

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

La Paloma Generating Company, LLC,)	
Complainant)	
)	
v.)	Docket No. EL05-54-000
)	
California Independent System Operator)	
Corporation,)	
Respondent)	

**ERRATA TO REQUEST FOR LEAVE TO FILE ANSWER AND ANSWER OF
THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR
TO THE REQUEST FOR REHEARING OF
LA PALOMA GENERATING COMPANY, LLC**

Pursuant to Rule 213(a)(1) of the Rules and Practice and Procedure of the Federal Energy Regulatory Commission (the “Commission”), the California Independent System Operator Corporation (“CAISO”) respectfully submits this answer to the Request for Rehearing of the La Paloma Generating Company, LLC (“La Paloma”), submitted April 28, 2005 (the “Rehearing Request”). The Rehearing Request asks the Commission to reconsider its Order Denying Complaint, which was issued March 29, 2005 (“March 29 Order”),¹ asserting a variety of errors related to inadequate consideration of La Paloma’s arguments. Because the factual and legal background to this matter is complex, the CAISO requests waiver of Rule 213(a)(2)² to permit it to summarize that background in this reply to the Rehearing Request (the “Answer”). This Answer will aid the

¹ *La Paloma Generating Company, LLC v. California Independent System Operator Corporation*, 110 FERC ¶ 61,386 (2005).

² 18 C.F.R. § 385.213(a)(2).

Commission in understanding the issues in the proceeding and the complete record before it. The CAISO notes that the Commission waived Rule 213(a)(2) for La Paloma earlier in this proceeding.³

I. INTRODUCTION - THE COMMISSION'S MARCH 29 ORDER CORRECTLY ENFORCES THE UNAMBIGUOUS TERMS OF THE AGREEMENT(S) ENTERED INTO BY SOPHISTICATED CORPORATE ENTITIES

The Commission's March 29 Order concerns the rights to cash collateral held by the CAISO that was posted by its CAISO Scheduling Coordinator, NEGTE ("ET"). La Paloma purchased an assignment of ET's rights to the collateral. The purchase agreements refer to the collateral as the "CAISO Cash Collateral," and that is how it will be referenced throughout this Answer.

The CAISO Cash Collateral was posted by ET pursuant to the terms of the CAISO Tariff. The Commission's Order of March 29, 2005 enforces the terms of that agreement.

Urging the Commission to alter its decision, the Rehearing Request sounds a variety of arguments that are variations on a single theme: La Paloma wants the Commission to give it the benefit of an understanding it claims it had with ET. However, no understanding between La Paloma and ET can alter the terms of the CAISO Tariff, which govern the rights to the CAISO Cash Collateral. Nor can La Paloma reasonably expect to enforce its agreement with ET against the CAISO, to the detriment of other CAISO market participants.

This Answer summarizes the ample record evidence that supports the Commission's decision and refutes the two primary arguments in the Rehearing

³ March 29 Order, P 11.

Request by reference to the arguments in the CAISO's Initial Answer.⁴ First, this Answer explains why La Paloma's only rights to the CAISO Cash Collateral are those it received through the assignment from ET. There is no record basis for the suggestion in the Rehearing Request that La Paloma has independent rights to the CAISO Cash Collateral. In fact, the record affirmatively refutes this suggestion. See Part II.A, below.

Second, this Answer explains why ET's rights, which La Paloma now asserts, are governed by the unambiguous terms of the CAISO Tariff. The Tariff dictates that the CAISO must hold the collateral posted by ET until the CAISO is "satisfied that no sums remain owing by the Scheduling Coordinator [*i.e.*, ET] under the ISO Tariff." CAISO Tariff 2.2.4.5. As the Commission found in a prior case involving ET collateral, the obligations of parties in California markets cannot be determined until after the Refund Proceeding is resolved. The Commission's March 29 Order simply, and correctly, enforces this requirement by denying La Paloma's demand for a premature distribution of the CAISO Cash Collateral. See Part II.B, below.

This Answer does not attempt to address every contention in the Complaint or the Rehearing Request, which are almost entirely legal conclusions

⁴ Answer of the California Independent System Operator to the Complaint of La Paloma Generating Company, LLC and Motion for Summary Disposition, filed in this docket February 2, 2005. For ease of reference, the primary documents referenced in the CAISO Initial Answer are attached hereto as Exhibits. Exhibit 1 includes the CAISO Tariff provision cited in the CAISO Initial Answer. Exhibit 2 is ET's Scheduling Coordinator Agreement.

asserting rights on behalf of La Paloma.⁵ Rather, the argument below refutes those asserted legal conclusions.

II. ANSWER

A. The Record Affirmatively Refutes the Contention in La Paloma's Rehearing Request that La Paloma Has Rights to the CAISO Cash Collateral Independent of Those La Paloma Purchased from ET

The arguments advanced in the Rehearing Request depend on the unsupported assertion that “La Paloma was the actual party holding the real financial interest in and responsibility for” the CAISO Cash Collateral, and that ET posted the collateral only in a “technical” sense. Rehearing Request at 6 (point 4). Even assuming this is a legally correct assessment of the arrangement between La Paloma and ET, the record contains no support for the assertion that this describes an arrangement entered by CAISO. To the contrary, the record affirmatively refutes it.

The suggestion that La Paloma had rights to the CAISO Cash Collateral, other than those it received through the assignment from ET, is undermined by the assignment itself. As recited in the assignment and in the notice provided to the ISO in connection with the assignment, La Paloma purchased ET's rights in consideration for a payment equal to the amount of the collateral.⁶ These are

⁵ The CAISO disputes these contentions for the reasons explained below and in the CAISO Initial Answer. Contrary to the assertion of La Paloma, the CAISO does not concede all of its allegations. See Rehearing at 6 n. 14. To the extent that La Paloma makes factual allegations beyond those expressly conceded by CAISO, the CAISO has demonstrated those allegations to be legally irrelevant. Accordingly, there is no basis for La Paloma's request for a factual hearing on disputed issues that La Paloma incorrectly asserts to be material. See Rehearing Request at 3, n. 9.

hardly the actions of an entity that understood itself already to have an independent right to the collateral.

