that may have been different than would otherwise have been paid pursuant to the ISO Tariff were specifically negotiated as part of the GMC settlement proceeding in Docket No. ER04-115-000. The ISO does not believe it is in a position to afford CCSF treatment other than what the ISO believes is required under the ISO Tariff and thus, in effect, alter a settlement that was the subject of an extensive proceeding before the Commission and that will remain in effect through 2006. CCSF should instead withhold its concerns regarding GMC until such time as CCSF is again permitted to respond to an ISO filing prior to expiration of the current GMC settlement.

F. The ISO Is Amenable to Modifying the Provisions of the IOA Concerning Voltage Control, but the Provisions of the IOA Concerning Uncontrollable Forces Should Remain Unchanged

Section 4.3 of the IOA contains provisions on Voltage Control and Reactive Support, and Section 10 of the IOA contains provisions on Uncontrollable Forces. CCSF asserts that the IA already includes provisions that fully address those issues and that modification of those IA provisions is inconsistent with the ISO's obligation to honor Existing Contracts. CCSF at 17.

On further consideration of CCSF's arguments, the ISO has determined that it should honor the provisions of the IA regarding Voltage Control and Reactive Support as a form of transmission interconnection service and that the provisions of Section 4.3 of the IOA should be modified simply to reference CCSF's obligation to comply with the provisions of the IA in that regard.

However, with regard to the matter of Uncontrollable Forces, the ISO sees no potential for the provisions of Section 10 of the IOA to conflict with the provisions of the IA regarding this subject. These provisions are applicable only to performance of the obligations in the respective agreements. The ISO is unaware of any basis on which the provisions providing an excuse from performance under one agreement could affect the obligation to perform under the other agreement. Consequently, the ISO submits that there is no good reason to remove the provisions of Section 10 from the IOA.

G. The IOA Should Not Be Modified to Include Provisions Concerning CCSF's Obligations

CCSF asserts that, in order to prevent drastic changes in CCSF's obligations, the IOA should include language that (1) limits the scope of those terms necessary to effectuate the Control Area change-overs and related scheduling implications, (2) does not create new ISO authority over operation and dispatch of CCSF's electric system, and (3) states explicitly that the terms of the IOA are not intended as an agreement by CCSF to be bound by other terms of the ISO Tariff that are not explicitly stated within the IOA, and that the IOA will prevail in the event of a conflict between ISO Tariff terms and IOA terms. CCSF at 17-18.

The ISO submits that the IOA already speaks for itself with regard to these matters. The provisions of Section 1.2(a) specifying that the terms of the IOA govern notwithstanding any inconsistent provision of the ISO Tariff and of Section 2 regarding the scope of agreement make clear that the IOA does not

and is not intended to expand the scope of the agreement beyond its terms.

There is no need for additional provisions in this regard.

H. CCSF's Argument Concerning Resource Adequacy Requirements Should Be Disregarded

The imposition of new resource adequacy requirements by the ISO through its tariff is the subject of ongoing proceedings in Docket Nos. ER02-1656 and EL05-146. CCSF states that, because the ISO is proposing to link resource adequacy requirements to the function of an SC, CCSF is concerned that if it does use an SC for its non-grid transactions, it may be subject to additional requirements, which would not be appropriate. CCSF at 18.

The ISO submits that this concern by CCSF is entirely speculative. Moreover, CCSF will have an opportunity to intervene in any proceedings in which the ISO may ultimately propose such a requirement in order to protect its interests. It is inappropriate for CCSF to attempt to pre-empt an integrated consideration of this issue in a proceeding specific to this issue by seeking the addition of a provision specifying a special exemption in the IOA.

