UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

PacifiCorp	)	Docket Nos. ER07-882-000
Pacific Gas and Electric Company	)	ER07-967-000

INITIAL BRIEF OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

Pursuant to the schedule established in the Commission's Order of July 30, 2007, in this docket, *PacifiCorp*, 120 FERC ¶ 61,113 (2007) ("July 30 Order"), the California Independent System Operator Corporation ("CAISO") submits its Initial Brief.

I. Summary

As the Commission has recognized, coordinated operation is critical to the reliability of the California-Oregon Intertie ("COI"). That coordination is currently accomplished through the Owners' Coordinated Operations Agreement ("OCOA"). Under the Agreement for Use of Transmission Capacity among Pacific Power & Light Company, Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company dated August 1, 1967 (the "Capacity Agreement"), Pacific Gas & Electric Company ("PG&E") leases from PacifiCorp the capacity on PacifiCorp's portion of the eastern line of the Pacific AC Intertie ("PACI"). PG&E owns the other portion of the eastern line. PG&E has placed the entire eastern line under the Operational Control of the CAISO. The proposed termination of the Capacity Agreement will trigger termination of the OCOA, with disastrous consequences for the reliability of transfers between California and the Pacific-Northwest if the OCOA and related arrangements are not extended. The Commission should therefore condition its approval of the termination of the Capacity Agreement on PacifiCorp's execution of a revised OCOA and PacifiCorp's execution of the related agreement, the California-Oregon Intertie Path Operating Agreement.

If the Capacity Agreement terminates and PacifiCorp becomes a party to the OCOA, the CAISO will require an operating agreement with PacifiCorp to establish the legal relationships and procedures by which the CAISO will perform its obligations as Balancing Authority and COI path operator. The CAISO is therefore filing tomorrow an unexecuted Operating Agreement with PacifiCorp to fulfill that function. Under the Operating Agreement, PacifiCorp will submit aggregated schedules for the entire capacity of the eastern line of the PACI. However, because schedules on the PACI-PN must of necessity use the PACI-PS, which is part of the transmission grid under the CAISO's Operational Control[1] ("CAISO Controlled Grid"), PacifiCorp would be required to comply with CAISO scheduling procedures and be responsible for all charges for use of the CAISO Controlled Grid, including Congestion Charges. The CAISO requests approval of the OA.

In the event that the Commission does not condition termination of the Capacity Agreement on PacifiCorp's execution of the OCOA, the CAISO believes the only feasible alternative would be to move the Balancing Authority Area boundary to the intersection of PacifiCorp's and PG&E's ownership rights on the

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1 Capitalized terms not otherwise defined have the meaning given them in the CAISO's current effective tariff ("CAISO Tariff") or under the Tariff provisions that the Commission has approved to implement the CAISO's Market Redesign and Technology Upgrade ("MRTU") initiative ("MRTU Tariff"), as dictated by the context.

PACI. This is a complicated process that would require considerable time. Therefore, if that the Commission does not condition termination of the Capacity Agreement on PacifiCorp's execution of the OCOA, the CAISO requests that the Commission delay termination until January 1, 2009.

II. Statement of the Facts

A. The Pacific AC Intertie and the California Oregon Intertie

This proceeding concerns changes in the agreements governing the rates, terms and conditions of transmission service over the 47-mile segment of the PACI that is owned by PacifiCorp from Malin to Indian Spring ("PACI-PN") but that has been leased to California utilities for the past 40 years. The PACI comprises two parallel 500 kV AC lines that run from the Malin substation in Oregon to the Tesla substation owned by PG&E in central California, including various associated facilities. Western Area Power Administration – Sierra Nevada Region ("Western") owns Malin-Round Mountain Line #1 ("PACI-W"); PG&E owns the eastern portion of the PACI, from Indian Spring to Round Mountain ("PACI-PS") and both lines from Round Mountain to Tesla. The segment of the PACI from Malin to the Round Mountain substation, together with the northern portion of the California Oregon Transmission Project ("COTP"), a third 500 kV line that runs from the Captain Jack substation in Oregon to an interconnection with the Pacific AC Intertie near PG&E's Tesla Substation, constitute the COI. PG&E and other California Parties provided the Commission with a helpful map of the COI in their August 29, 2007, Request for Clarification or Rehearing in these dockets.