Moreover, the record demonstrates that La Paloma and ET were both on notice that any collateral posted pursuant to the CAISO Tariff would secure the obligations of ET, and not La Paloma.⁷ The Termination Agreement between ET and La Paloma specifically contemplates that the CAISO might deduct from the CAISO Cash Collateral “to satisfy payment obligations owing from [ET] to CAISO.”⁸ La Paloma and ET also clearly understood that, prior to the execution of the assignment, any collateral remaining after satisfaction of ET’s obligations to the CAISO would be the property of ET.⁹ The Termination Agreement provided that, prior to selling the rights to La Paloma, ET itself would seek the return of the CAISO Cash Collateral, as it in fact did.¹⁰

In sum, the record demonstrates that notwithstanding its own separate arrangements with La Paloma (prior to the assignment), ET posted the collateral with CAISO for its own account and expected the return of any remainder after satisfaction of its obligations. There is no basis, therefore, for the suggestion that

⁶ See CAISO Initial Answer, at 9-10; see also Complaint Exh. 6 (Nov. 3, 2003 Letter stating that ET “has assigned to [La Paloma] all of its right . . . to . . . the cash collateral held by CAISO attributable for [sic] the account of [ET] . . . , such assignment being effective upon payment being made by [La Paloma] to [ET] of a residual cash collateral amount”) The term “Residual CAISO Cash Collateral” is defined in the Letter and the assignment to equal the amount of collateral retained by the CAISO. Exh. 6 (Assignment Agreement, at 1, Third Recital).

⁷ See CAISO Initial Answer, Exh 3.

⁸ Complaint Exh. 3 (Termination Agreement, § 2.1(b)(ii)).

⁹ See CAISO Initial Answer, at 10 (detailing Termination Agreement).

¹⁰ *Id.* (detailing Termination Agreement and actions of ET); see also Complaint Exh. 7 (CAISO responding to **ET’s** demand for return of collateral).

La Paloma has any rights to the collateral other than those it purchased through the assignment.

B. The Result Reached By The Commission is Dictated By the CAISO Tariff, Which Governs ET's Rights to the CAISO Cash Collateral – the Rights that La Paloma Purchased and Continues to Pursue

The result reached by the Commission is dictated by the unambiguous terms of the CAISO Tariff, which governs ET's rights to the CAISO Cash Collateral. Because La Paloma received through the assignment only those rights that ET has under the CAISO Tariff, and nothing more,¹¹ there is no basis to alter the Commission's March 29 Order.

Pursuant to the CAISO Tariff, the collateral must be retained until the CAISO determines that no sums remain owing from ET.¹² The CAISO knows, however, that sums remain owing: ET incurred significant liability for the period of the California Energy Crisis, and the Commission has found that the amount of the outstanding obligations cannot be calculated until the conclusion of the Refund Case.¹³ By the plain terms of the Tariff, therefore, the collateral must be retained.

La Paloma is incorrect in asserting that the CAISO Cash Collateral was not posted by ET in order "to secure ET's outstanding and estimated liabilities."¹⁴ La Paloma argues that this was not the case because ET posted the CAISO

¹¹ See March 29 Order, Para. 13.

¹² See CAISO Initial Answer at 6 (detailing Tariff provisions).

¹³ See CAISO Initial Answer at 15, n.9.

¹⁴ See Rehearing Request at 7-10.

Cash Collateral based solely on liabilities associated with the scheduling of generation from the La Paloma facility. Again, La Paloma fails to comprehend the crucial point that the CAISO transacts with its Scheduling Coordinators, not the entities represented by those Scheduling Coordinators. Liabilities arising due to the scheduling of generation from La Paloma were, under the CAISO Tariff, liabilities of the Scheduling Coordinator representing that generation. Thus, the fact that ET was the Scheduling Coordinator representing La Paloma meant that any CAISO liabilities incurred as a result of the operation of La Paloma's facilities were, necessarily, liabilities of ET. La Paloma is asking the Commission to do nothing less than discard one of the bedrock principles of the CAISO Tariff in order that La Paloma can perfect a claim to the CAISO Cash Collateral. Such a decision would upset the security provisions in the Tariff and open a veritable Pandora's box of unwelcome results, as entities that the CAISO never had contractual arrangements with would be free to seek financial relief from the CAISO, unfettered by the provisions of the CAISO Tariff, to the detriment of the CAISO Market, its Participants, and electricity consumers in California.¹⁵

Moreover, despite La Paloma's argument to the contrary, the ISO Tariff does not permit a Scheduling Coordinator to post collateral for only certain of its clients but not others. A Scheduling Coordinator either is or is not creditworthy. An arrangement to secure only certain of its liabilities and not others would make

¹⁵ Ironically, despite the fact that La Paloma urges the Commission to essentially ignore the CAISO Tariff, La Paloma recognizes that California consumers would best be served by the "Commission imposing rules on a fair, consistent, transparent and lawful basis." Rehearing Request at 22. The CAISO agrees. However, the relief that La Paloma seeks is entirely inconsistent with such principles.

no sense, given that the Scheduling Coordinator itself is the financially responsible party for all liabilities.¹⁶ In fact, La Paloma knew that “[t]he ISO is not going to accept credit posted strictly for La Paloma.”¹⁷

Accordingly, the result reached in the March 29 Order was dictated by the CAISO Tariff, and should not be disturbed.¹⁸

III. CONCLUSION

For the foregoing reasons, the Commission should deny La Paloma’s request for rehearing, as well as its request for a factual hearing.