I. The ISO Is Obligated to Ensure That the IOA Provides for CCSF to Be Subject to Western Electricity Coordinating Council Requirements, and the ISO Believes CCSF Should Be Able to Comply With Those Requirements

CCSF argues that Section 5 of the IOA inappropriately imposes on CCSF WECC Reliability Management System ("RMS") standards for generators that were designed to be voluntary rather than mandatory. CCSF states that it may not be able to meet these requirements, and could possibly be subject to penalties and sanctions. Further, CCSF asserts that this imposition of RMS

standards effectively gives the ISO new operation and potential dispatch authority over CCSF's Hetch Hetchy project generation pursuant to Sections 5.2.1 and 5.2.2 of the IOA. Those provisions in the IOA, CCSF argues, are taken directly from provisions in the ISO Tariff that only apply to Participating Generators interconnected with the ISO Controlled Grid, but CCSF's generation facilities are not those of a Participating Generator and are not interconnected directly with the ISO Controlled Grid. CCSF at 19-20.

While the ISO is sympathetic to CCSF's concerns that the IOA may subject CCSF to WECC requirements to which it is not currently subject and with which it cannot currently comply, the ISO has little discretion in this regard due to its execution of the RMS Agreement with the WECC, which agreement is on file with the Commission as WECC FERC Rate Schedule No. 5. Under the terms of Section 5.1 of the ISO-WECC RMS Agreement, the ISO is obligated to "include in any new Participating Generator Agreement (or similar contract) that is executed by the [ISO] . . . with a Generator that Controls generating facilities located within the [ISO's] Control Area . . ." provisions that bind the Generator to all of the obligations of the WECC Reliability Criteria Agreement applicable to Generators. Moreover, Section 5.3 of the RMS Agreement requires the ISO "to undertake a good faith effort to negotiate and execute a separate agreement" with a generator that controls generating facilities located within the ISO Control Area with which it does not have a Participating Generator Agreement ("PGA") or similar contract that includes provisions that bind the generator to all of the obligations of the WECC Reliability Criteria Agreement applicable to generators.

While Section 4.5 of the IOA acknowledges that CCSF has elected not to enter into a PGA and that CCSF is not generally subject to the ISO Tariff provisions applicable to Participating Generators, the ISO considers the IOA to be a sufficiently “similar contract” to require the ISO to attempt to obtain CCSF’s agreement to comply with the applicable WECC Reliability Criteria Agreement provisions. Even if the IOA is determined not to be such a “similar contract,” the IOA serves as the ISO’s “good faith effort” to negotiate a separate agreement with CCSF to this effect. Consequently, the ISO has incorporated all of the provisions of Section 5 into the IOA to discharge its obligation to the WECC pursuant to the RMS Agreement. These provisions carefully set forth the various commitments the ISO understands it is obligated to obtain from CCSF to fulfill its obligations under the RMS Agreement. It is worth noting that MID and TID agreed to these same provisions in their agreements with the ISO, described in Section IV.A above, on which the IOA is modeled.

With respect to CCSF’s concerns regarding its ability to comply with WECC reliability criteria, it is the ISO’s understanding that CCSF is currently a member of the WECC and has an understanding of some sort with the WECC regarding the extent of its compliance with WECC reliability criteria. The ISO submits that the provisions of Section 5 of the IOA may be satisfied by any such arrangements CCSF may make independently with the WECC with regard to compliance with WECC reliability criteria – and that CCSF therefore should be able to comply with the provisions of Section 5 of the IOA based on its current operations.

With regard to CCSF's assertion that Sections 5.2.1 and 5.2.2 of the IOA may subject it to new ISO operation and potential dispatch authority over CCSF's Hetch Hetchy project generation, the ISO submits that it is reasonable of the ISO to require CCSF to operate in accordance with voltage schedules issued by the ISO in its role as Control Area operator, as required by Section 5.2.1 of the IOA. The ISO does not consider any other provision of Sections 5.2.1 or 5.2.2 to vest it with any new operation or dispatch authority over CCSF's Generating Units.

J. It Is Necessary for the IOA to Provide for the ISO's Authority in the Event of a System Emergency

Section 4.2 of the IOA imposes the emergency authority from Section 5.6 of the ISO Tariff that the ISO has over units subject to PGAs. CCSF argues that this authority is inconsistent with CCSF's non-PGA status, and may be inconsistent with the Raker Act or energy sales limitations that apply to CCSF. In addition, CCSF asserts that the ISO emergency authority over CCSF facilities exceeds the emergency authority the ISO has over other municipals such as Metered Subsystems. CCSF believes that if any portion of Section 4.2's grant of authority is allowed to remain, it should be modified to track the Metered Subsystem Agreement limitation on the ISO's emergency authority. CCSF at 20-21.