B. Description of Existing Agreements

The PACI-PN has been under lease to PG&E since 1967 pursuant to the Capacity Agreement. All of the PACI facilities owned by PG&E or leased to California utilities by PacifiCorp (as successor to Pacific Power & Light Company) have been placed under the Operational Control of the CAISO since April 1, 1998, pursuant to the Transmission Control Agreement. The term of the Capacity Agreement was due to expire on July 31, 2007, but the Commission suspended the termination as part of the July 30 Order.

The CAISO also has transmission rights on Western's facilities, PACI-W, pursuant to the Transmission Exchange Agreement, also on file with the Commission. *See generally Pacific Gas & Elec. Co.,* 109 FERC ¶ 61,255 (2004).

Prior to the formation of the CAISO, the operation of the COI was coordinated by PG&E pursuant to the Coordinated Operations Agreement. *Id. at* P 98. The CAISO assumed that coordination role when the CAISO commenced operations in 1998. July 30 Order at P 28, Declaration of James McIntosh attached as Exh. ISO-1 at ¶ 9. On January 1, 2005, because of the expiration of various contracts, the execution of the Transmission Exchange Agreement, and the transfer of the COTP to a different Control Area, the Coordinated Operations Agreement was replaced by the OCOA and the California-Oregon Intertie Path Operating Agreement (the "COI Path Operating Agreement"). *See generally Pacific Gas & Elec.*, 109 FERC ¶ 61,155. The CAISO is currently designated as the southern path operator for COI. The CAISO is a party to the COI Path

Operator Agreement, but not a party to the OCOA.[2] The CAISO continues to coordinate operations of the COI consistent with the terms of these agreements as the path operator for COI. *Id.* Absent amendment, however, the OCOA terminates by its own terms upon termination of the Capacity Agreement, and the COI Path Operating Agreement terminates if the OCOA terminates. July 30 Order at n.26, COI Path Operating Agreement, CAISO Rate Schedule FERC No. 50.

C. The Role of the CAISO

The duties of the CAISO as path operator for COI are set forth in Section 8, COI Operating Procedures, of the COI Path Operating Agreement. The duties are very specific, but generally fall into three categories. First, the CAISO is required to determine and allocate among the COI owners the available transfer capability on a pre-schedule and real-time basis. These calculations require monitoring of the real-time operating limits and the use of nomograms.[3] The CAISO employs counter schedules, the use of phase shifters, and implementation of the Western Electric Coordinating Council ("WECC") unscheduled flow mitigation plan to manage and coordinate multi-Balancing Authority operations for the COI. Second, the CAISO has extensive responsibilities related to coordination and communication with the COI owners and the Pacific Northwest path operator, currently the Bonneville Power

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2 The other parties to the COI Path Operating Agreement are PG&E, SDG&E, participants in the COTP, and Western. These entities are also the parties to the OCOA.

3 A nomogram is a two-dimensional representation of the operational capabilities of a system when there is a trade-off between two variables, such as the import or export of energy on one transmission path vs. the use of a second transmission path. A nomogram represents the trade-off one may have to make when transferring power between regions. The nomogram graphically defines a closed area within which it is safe to operate.

Administration ("Bonneville"). In addition there are a number of provisions that specifically relate to COI operations in the event of, and for the duration of, an operating emergency. COI Path Operating Agreement, CAISO Rate Schedule FERC No. 50, Original Sheet Nos. 23-28. As explained in the Declaration of James McIntosh, Director of Grid Operations for the CAISO, attached as Exhibit ISO-1, the CAISO can only fulfill these responsibilities if it has clear and uncontested directives from the owners of the COI concerning the operation of the COI, including the allocation of any curtailments on the COI. Exh. ISO-1 at ¶ 26.

The CAISO is also the Control Area operator or Balancing Authority for the portion of the COI south of Malin, including the PACI-P. As Balancing Authority, the CAISO must, among other matters, approve, validate and confirm interchange schedules; confirm ramping capabilities with Interchange Authorities; make dispatch adjustments so as not to exceed transmission facility limits, coordinate system restoration plans with transmission operators; coordinate with Generators and Load-Serving Entities within the Balancing Authority Area regarding their operational status, plans, and availability; receive real-time operating information from and provide real-time operating information to Transmission Operators and adjacent Balancing Authorities and implement instructions from the applicable Reliability Coordinator; direct resources to take action to manage congestion and ensure system balance; implement emergency procedures and system restoration plans; and comply with 83 NERC reliability standards. *See* Exh. ISO-1 at ¶¶ 6-11. The Balancing Authority north of Malin is the Bonneville Power Administration.