Respectfully submitted,

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¹⁶ See CAISO Initial Answer at 5-6, 16-17 (detailing the role of Scheduling Coordinators and financial security requirements for Scheduling Coordinators).

¹⁷ See CAISO Initial Answer, at 20-21 & Exhs. 2-3.

¹⁸ La Paloma’s arguments about improperly securing refunds are therefore misplaced. E.g., Rehearing Request at 4 (Fourth Specification of Error).

EXHIBIT A

2.1.3 Facilities Financed by Local Furnishing Bonds or Other Tax-Exempt Bonds.

2.1.3.1 This Section 2.1.3 applies only to transmission facilities which are under the Operational Control of the ISO and are owned by a Local Furnishing Participating TO or other Tax Exempt Participating TO. Nothing in this ISO Tariff or the TCA shall compel (and the ISO is not authorized to request) any Local Furnishing Participating TO or other Tax Exempt Participating TO to violate:

(1) restrictions applicable to facilities which are part of a system that was financed in whole or part with Local Furnishing Bonds or other Tax Exempt Debt or (2) the contractual restrictions and covenants regarding the use of any transmission facilities specified in Appendix B to the TCA.

2.1.3.2 Each Local Furnishing Participating TO and other Tax Exempt Participating TO shall cooperate with and provide all necessary assistance to the ISO in developing an ISO Protocol to meet the objectives of Section 2.1.3.1 and shall keep the ISO fully informed of any changes necessary to that ISO Protocol from time to time.

2.1.3.3 The ISO shall implement the ISO Protocol referred to in Section 2.1.3.1 provided that the Local Furnishing TOs and other Tax Exempt Participating TOs shall bear sole responsibility for the development of that ISO Protocol including the interpretation of all relevant legislation and the tax and other financial consequences of its implementation.

2.2 Scheduling.

2.2.1 Scheduling Responsibilities and Obligations.

The provisions of this Section 2.2 shall govern the ISO's scheduling of Energy and Ancillary Services on the ISO Controlled Grid and Congestion Management. Nothing in this ISO Tariff is intended to permit or require the violation of Federal or California law concerning hydro-generation and Dispatch, including but not limited to fish release

requirements, minimum and maximum dam reservoir levels for flood control purposes, and in-stream flow levels. In carrying out its functions, the ISO will comply with and will have the necessary authority to give instructions to Participating TOs and Market Participants to enable it to comply with requirements of environmental legislation and environmental agencies having authority over the ISO in relation to Environmental Dispatch and will expect that submitted Schedules will support compliance with the requirements of environmental legislation and environmental agencies having authority over Generators in relation to Environmental Dispatch. In contracting for Ancillary Services and Imbalance Energy the ISO will not act as principal but as agent for and on behalf of the relevant Scheduling Coordinators.

2.2.2 ISO Scheduling Responsibilities.

To fulfill its obligations with respect to scheduling Energy and Ancillary Services, the ISO shall:

- (a) provide Scheduling Coordinators with operating information and system status on a Day-Ahead and Hour-Ahead, Zonal and/or Scheduling Point basis to enable Scheduling Coordinators to optimize Generation, Demand and the provision of Ancillary Services;
- (b) determine whether Preferred Schedules submitted by Scheduling Coordinators meet the requirements of Section 2.2.7.2, and whether they will cause Congestion;
- (c) prepare Suggested Adjusted Schedules on a Day-Ahead basis and Final Schedules on a Day-Ahead and Hour-Ahead basis;
- (d) validate all Ancillary Services bids and self-provided Ancillary Services;

- (e) demonstrate to the ISO's reasonable satisfaction that it meets the financial criteria set out in Section 2.2.3.2;
- (f) enter into an SC Agreement with the ISO; and
- (g) provide NERC tagging data.

2.2.3.2 The creditworthiness requirements in this section apply to the ISO's acceptance of Schedules and to all transactions in an ISO Market. Each Scheduling Coordinator, UDC or MSS shall either maintain an Approved Credit Rating (which may differ for different types of transactions with the ISO) or provide in favor of the ISO one of the following forms of security for an amount to be determined by the Scheduling Coordinator, UDC or MSS and notified to the ISO under Section 2.2.7.3:

- (a) an irrevocable and unconditional letter of credit confirmed by a bank or financial institution reasonably acceptable to the ISO;
- (b) an irrevocable and unconditional surety bond posted by an insurance company reasonably acceptable to the ISO;
- (c) an unconditional and irrevocable guarantee by a company which has and maintains an Approved Credit Rating;
- (d) a cash deposit standing to the credit of an interest bearing escrow account maintained at a bank or financial institution designated by the ISO;
- (e) a certificate of deposit in the name of the ISO from a financial institution designated by the ISO; or
- (f) a payment bond certificate in the name of the ISO from a financial institution designated by the ISO.

Letters of credit, guarantees, surety bonds, payment bond certificates, escrow agreements

and certificates of deposit must cover all applicable outstanding and estimated liabilities under Section 2.2.7.3 and shall be in such form as the ISO may reasonably require from time to time by notice to Scheduling Coordinators, UDCs or MSSs. A Scheduling Coordinator, UDC or MSS which does not maintain an Approved Credit Rating shall be subject to the limitations on trading set out in Section 2.2.7.3. Notwithstanding anything to the contrary in the ISO Tariff, a Scheduling Coordinator or UDC that had an Approved Credit Rating on January 3, 2001, and is an Original Participating Transmission Owner or is a Scheduling Coordinator for an Original Participating Transmission Owner shall not be precluded by Section 2.2.7.3 from scheduling transactions that serve a UDC's Demand from –

- (1) a resource that the UDC owns; and
- (2) a resource that the UDC has under contract to serve its Demand.