TID argues that it is unclear from Section 4.2 of the IOA whether the ISO might take actions that interfere with the obligation of CCSF to supply TID under the TID-CCSF PSA. TID asserts that the ISO should be required to adhere to the terms of that pre-existing contract, and the ISO should not be allowed to

curtail a transaction except for specific transmission limitations that prevent delivery. TID at 6.

The ISO considers the provisions of Section 4.2 of the IOA to incorporate essential terms that the ISO needs to discharge its responsibilities as a Control Area operator effectively. Section 4.2 provides the ISO with authority with respect to CCSF's Generating Units only in circumstances of a System Emergency, which is essentially the same as the ISO's authority over the Generating Units of Metered Subsystems pursuant to Section 23.6 of the ISO Tariff. It is essential that the Control Area operator have all the authority necessary to maintain the reliability of the electric system during an emergency. This authority necessarily includes the authority to direct the operators of Generating Units in the Control Area regarding actions needed to preserve the operation of the system.

With regard to TID's concern that the ISO's responsibilities as a Control Area operator might require actions with respect to CCSF's Generating Units to preserve the reliability of the ISO Control Area that might affect CCSF's ability to deliver power across the new Control Area intertie between the ISO and TID Control Areas, (1) the ISO's authority set forth in Section 4.2 is expressly limited to actions in accordance with Good Utility Practice, (2) the ISO already has entered into a set of contractual commitments with TID regarding the operation of the Oakdale Interconnection in its ICAOA with TID, and (3) it is entirely likely that any action by the ISO pursuant to Section 4.2 would be consistent with the terms of TID's PSA with CCSF. In the first place, it is an established principle of Good

Utility Practice that Control Areas are expected to maintain their firm exports in the event of a System Emergency unless, as TID acknowledges, an outage or de-rate of transmission facilities prevents delivery of the export. The ISO adheres to this principle of Good Utility Practice, as required by Section 4.2 of the IOA. Moreover, the ISO-TID ICAOA includes specific provisions addressing the actions to be taken by the ISO and TID in the event of operating limitations, forced outages, and emergencies affecting interconnected Control Area operations. See, e.g., ICAOA Sections 3.2.3, 6.2, 7.3, and 7.4. The ICAOA is the appropriate agreement to govern the resolution of any issues between the ISO and TID regarding operation of the Oakdale Interconnection. Finally, it is the ISO's expectation that any action taken by the ISO to address a System Emergency that might affect CCSF's deliveries of power to TID would, in fact, not be inconsistent with the terms of the TID-CCSF PSA, however, as most contracts include a provision excusing performance due to an uncontrollable force – which would typically include the circumstances causing a System Emergency. Thus there is no basis for making any revisions to Section 4.2 of the IOA in response to TID's expression of concern.

While it would be inappropriate to limit the ISO's authority to operate the ISO Control Area during a System Emergency by modifying the scope of the ISO's authority pursuant to Section 4.2 of the IOA, the ISO understands that CCSF has a reasonable concern regarding the interpretation of the ISO Tariff definition of "System Emergency" as used in Section 4.2. If it would help resolve the issues in this proceeding, the ISO would be willing to incorporate into the IOA

an additional provision similar to those included in the ISO's Metered Subsystem Agreements and associated provisions of the ISO Tariff to limit the circumstances that would qualify as a System Emergency for purposes of the IOA.

K. The Termination Provisions of the IOA Are Reasonable, Though the ISO Is Willing to Provide the Clarification Requested by CCSF and to Consider Modifying the IOA in the Future to Extend its Term for Additional Years

CCSF contends the IOA should be modified to state that it will terminate no later than five years from the effective date of the agreement (rather than two years as currently provided for in Section 3.2 of the IOA). In addition, CCSF states that Section 3.2(d) of the IOA should be clarified to provide that the IOA will terminate if the CCSF generation and transmission facilities associated with the exports covered by the IOA are transferred into a Control Area other than the ISO's. CCSF at 22-23.