The CAISO is also responsible for scheduling, congestion management, and the administration of wholesale electric markets under the CAISO's Commission-approved tariff. Through its markets, the CAISO procures, on behalf of Market Participants, Ancillary Services to support the transmission grid under the CAISO's Operational Control (the "CAISO Controlled Grid") and Imbalance Energy for the Balancing Authority Area.[4] The CAISO currently manages congestion both within Congestion Zones (Intra-Zonal Congestion) and at Inter-Zonal Interfaces (Inter-Zonal Congestion).[5]

The Commission has also conditionally approved the MRTU Tariff, which will supersede the current CAISO Tariff. The CAISO recently revised the implementation date for the MRTU Tariff to March 31, 2008 (for trade date April 1, 2008). Under the MRTU Tariff, the CAISO will perform its reliability, scheduling, and congestion management functions and will optimize the procurement of Ancillary Services and Energy for Market Participants through an Integrated Forward Market, an Hour-Ahead Scheduling Process, and a Real-Time Market. The CAISO will adopt a more sophisticated approach to managing Congestion using a 3000-node Full Network Model, which manages Congestion on a forward basis through use of Locational Marginal Pricing and Pricing Nodes ("PNodes"). *See Cal. Indep. Sys. Operator Corp.*, 116 FERC ¶ 61,274 at PP 26-

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[4] CAISO Tariff §§ 8, 7.5.1, 34.1.2.3.1; *see Cal. Indep. Sys. Operator Corp.*, 81 FERC ¶ 61,122 at 61,456 and 61,489-92; *See also*, *e.g.*, *Cal. Indep. Sys. Operator Corp.*, 111 FERC ¶ 61,360 at 62,561 (2005); *Cal. Indep. Sys. Operator Corp.*, 99 FERC ¶ 63,020 at 61,110 (2002)

[5] CAISO Tariff § 27

27, 36-37 (2006), *reh'g granted in part and denied in part*, 119 FERC ¶ 61,076, 120 FERC ¶ 61,023 (2007).

III. History of Commission Proceedings and Settlement Negotiations

A. Commission Proceedings

In early 2007, PacifiCorp indicated its intention to terminate the Capacity Agreement and to withdraw the PACI-PN from the CAISO's Operational Control. PacifiCorp provided formal notice to the CAISO of its intentions on April 13, 2007. In various telephone conversations and correspondence, the CAISO discussed with PacifiCorp the reliability, operational, and market-related issues that would be raised by such actions, particularly if amendments to or successor agreements to the Owners' Coordinated Operations Agreement and the COI Path Operating Agreement are not in place prior to the proposed termination of the Capacity Agreement and the related withdrawal of PACI-PN from the CAISO's Operational Control. To date, these issues have not been fully resolved. PacifiCorp filed a notice of termination of the Capacity Agreement with the Commission on May 10, 2007, which the Commission designated Docket No. ER07-882. The CAISO filed a protest explaining its concerns and requesting delay of termination until these issues are resolved.

On May 30, 2007, PG&E filed a unilateral amendment to the OCOA that, *inter alia,* would eliminate the provision of the OCOA that terminates the agreement upon termination of the Capacity Agreement, thus allowing the OCOA and the COI Path Operating Agreement to survive such termination. The Commission denominated PG&E's filing as Docket No. ER07-967. PG&E's proposal did not resolve the CAISO's issues concerning reliable operation of the

COI in large part because PG&E's proposed revisions did not contemplate PacifiCorp becoming a party to the OCOA or the COI Path Operating Agreement.

On July 30, 2007, the Commission issued an order (referenced above as the July 30 Order) in Docket Nos. ER07-882, ER07-967, *et al*. The Commission concluded that the termination of the Capacity Agreement and the amendment of the OCOA may be unjust and unreasonable, accepted these two filings, suspended both for five months, and set the matters for hearing under Sections 205 and 206 of the Federal Power Act. July 30 Order at PP 25 and 35 and Ordering Paragraphs (A), (B), and (F).