2.2.3.3 Review of Creditworthiness.

The ISO may review the creditworthiness of any Scheduling Coordinator, UDC or MSS which delays or defaults in making payments due under the ISO Tariff and, as a consequence of that review, may require such Scheduling Coordinator, UDC or MSS, whether or not it has (or is deemed to have) an Approved Credit Rating, to provide credit support in the form of:

2.2.7.2 Submitting Balanced Schedules. A Scheduling Coordinator shall submit to the ISO only Balanced Schedules in the Day-Ahead Market and the Hour-Ahead Market. A Schedule shall be treated as a Balanced Schedule when aggregate Generation, Inter-Scheduling Coordinator Energy Trades (whether purchases or sales), and imports or exports to or from external Control Areas adjusted for Transmission Losses as appropriate, equals aggregate forecast Demand with respect to all entities for which the Scheduling Coordinator schedules in each Zone. If a Scheduling Coordinator submits a Schedule that is not a Balanced Schedule, the ISO shall reject that Schedule provided that Scheduling Coordinators shall have an opportunity to validate their Schedules prior to the deadline for submission to the ISO by requesting such validation prior to the applicable deadline.

2.2.7.3 Limitation on Trading. A Scheduling Coordinator, UDC or MSS that does not maintain an Approved Credit Rating, as defined with respect to either payment of the Grid Management Charge, or payment of other charges, shall maintain security in accordance with Section 2.2.3.2. For the avoidance of doubt, the ISO Security Amount is intended to cover the entity's outstanding and estimated liability for either (i) Grid Management Charge; and/or (ii) Imbalance Energy, Ancillary Services, Grid Operations Charge, Wheeling Access Charge, High Voltage Access Charge, Transition Charge, Usage Charges, and FERC Annual Charges. Each Scheduling Coordinator, UDC or MSS required to provide an ISO Security Amount under Section 2.2.3.2 shall notify the ISO of the initial ISO Security Amount (separated into amounts securing payment of the Grid Management Charge and amounts securing payments of other charges) that it wishes to provide at least fifteen (15) days in advance and shall ensure that the ISO has received such ISO Security Amount prior to the date the Scheduling Coordinator commences trading or the UDC or MSS commences receiving bills for the High Voltage

Access Charge and Transition Charge. A Scheduling Coordinator, UDC or MSS may at any time increase its ISO Security Amount by providing additional guarantees or credit support in accordance with Section 2.2.3.2. A Scheduling Coordinator, UDC or MSS may reduce its ISO Security Amount by giving the ISO not less than fifteen (15) days notice of the reduction, provided that the Scheduling Coordinator, UDC or MSS is not then in breach of this Section 2.2.7.3. The ISO shall release, or permit a reduction in the amount of, such guarantees or other credit support required to give effect to a permitted reduction in the ISO Security Amount as the Scheduling Coordinator, UDC or MSS may select.

Following the date on which a Scheduling Coordinator commences trading, the Scheduling Coordinator shall not be entitled to submit a Schedule to the ISO and the ISO may reject any Schedule submitted if, at the time of submission, the Scheduling Coordinator's ISO Security Amount is exceeded by the Scheduling Coordinator's estimated aggregate liability for (i) Grid Management Charge and/or Imbalance Energy, Ancillary Services, Grid Operations Charge, Wheeling Access Charge, Usage Charges, and FERC Annual Charges on each Trading Day for which Settlement has not yet been made in accordance with Section 11.3.1 and the Scheduling Coordinator's estimated liability for High Voltage Access Charge and Transition Charge for which Settlement has not yet been made in accordance with Section 11.3. The ISO shall notify a Scheduling Coordinator if at any time such outstanding liabilities exceed 90% of the relevant portion of the ISO Security Amount. For the purposes of calculating the Scheduling Coordinator's estimated aggregate liability, the estimate shall include (1) outstanding charges for Trading Days for which Settlement data is available, and (2) an estimate of charges for Trading Days for which Settlement data is not yet available. To estimate charges for Trading Days for which Settlement data is not yet available, the ISO will consider available historical Settlement data, appropriately adjusted to reflect recent market prices and trends, or other available information for individual Scheduling Coordinators.

Following the date on which a UDC or MSS commences operation, the UDC's or MSS's Scheduling Coordinator shall not be entitled to submit a Schedule to the ISO and the ISO may reject any Schedule submitted if, at the time of submission, the UDC's or MSS's ISO Security Amount is exceeded by the UDC's or MSS's estimated aggregate liability for Grid Management Charge, and/or High Voltage Access Charges and Transition Charges for which Settlement has not yet been made in accordance with Section 11.3. The ISO shall notify a UDC or MSS if at any time such outstanding liabilities exceed 90% of the relevant portion of the ISO Security Amount. For the purposes of estimating the UDC's or MSS's aggregate liability for High Voltage Access Charges and Transition Charges, the UDC's or MSS's liability shall be equal to the billed Demand use (in MWh) for a month in the UDC's or MSS's Service Area (including exports from the Service Area) multiplied by the ISO's estimated High Voltage Access Charge and Transition Charge for that month, as such estimated cost is notified by the ISO to UDCs and MSSs from time to time.

2.2.7.4 The ISO shall notify the relevant Scheduling Coordinator if it rejects a Schedule under Section 2.2.7.3 in which event the Scheduling Coordinator shall not be entitled to submit any further Schedules until it has demonstrated to the ISO's satisfaction that its ISO Security Amount has been increased sufficiently to avoid the limit on trading imposed under Section 2.2.7.3 from being exceeded.