The ISO does not consider the numerous special provisions of the IOA to be appropriate for operations for as long as five years, particularly given the changes to the ISO Tariff and the ISO's systems forthcoming as part of the ISO's Market Redesign and Technology Upgrade ("MRTU") effort currently underway. It seems inevitable that any number of changes may be needed to the terms of the ISO's relationship with CCSF as part of or subsequent to the implementation of MRTU. Consequently, the ISO submits that the two-year term it has proposed is an appropriate duration for this version of the IOA. If circumstances over the course of the next two years give the ISO cause to consider the terms of the current version of the IOA appropriate for continued operations between the ISO

and CCSF, the ISO would certainly consider amending the IOA to extend its term for additional years.

With regard to CCSF's concern that the provisions of Section 3.2(d) of the IOA need to be clarified, the ISO agrees with CCSF's desired clarification and would be willing to incorporate that clarification into the IOA.

L. No Changes Are Needed to the Provisions in the IOA Concerning the ISO's Rights Under Section 205 of the Federal Power Act

Section 12.2 of the IOA reserves the ISO's rights to file for unilateral changes in rates under Section 205 of the Federal Power Act ("FPA") but provides that a change in rates shall not include changes to the terms and conditions of the IOA. CCSF requests clarification that, while the IOA will not restrict the ISO's right to unilaterally amend the ISO Tariff, the ISO will not have the right to make unilateral changes to the terms and conditions of the IOA. CCSF at 23.

The ISO submits that the provisions of Section 12.2 of the IOA state quite clearly the terms CCSF seeks to clarify. The ISO is at a loss as to how to make this provision any more clear.

M. No Modifications Are Needed to the IOA to Reflect Changes to Charges and Timelines

TID states that, regardless of the language of "Whereas" Recital F of the IOA, the IOA does modify both the amount of the charges and the timeline for addressing CCSF sales to TID that use PG&E IA transmission. TID at 3-4.

TID's concern is misplaced. In the first place, of course, the language of Recital F merely describes the intent of the IOA and has no substantive effect.

Consequently, there is no reason to modify that statement of intent. Moreover, TID is incorrect regarding the substance of its assertion. CCSF's sales to TID do not use "PG&E IA transmission," as there are no PG&E transmission facilities involved in the CCSF sales to TID at all. As discussed in more detail in Section IV.B above, the provisions of the IA by which PG&E may previously have permitted CCSF to use CCSF's own transmission facilities to make sales to TID cannot reasonably be argued to govern the arrangements necessary for CCSF's sales across the new Control Area intertie over transmission facilities that have no connection to PG&E and for which PG&E is no longer the Control Area operator. The provisions of Recital F are entirely accurate.

N. A Recital in the IOA Should Be Modified to Ensure Accuracy

TID asserts that, contrary to the statement in "Whereas" Recital J of the IOA, the ISO-TID ICAOA does not contain any provision indicating that "all energy and/or capacity schedules, as well as any transmission reservation(s) to or from the ISO Control Area, over any facilities within the ISO Control Area shall be submitted via the ISO scheduling system as described in the ISO Tariff." TID at 4.

TID is correct in its assertion. The provisions of Recital J should be modified to reflect that the quoted phrase is found only in the ISO-SMUD ICAOA and not in the ISO-TID ICAOA.

O. No Changes Are Needed to the Definition in the IOA of the Oakdale Interconnection

TID states that, with regard to the definition of "Oakdale Interconnection" in Section 1.3 of the IOA, the ownership of TID and CCSF facilities changes at

the Oakdale Substation where the substation tap lines of TID meet the conductors on CCSF's Moccasin-Newark transmission lines. TID at 4.

The ISO did not intend to misstate the point of change of ownership of the subject facilities, and in fact included the description as specified by CCSF – including the reference to the “question” between CCSF and TID over the ownership of facilities at this interconnection. The ISO considers this to be a sufficient description of the facilities, their ownership, and the “question” between CCSF and TID regarding this matter and submits that no changes are necessary to accomplish the purposes of the IOA.