B. Status of Settlement Negotiations

On August 16, 2007, the Chief Administrative Law Judge, responding to a motion by PacifiCorp, appointed a Settlement Judge and directed settlement negotiations. The CAISO and other parties have met on August 23 and August 29. To date, no settlement has been reached, but an additional settlement conference is scheduled for September 20. The CAISO will continue to pursue a negotiated resolution of the issues in this proceeding in parallel with the litigation of these issues.

IV. Argument

A. The Commission Should Not Permit Termination of the Capacity Agreement Unless Successor Agreements to the OCOA and COI Path Operating Agreement Are in Place to Ensure Continued Coordination of the COI.

1. The Commission Should Condition Termination of the Capacity Agreement on PacifiCorp's Execution of a Modified OCOA and COI Path Operating Agreement.

As the Commission recognized in its July 30 Order, termination of a jurisdictional contract is a change in rates, terms and conditions of service that requires Commission approval even if the contract includes an expiration date. July 30 Order at P 20 (*citing Sacramento Mun. Util. Dist.,* 474 F.3d 797, 800 (D.C. Cir. 2007)). A public utility must demonstrate that a proposed termination of a jurisdictional contract is just and reasonable and not unduly discriminatory or preferential. *Id.* at P 21 (*citing Pub. Serv. Comm'n v. FERC*, 866 F.2d 487 (D.C. Cir. 1989)).

The Commission specifically held that PacifiCorp must demonstrate "that appropriate coordination and operating arrangements are in place and therefore, that coordinated and reliable operation and planning of the COI would be preserved." *Id.* at P 22. As the Commission stated:

> Coordinated operation, maintenance, and planning of the facilities on the COI enables the COI's transfer capability to be achieved and maximized in a coordinated and reliable manner. To ensure coordinated operation, maintenance, and planning, appropriate procedures must be used by all entities that own and control COI facilities. All such entities should share in overload mitigation measures and be responsible for implementation, maintenance, and replacement of remedial action schemes, coordinated planning, and other coordinated activities. Without such coordinated operation, maintenance, and planning, parties might take inconsistent or inadequate actions that could impair reliable operation of the regional grid.

Id. at P 34.

In this instance, as the Commission recognized, the OCOA provides the arrangements necessary for coordinated operations of the PACI and the COTP. *Id.* Coordinated operation and scheduling of the PACI and the COTP allows the avoidance of unnecessary loop flow that would interfere with full use of the capacity. Such coordination facilitates the optimal implementation of counter-scheduling in order to avoid congestion. It also enables the use of all available capacity in the case of emergency conditions. The OCOA ensures that the loss of capacity on one line of the COI will not have a disproportionate effect on one group of transmission users as the power flow is on parallel paths. It further allows the coordination of outages to ensure that the ability to transfer energy between California and the Pacific Northwest is maximized. Exh. ISO-1 at ¶¶ 16-24.

The OCOA also provides the authority for the owners of the COI to designate a path operator pursuant to the COI Path Operating Agreement. As the path operator, the CAISO can determine the Available Transfer Capability ("ATC") of the COI and manage reliability through the sharing of the loss of capacity due to curtailments. The path operator also coordinates the communication among all Control Areas or Balancing Authorities to ensure the reliability of the Western Interconnection. *Id.*

If the Commission terminates the Capacity Agreement, such that the PACI-PN is no longer an Entitlement of PG&E and under the CAISO's Operational Control pursuant to the Transmission Control Agreement, then alternative arrangements must be developed to allow the CAISO to continue to serve as COI path operator for the entire COI. Specifically, PacifiCorp must become a party to the OCOA and the COI Path Operating Agreement if the agreements are to completely fulfill their purposes. Absent the contractual relationships established by the OCOA and the COI Path Operating Agreement, there can be no assurance of coordinated operation of the PACI-PN, and, accordingly, the entire PACI-P, with the remainder of the COI. *Id.* at ¶¶ 25-27. The COI Path Operating Agreement, which arises from the OCOA, provides the CAISO with contractual assurances that instructions regarding operation of the COI will be followed by all the COI owners. It is difficult for the CAISO to imagine how the path operator could carry out its duties under the agreement if PacifiCorp is not required to coordinate operation of its facilities with the rest of the PACI and with the COTP consistent with the requirements of the OCOA. Any proposed resolution of this proceeding which did not provide for PacifiCorp to become bound by the OCOA and the COI Path Operating Agreement would be irresponsible and require the CAISO to seriously reconsider its role as path operator. Theoretically, it might be possible for the obligations of the OCOA to be embodied in separate agreements between various parties and PacifiCorp, but the development of such agreements would require considerable time and, in the end, would be a waste of resources when the existing OCOA can be extended and modified to accommodate the termination of the Capacity Agreement and the addition of PacifiCorp as a party.