2.2.7.5 The ISO may restrict, or suspend a Scheduling Coordinator's right to Schedule or require the Scheduling Coordinator to increase its ISO Security Amount if at any time such Scheduling Coordinator's liability for Imbalance Energy is determined by the ISO to be

- (e) The ISO will notify the SC Applicant in writing whether its application has been accepted or rejected and, if rejected, will give a written explanation of the reasons for the rejection within 14 days after the SC Applicant has provided all of the additional information requested by the ISO pursuant to subsection (c).
- (f) The SC Applicant shall become a Scheduling Coordinator when, following acceptance of its Application, it has entered into an SC Agreement with the ISO and has met the requirements of Section 2.2.3.2.

2.2.4.3 The SC Applicant may within twenty-eight (28) days following rejection of its application, appeal in writing that rejection to the ISO Governing Board setting out the grounds for the appeal. The ISO Governing Board will hear the appeal on and present an oral decision within thirty-five (35) days of the date the appeal notice is served on the ISO Governing Board in accordance with Section 20.1. The ISO Governing Board will notify the SC Applicant in writing of its decision within seven (7) days of hearing the appeal.

2.2.4.4 If the ISO Governing Board rejects the application on appeal then the SC Applicant may appeal under the ISO ADR Procedure. The ISO shall agree to mediation under Section 13.2 if the SC Applicant so requests.

2.2.4.5 Termination of Service Agreement.

- (a) A Scheduling Coordinator's SC Agreement may be terminated by the ISO on written notice to the Scheduling Coordinator:
 - (i) if the Scheduling Coordinator no longer meets the requirements for eligibility set out in Section 2.2.3 and fails to remedy the default within a period of seven (7) days after the ISO has given written notice of the default;

- (ii) if the Scheduling Coordinator fails to pay any sum under this ISO Tariff and fails to remedy the default within a period of seven (7) days after the ISO has given written notice of the default; or
 - (iii) if the Scheduling Coordinator commits any other default under this ISO Tariff or any of the ISO Protocols which, if capable of being remedied, is not remedied within thirty (30) days after the ISO has given it written notice of the default; or
- (b) by the Scheduling Coordinator on sixty (60) days written notice to the ISO, provided that such notice shall not be effective to terminate the SC Agreement until the Scheduling Coordinator has complied with all applicable requirements of Section 2.2.5.

The ISO shall, following termination of an SC Agreement and within thirty (30) days of being satisfied that no sums remain owing by the Scheduling Coordinator under the ISO Tariff, return or release to the Scheduling Coordinator, as appropriate, any money or credit support provided by such Scheduling Coordinator to the ISO under Section 2.2.3.2.

2.2.4.5.1 Pending acceptance of termination of service pursuant to Section 2.2.4.6.1 by FERC, the ISO will suspend the certification of a Scheduling Coordinator which has received a notice of termination under Section 2.2.4.5(a) and the Scheduling Coordinator will not be eligible to submit Schedules and bids for Energy and Ancillary Services to the ISO.

2.2.4.6 Notification of Termination. The ISO shall, promptly after providing written notice of default to a Scheduling Coordinator as specified in Section 2.2.4.5(a), notify the Scheduling Coordinators that could be required to represent End Use Eligible Customers

2. ISO OPERATIONS.

2.1 Access to the ISO Controlled Grid.

2.1.1 Open Access.

The ISO shall, subject to Sections 2.1.2 and 2.1.3, provide to all Eligible Customers open and non-discriminatory access to the ISO Controlled Grid regardless of the locations of their connections to the ISO Controlled Grid in accordance with the terms of this ISO Tariff including, in particular, the procedures for scheduling and Congestion Management. Energy and Ancillary Services may be transmitted on behalf of an Eligible Customer into, out of or through the ISO Controlled Grid only if scheduled by a Scheduling Coordinator. A Scheduling Coordinator must ensure that each Eligible Customer which it represents has all appropriate licenses or authorizations from the Local Regulatory Authority, FERC or any other regulatory body.

2.1.2 Eligibility of Customers for Direct Access or Wholesale Sales.

The eligibility of an End-Use Customer for Direct Access will be determined in accordance with the Direct Access eligibility and phase-in procedures (if any) adopted by the Local Regulatory Authority. Any dispute as to whether an End-Use Customer meets the eligibility criteria must be resolved by the Local Regulatory Authority prior to the ISO providing Direct Access to that End-Use Customer.

A Wholesale Customer shall not be entitled to participate in Wholesale Sales through a Scheduling Coordinator if it is not entitled to wholesale transmission service pursuant to the provisions of FPA Section 212(h).

- (e) reduce or eliminate Inter-Zonal Congestion based on Adjustment Bids and in accordance with the Congestion Management procedures, and Intra-Zonal Congestion in accordance with Section 7.2.6; and
- (f) if necessary, make mandatory adjustments to Schedules in accordance with the Congestion Management procedures.

2.2.3 Scheduling Coordinator Certification.

The ISO shall accept Schedules and bids for Energy and Ancillary Services only from Scheduling Coordinators which it has certified in accordance with Section 2.2.4 as having met the requirements of this Section 2.2.3. Scheduling Coordinators scheduling Ancillary Services shall additionally meet the requirements of Section 2.5.6.

2.2.3.1 Each Scheduling Coordinator shall:

- (a) demonstrate to the ISO's reasonable satisfaction that it is capable of performing the functions of a Scheduling Coordinator under this ISO Tariff including (without limitation) the functions specified in Sections 2.2.6 and 2.2.7 and that it is capable of complying with the requirements of all ISO Protocols;
- (b) identify each of the Eligible Customers (including itself if it trades for its own account) which it is authorized to represent as Scheduling Coordinator and confirm that the metering requirements under Section 10 are met in relation to each Eligible Customer for which it is submitting bids under this ISO Tariff;
- (c) confirm that each of the End-Use Customers it represents is eligible for Direct Access;
- (d) confirm that none of the Wholesale Customers it represents is ineligible for wholesale transmission service pursuant to the provisions of FPA Section 212(h);

intent to access UDC facilities and opportunity for UDC staff to be present. Such access shall not be provided unless the parties mutually agree to the date, time and purpose of each access. Agreement on the terms of the access shall not be unreasonably withheld.