P. No Changes to the IOA Are Needed Concerning a Reduction of Charges Paid by Other Transmission Customers

TID contends that Section 6.2 contains “a minor error,” namely that the section does not reflect that, since the IOA imposes “new” charges on CCSF for the use of its own facilities to make sales to TID, the associated revenues received by the ISO should reduce the charges paid by other transmission customers, unless the ISO determines not to charge CCSF for the TID transactions. TID at 4-5.

Although its point is rather obscure, it appears that TID's assertion is that the ISO's collection of some portion of GMC pursuant to the IOA for CCSF transactions with TID and MID will “affect” the rates and charges paid by ISO transmission service customers by resulting in a some decrease in the GMC paid by those customers. While the ISO may collect some small amount of additional GMC under the IOA, this additional revenue will be offset by the additional cost to the ISO of managing these new inter-Control Area power flows. Whether there

will be any effect – either positive or negative – on the amount of GMC to be paid by other ISO customers will depend on whether the additional GMC collected pursuant to the IOA will cover these additional costs. As it is virtually impossible to anticipate that outcome at this time, TID’s point has no substance and does not give rise to any basis for revising the IOA.

Q. No Changes to the IOA Are Needed to Reflect TID’s Request that the ISO Only Be Allowed to Charge for Services that Are Requested from it

TID states that, since many of the charges that the ISO will impose on CCSF under the IOA for transactions between CCSF and TID may be passed through by CCSF to TID, the ISO should only be allowed to charge for services that are requested from it. According to TID, the ISO should not charge any SC involved in a CCSF-TID transaction for services that, by contract, are being provided by CCSF or TID, nor should they be charged for services that are not requested by that SC. In addition, if the ISO charges CCSF for ancillary services or imbalance energy pursuant to Section 6.3 of the IOA for sales by CCSF to TID, then TID asserts that the ISO should be required to actually provide those ancillary services and that imbalance energy to CCSF and allow CCSF to provide them to TID. TID also argues that if CCSF and TID are required to pay the ISO for a service, the ISO should be required to deliver the service in a way that the recipient can use it. TID at 7.

TID’s assertions are spurious. The ISO’s functions as a Control Area operator and provider of Imbalance Energy and Ancillary Services – and the ISO’s charges for these services – have been authorized by the Commission

over the course of many years and Commission proceedings. All of the services that will be provided to CCSF pursuant to the IOA are fully justified, and there is no basis for reconsideration of the manner in which the ISO provides these services other than as set forth in the IOA or proposed by the ISO in its responses to specific issues raised above.

R. The ISO Is Willing to Consider Modifying the Liability Provisions in the IOA as Proposed by PG&E

PG&E states that, in general, it does not oppose the IOA as proposed by the ISO. However, PG&E asserts that Section 9.1 of the IOA should be modified, because the section states that the liability provisions of Section 14 of the ISO Tariff apply to liability under the IOA “except that all references in Section 14 of the ISO Tariff to Market Participants shall be read as references to the [SC] for CCSF” PG&E, which is currently the SC for CCSF, argues that it would be unjust and unreasonable for PG&E (as CCSF’s SC) to be held be liable under the IOA, especially given that PG&E is neither a party to nor receives any benefit from the IOA. PG&E at 3-4. Further, PG&E contends that the ISO has provided no reasoned basis why Sections 8.1 and 10.1 of the IOA define “Market Participant” as CCSF, but Section 9.1 defines “Market Participant” as CCSF’s SC. PG&E suggests that FERC should remedy this situation by ordering that Section 9.1 be amended to state that “all references in Section 14 of the ISO Tariff to Market Participants shall be read as references to CCSF,” or, alternatively, should set the matter for hearing. PG&E at 4-5.

While these provisions of Section 9.1 of the IOA are identical to the provisions of this same section of the MID and TID agreements on which the IOA

is modeled, as discussed in Section IV.A above, the ISO is willing to make the revision proposed by PG&E in light of PG&E's circumstances as a "default" SC for CCSF.

V. CONCLUSION

Wherefore, the ISO respectfully requests that the Commission accept the IOA, subject to the discussion provided above.

Respectfully submitted,

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Dated: December 23, 2005

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 proceeding, 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 Folsom, California this 23rd day of December, 2005.

/s/ John Anders
John Anders