The Commission should therefore condition its acceptance of the termination of the Capacity Agreement on PacifiCorp's execution of the OCOA and the COI Path Operating Agreement. It follows from the Commission's authority to reject contract terminations that it can accept them conditionally. The Commission has exercised such authority in previous cases. *See Idaho Power Company*, 106 FERC ¶ 61,197 at P 16 (2004); *FirstEnergy Service Company,* 105 FERC P 61,113 at PP 11, 20 (2003).

2. The Commission Should Direct the Parties to Modify the OCOA and the COI Path Operating Agreement to Accommodate the Termination of the Capacity Agreement.

It is apparent that the OCOA and the COI Path Operating Agreement must be modified in order to accommodate the termination of the Capacity Agreement and PacifiCorp's scheduling of transactions on the PACI-PN under its OATT. PG&E's proposed modifications to the OCOA do not provide for PacifiCorp to become a party to that agreement. The CAISO urges the Commission to exercise its authority under Section 206 to direct the parties in this proceeding to amend the OCOA to make PacifiCorp a party to that agreement and to extend the term of the OCOA beyond the termination of the Capacity Agreement. The revised OCOA must also provide clear direction on the allocation of curtailments on the COI. Failure to resolve the terms of the curtailment under the revised OCOA would prevent the CAISO from fulfilling its responsibilities as COI path operator. The CAISO, however, takes no position on the disputed issues regarding the specific form of curtailment allocation that should be adopted or the structure for governance and administration of the OCOA. The CAISO would note, however, that the CAISO's interchange software, CAS, has automatic features which provide for "Rapid Curtailment" on a pro rata basis. To implement curtailments in another manner would require significant manual intervention in the automated CAS curtailment process by our real-time schedulers to differentiate curtailments by line. Differential curtailment instructions would require that each interchange e-tag be individually curtailed on the branch group, per the instructions, during intensive mitigation events. From a reliability standpoint, pro rata sharing is preferable. Exh. ISO-1 at ¶ 24.

3. If the Commission Requires PacifiCorp to Become a Party to the OCOA and COI Path Operating Agreement, the Commission Should Approve the CAISO's Proposed Operating Agreement.

The OCOA requires each party to make arrangements with its Control Area Operator to ensure compliance with the OCOA and the COI Path Operating Agreement. Specifically, Section 8.2 of the OCOA requires:

> Each party must make arrangements . . . for its facilities that are a part of the System to be operated within a NERC certified Control Area and make reasonable efforts to require the Control Area Operator to operate such facilities in conformance with this Agreement. Such arrangements shall obligate the Party to provide compensation to the COI Control Area Operator for any sanctions incurred by the latter arising from the WECC Reliability Management System Agreement in relation to duties of the Path Operator for COI . . . due to the action or inaction of the Party for whom or on whose behalf the Control Area Operator acts in relation to the Path Operator for COI.

Section 8.2 also sets forth minimum obligations that must be included in the arrangements, covering such matters as responses to emergencies, outage coordination, and scheduling. Because the PACI-PN will no longer be a part of the CAISO Controlled Grid but is still in the CAISO Control Area, it is necessary for the CAISO, as the Balancing Authority for the PACI (*i.e.,* the party with most of the reliability responsibilities formerly held by the Control Area Operator under the previous NERC and WECC requirements), and PacifiCorp to embody these arrangements in an Operating Agreement. Because the CAISO has Operational Control of the facilities of PG&E, this obligation is fulfilled for PG&E's facilities by the CAISO Tariff and the Transmission Control Agreement. For Western facilities, the arrangements are contained in the Transmission Exchange Agreement. Because the COTP is in a different Balancing Authority Area, no arrangements are required by Section 8.2 with the CAISO. The CAISO's Inter-Control Area Operations Agreement with the Sacramento Municipal Utility District, however, fulfills requirements of Section 8.3.19 of the OCOA regarding Control Area arrangements.