4.8.4.3 Access During Emergencies.

Notwithstanding any provision in this Section 4 the ISO may have access, without giving prior notice, to any UDC's equipment or other facilities during times of a System Emergency or where access is needed in connection with an audit function.

4.9 UDC Facilities under ISO Control.

The ISO and each UDC shall enter into an agreement in relation to the operation and maintenance of the UDC's facilities which are under the ISO's Operational Control.

5. RELATIONSHIP BETWEEN ISO AND GENERATORS.

The ISO shall not Schedule Energy or Ancillary Services generated by any Generating Unit interconnected to the ISO Controlled Grid, or to the Distribution System of a Participating TO or of a UDC otherwise than through a Scheduling Coordinator. The ISO shall not be obligated to accept Schedules or Adjustment Bids or bids for Ancillary Services relating to Generation from any Generating Unit interconnected to the ISO Controlled Grid unless the relevant Generator undertakes in writing to the ISO to comply with all applicable provisions of this ISO Tariff as they may be amended from time to time, including, without limitation, the applicable provisions of this Section 5 and Section 2.3.2.

5.1 General Responsibilities.

5.1.1 Operate Pursuant to Relevant Provisions of ISO Tariff.

Participating Generators shall operate, or cause their facilities to be operated, in accordance with the relevant provisions of this ISO Tariff, including, but not limited to, the

12.6 Payments.

Any payments agreed to between Market Participants and the ISO as a result of an audit, or directed by FERC, or disclosed by the ISO in reviews of its own books and records shall include interest computed at the rate calculated in accordance with the methodology specified for interest on refunds in FERC's regulations at 18 C.F.R § 35.19(a)(2)(iii) (as amended from time to time) from the due date to the date such adjustments are due.

13. DISPUTE RESOLUTION.

13.1 Applicability.

13.1.1 General Applicability.

Except as limited below or otherwise as limited by law (including the rights of any party to file a complaint with FERC under the relevant provisions of the FPA), the ISO ADR Procedures shall apply to all disputes between parties which arise under the ISO Documents except where the decision of the ISO is stated in the provisions of this ISO Tariff to be final. The ISO ADR Procedures shall not apply to:

13.1.1.1 Disputes arising under contracts which pre-date the ISO Operations Date, except as the disputing parties may otherwise agree;

13.1.1.2 Disputes as to whether rates and charges set forth in this ISO Tariff are just and reasonable under the FPA.

13.1.2 Disputes Involving Government Agencies.

13.1.2.1 If a party to a dispute is a government agency the procedures herein which provide for the resolution of claims and arbitration of disputes are subject to any limitations imposed on the agency by law, including but not limited to the authority of the agency to effect a remedy. If the governmental agency is a federal entity, the procedures

- (e) The ISO will notify the SC Applicant in writing whether its application has been accepted or rejected and, if rejected, will give a written explanation of the reasons for the rejection within 14 days after the SC Applicant has provided all of the additional information requested by the ISO pursuant to subsection (c).
- (f) The SC Applicant shall become a Scheduling Coordinator when, following acceptance of its Application, it has entered into an SC Agreement with the ISO and has met the requirements of Section 2.2.3.2.

2.2.4.3 The SC Applicant may within twenty-eight (28) days following rejection of its application, appeal in writing that rejection to the ISO Governing Board setting out the grounds for the appeal. The ISO Governing Board will hear the appeal on and present an oral decision within thirty-five (35) days of the date the appeal notice is served on the ISO Governing Board in accordance with Section 20.1. The ISO Governing Board will notify the SC Applicant in writing of its decision within seven (7) days of hearing the appeal.

2.2.4.4 If the ISO Governing Board rejects the application on appeal then the SC Applicant may appeal under the ISO ADR Procedure. The ISO shall agree to mediation under Section 13.2 if the SC Applicant so requests.

2.2.4.5 Termination of Service Agreement.

- (a) A Scheduling Coordinator's SC Agreement may be terminated by the ISO on written notice to the Scheduling Coordinator:
 - (i) if the Scheduling Coordinator no longer meets the requirements for eligibility set out in Section 2.2.3 and fails to remedy the default within a period of seven (7) days after the ISO has given written notice of the default;

- (ii) if the Scheduling Coordinator fails to pay any sum under this ISO Tariff and fails to remedy the default within a period of seven (7) days after the ISO has given written notice of the default; or
 - (iii) if the Scheduling Coordinator commits any other default under this ISO Tariff or any of the ISO Protocols which, if capable of being remedied, is not remedied within thirty (30) days after the ISO has given it written notice of the default; or
- (b) by the Scheduling Coordinator on sixty (60) days written notice to the ISO, provided that such notice shall not be effective to terminate the SC Agreement until the Scheduling Coordinator has complied with all applicable requirements of Section 2.2.5.

The ISO shall, following termination of an SC Agreement and within thirty (30) days of being satisfied that no sums remain owing by the Scheduling Coordinator under the ISO Tariff, return or release to the Scheduling Coordinator, as appropriate, any money or credit support provided by such Scheduling Coordinator to the ISO under Section 2.2.3.2.

2.2.4.5.1 Pending acceptance of termination of service pursuant to Section 2.2.4.6.1 by FERC, the ISO will suspend the certification of a Scheduling Coordinator which has received a notice of termination under Section 2.2.4.5(a) and the Scheduling Coordinator will not be eligible to submit Schedules and bids for Energy and Ancillary Services to the ISO.

2.2.4.6 Notification of Termination. The ISO shall, promptly after providing written notice of default to a Scheduling Coordinator as specified in Section 2.2.4.5(a), notify the Scheduling Coordinators that could be required to represent End Use Eligible Customers

11. ISO SETTLEMENTS AND BILLING.

11.1 Settlement Principles.

11.1.1 The ISO shall calculate, account for and settle transactions in accordance with the following principles:

11.1.2 The ISO shall be responsible for calculating Settlement balances for all transactions carried out by Scheduling Coordinators on the ISO Controlled Grid in each Settlement Period;

11.1.3 The ISO shall carry out all Settlements in accordance with Meter Data provided pursuant to the requirements of Section 10 of this ISO Tariff;

11.1.4 The ISO shall create and maintain computer back-up systems, including off-site storage of all necessary computer hardware, software, records and data at an alternative location that, in the event of a Settlement system breakdown at the primary location of the day-to-day operations of the ISO, could serve as an alternative location for day-to-day Settlement operations within a reasonable period of time; and

11.1.5 The ISO shall retain all Settlement data records for a period which, at least, allows for the re-run of data as required by this ISO Tariff and any adjustment rules of the Local Regulatory Authority governing the Scheduling Coordinators and their End-Use Customers;

11.1.6 The ISO shall settle the following charges in accordance with Section 11.2 of this ISO Tariff:

- (1) Grid Management Charge;
- (2) Grid Operations Charge;
- (3) Ancillary Services charges;

- (e) demonstrate to the ISO's reasonable satisfaction that it meets the financial criteria set out in Section 2.2.3.2;
- (f) enter into an SC Agreement with the ISO; and
- (g) provide NERC tagging data.

2.2.3.2 The creditworthiness requirements in this section apply to the ISO's acceptance of Schedules and to all transactions in an ISO Market. Each Scheduling Coordinator, UDC or MSS shall either maintain an Approved Credit Rating (which may differ for different types of transactions with the ISO) or provide in favor of the ISO one of the following forms of security for an amount to be determined by the Scheduling Coordinator, UDC or MSS and notified to the ISO under Section 2.2.7.3:

- (a) an irrevocable and unconditional letter of credit confirmed by a bank or financial institution reasonably acceptable to the ISO;
- (b) an irrevocable and unconditional surety bond posted by an insurance company reasonably acceptable to the ISO;
- (c) an unconditional and irrevocable guarantee by a company which has and maintains an Approved Credit Rating;
- (d) a cash deposit standing to the credit of an interest bearing escrow account maintained at a bank or financial institution designated by the ISO;
- (e) a certificate of deposit in the name of the ISO from a financial institution designated by the ISO; or
- (f) a payment bond certificate in the name of the ISO from a financial institution designated by the ISO.

Letters of credit, guarantees, surety bonds, payment bond certificates, escrow agreements

and certificates of deposit must cover all applicable outstanding and estimated liabilities under Section 2.2.7.3 and shall be in such form as the ISO may reasonably require from time to time by notice to Scheduling Coordinators, UDCs or MSSs. A Scheduling Coordinator, UDC or MSS which does not maintain an Approved Credit Rating shall be subject to the limitations on trading set out in Section 2.2.7.3. Notwithstanding anything to the contrary in the ISO Tariff, a Scheduling Coordinator or UDC that had an Approved Credit Rating on January 3, 2001, and is an Original Participating Transmission Owner or is a Scheduling Coordinator for an Original Participating Transmission Owner shall not be precluded by Section 2.2.7.3 from scheduling transactions that serve a UDC's Demand from –

- (1) a resource that the UDC owns; and
- (2) a resource that the UDC has under contract to serve its Demand.

2.2.3.3 Review of Creditworthiness.

The ISO may review the creditworthiness of any Scheduling Coordinator, UDC or MSS which delays or defaults in making payments due under the ISO Tariff and, as a consequence of that review, may require such Scheduling Coordinator, UDC or MSS, whether or not it has (or is deemed to have) an Approved Credit Rating, to provide credit support in the form of:

EXHIBIT B

Docket No. ER99-2985-000
Company: Cal. ISO Corp
Service Agreement No. 231
Under FERC El. Tariff No. 1
Filing Date: 5-19-99
Effective Date: 4-26-99

**CALIFORNIA INDEPENDENT SYSTEM
OPERATOR**

AND

PG&E ENERGY TRADING -POWER, L.P.

**SCHEDULING COORDINATOR
AGREEMENT**

9907230479.1

Scheduling Coordinator Agreement

THIS AGREEMENT is made this 26th day of April, 1999 and is entered into, by and between:

- (1) **PG&E Energy Trading - Power, L.P.** having a registered or principal executive office at 7500 Old Georgetown Road, Suite 1400, Bethesda, MD 20814 (the "Scheduling Coordinator")

and

- (2) **CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**, a California nonprofit public benefit Corporation having a principal executive office located at such place in the State of California as the ISO Governing Board may from time to time designate (the "ISO").

Whereas:

- A. The Scheduling Coordinator has applied for certification by the ISO under the certification procedure referred to in Section 2.2.3 of the ISO Tariff.
- B. The Scheduling Coordinator wishes to schedule Energy and Ancillary Services on the ISO Controlled Grid under the terms and conditions set forth in the ISO Tariff.

NOW IT IS HEREBY AGREED as follows:

1. Definitions

- A. Terms and expressions used in this Agreement shall have the same meanings as those contained in the Master Definitions Supplement to the ISO Tariff.
- B. The "ISO Tariff" shall mean the ISO Operating Agreement and Tariff as amended from time to time, together with any Appendices or attachments thereto.

2. Covenant of the Scheduling Coordinator

The Scheduling Coordinator agrees that:

- A. the ISO Tariff governs all aspects of scheduling of Energy and Ancillary Services on the ISO Controlled Grid, including (without limitation), the financial and technical criteria for Scheduling

Coordinators, bidding, settlement, information reporting requirements and confidentiality restrictions;

- B. It will abide by, and will perform all of the obligations under the ISO Tariff placed on Scheduling Coordinators in respect of all matters set forth therein including, without limitation, all matters relating to the scheduling of Energy and Ancillary Services on the ISO Controlled Grid, ongoing obligations in respect of scheduling, Settlement, system security policy and procedures to be developed by the ISO from time to time, billing and payments, confidentiality and dispute resolution;
- C. It shall ensure that each UDC, over whose Distribution System Energy or Ancillary Services are to be transmitted in accordance with Schedules, Adjustment Bids or bids for Ancillary Services submitted to the ISO by the Scheduling Coordinator, enters into a UDC operating agreement in accordance with Section 4 of the ISO Tariff;
- D. It shall ensure that each Generator for which it schedules Energy or on whose behalf it submits to the ISO Adjustment Bids or bids for Ancillary Services enters in to a Generator agreement in accordance with Section 5 of the ISO Tariff;
- E. It shall have the primary responsibility to the ISO, as principal, for all Scheduling Coordinator payment obligations under the ISO Tariff;
- F. Its status as a Scheduling Coordinator is at all times subject to the ISO Tariff.

3. **Term and Termination**

3.1 This Agreement shall commence on the date the Scheduling Coordinator is certified by the ISO as a Scheduling Coordinator.

3.2 This Agreement shall terminate upon acceptance by FERC of a notice of termination. The ISO shall timely file any notice of termination with FERC..

4. **Assignment**

Either party may assign its obligations under this Agreement with the other party's consent, such consent shall not to be unreasonably withheld.

5. Partial Invalidity

If any provision of this Agreement, or the application of such provision to any persons, circumstance or transaction, shall be held invalid, the remainder of this Agreement, or the application of such provision to other persons or circumstances or transactions, shall not be affected thereby.

6. Settlement Account

The Scheduling Coordinator shall maintain at all times an account with a bank capable of Fed-Wire Transfer to which credits or debits shall be made in accordance with the billing and Settlement provisions of Section 11 of the ISO Tariff. Such account shall be the account referred to in Clause 7 hereof or as notified by the Scheduling Coordinator to the ISO from time to time by giving at least 7 days written notice before the new account becomes operational.

7. Notices

Any notice, demand or request made to or by either party regarding this Agreement shall be made in accordance with the ISO Tariff and unless otherwise stated or agreed shall be made to the representative of the other party indicated below.

ISO:

Name of Primary Representative: Don Fuller

Name of Alternative Representative: Deborah A. Le Vine

Address: 151 Blue Ravine Road
Folsom

State: CA Zip Code: 95630

E-Mail Address: dfuller@caiso.com

Phone No: (916) 351-4445

Fax No: (916) 351-2263

Scheduling Coordinator: PG&E Energy Trading - Power, L.P.

Name of Primary Representative: Lisa Wildes

Name of Alternative Representative: Mary Kabla
Address: 7500 Old Georgetown Road, Suite 1400

Bethesda

State: MD Zip Code: 20814

E-Mail Address: lwildes@usgen.com

Phone No: (301) 280-6618

Fax No: (301) 280-6601

Settlement Account No: 0145513

Title: PG&E Energy Trading - Power, L.P.

Sort Code: 011001234

Bank: Boston Safe Deposit and Trust Company

8. Agreement to be bound by ISO Tariff

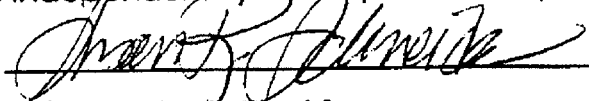
The ISO Tariff is incorporated herein and made a part hereof. In the event of a conflict between the terms and conditions of this Agreement and any other terms and conditions set forth in the ISO Tariff, the terms and conditions of the ISO Tariff shall prevail.

9. Electronic Contracting.

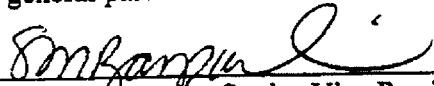
All submitted applications, schedules, bids, confirmations, changes to information on file with the ISO and other communications conducted via electronic transfer (e.g. direct computer link, FTP file transfer, bulletin board, e-mail, facsimile or any other means established by the ISO) shall have the same legal rights, responsibilities, obligations and other implications as set forth in the terms and conditions of the ISO Tariff as if executed in written format.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their respective authorized officials.

California Independent System Operator Corporation:

By: 
Name: Susan R. Schneider
Title: Vice President of Client Services
Date: April 26, 1999

PG&E Energy Trading - Power, L.P.:

By: PG&E ENERGY TRADING - POWER, L.P.
Name: By: PG&E Energy Trading - Power Holdings Corporation,
its sole general partner
Title: 
Date: Sarah M. Barpouzis, Senior Vice President



May 16, 2005

The Honorable Magalie Roman Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 20426

**Re: La Paloma Generating Company, LLC vs. California Independent
System Operator Corporation
Docket No. EL05-54-000**

Dear Secretary Salas:

Enclosed for electronic filing please find an Errata to the Request for Leave to File Answer and Answer of the California Independent System Operator Corporation ("CAISO") to the Request for Rehearing of La Paloma Generating Company, LLC, filed on Friday, May 13, 2005, in the above captioned dockets.

Friday's filing inadvertently omitted the two exhibits mentioned on Page 3, footnote 4 of the CAISO's Answer. This errata includes the two exhibits (CAISO Tariff Sheets and a Scheduling Coordinator Agreement on file with the Commission).

Thank you for your assistance in this matter.

Respectfully submitted,

/s/ Daniel J. Shonkwiler

Daniel J. Shonkwiler
Counsel for The California Independent
System Operator Corporation

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in the above-captioned dockets.

Dated at Folsom, California, on this 16th day of May, 2005.

/s/ Daniel J. Shonkwiler
Daniel J. Shonkwiler