Moreover, even if an Operating Agreement were not required by the OCOA, the CAISO would require an Operating Agreement in order to establish the contractual relationship and terms under which the CAISO receives and processes PacifiCorp schedules and fulfills its responsibilities as Balancing Authority. The CAISO currently and in the past has had such operating agreements in place with other parties that own transmission facilities within the CAISO's Control Area but not under the CAISO's Operational Control. *See, e.g., Cal. Indep. Sys. Operator Corp.*, 114 FERC ¶ 61,024 (2006).

Therefore, the CAISO is filing tomorrow, on a unilateral basis, an Operating Agreement ("OA") with PacifiCorp governing the operation of the PACI-PN. Because the Operating Agreement must be in place at the time that the Capacity Agreement terminates, the CAISO is also requesting that the Commission consolidate the docket regarding the proposed OA with the instant proceedings.

The OA will be described in greater detail in the CAISO transmittal letter for the filing. The OA is generally consistent with similar agreements the CAISO has entered into with other entities, with certain key differences, as discussed below. The CAISO will discuss here the provisions that it believes may relate to the outcome of this proceeding and that may raise concerns for parties in this proceeding.

a. Term of the Operating Agreement

The CAISO has drafted the OA such that it will be compatible with both the current CAISO Tariff and the MRTU Tariff that will become effective in 2008. The OA is intended to remain in effect until termination of the Transmission Exchange Agreement with Western and the PACI-W Operating Agreement with Western. *See generally Pacific Gas & Elec. Co.,* 109 FERC ¶ 61,255 (2004). The proposed term will enable contractual issues related to the ongoing coordination of operations and scheduling of the PACI to be addressed simultaneously prior to the termination of the Transmission Exchange Agreement.

b. Establishment of a PacifiCorp Transmission Ownership Right

The Commission has recognized that, where the CAISO must address operational issues involving a transmission facility that is within the CAISO Balancing Authority Area but not part of the CAISO Controlled Grid (*i.e.*, a transmission facility that is not under the CAISO's Operational Control), the CAISO must respects the transmission owner's rights in the facility. The CAISO Tariff denominates these rights as "Transmission Ownership Rights" ("TORs"). With the exception of CAISO Tariff provisions regarding the calculation of Available Transmission Capacity, the CAISO's treatment of TORs is currently addressed through the execution of contracts with the owners. *See, e.g., Cal. Indep. Sys. Operator Corp.*, 114 FERC ¶ 61,024 (2006). The MRTU Tariff incorporates additional specific procedures regarding the treatment of TORs. To date, PacifiCorp has declined the CAISO's invitation to become a partial Participating Transmission Owner and to place the PACI-PN under the CAISO's Operational Control. Consistent with other agreements approved by the Commission, the CAISO's proposed Operating Agreement with PacifiCorp would govern the CAISO's treatment of PacifiCorp's TOR for the PACI-PN.

There are currently a number of TORs in the CAISO Balancing Authority Area. Existing TORs have certain common features but also have certain unique characteristics reflecting the characteristics of the transmission facilities at issue. The CAISO has or is negotiating contracts with each of these TORs to address such characteristics.

In each of these cases, the affected Non-Participating Transmission Owners ("Non-Participating TOs") have ownership rights in transmission facilities within the CAISO Balancing Area that are not part of the CAISO Controlled Grid. More importantly, each of these Non-Participating TOs' TORs, with the exceptions discussed below, enable them to schedule power across their own facilities into and out of the CAISO Balancing Authority Area *without using the CAISO Controlled Grid*.

There are two cases where a TOR does not enable a Non-Participating Transmission Owner to schedule power into and out of the CAISO Balancing Authority Area without using the CAISO Controlled Grid. Western must use its contractual right to 400 MW of CAISO capacity on the CAISO Controlled Grid to schedule transactions from the Round Mountain substation to the Tracy substation. As part of the settlement establishing the Transmission Exchange Agreement, Western secured the 400 MW of rights over the CAISO Controlled Grid in exchange for providing CAISO customers 1200 MW of capacity on the Western-owned portion of the PACI. *See* Declaration of Kyle T. Hoffman, attached as Exh. ISO-2, at ¶¶ 23-24. For reasons discussed below, Western's 400 MW of capacity are treated in the same manner as a Transmission Ownership Right. Another TOR that requires use of the CAISO Controlled Grid in order to serve Load is an extension of the COTP 500 kV line beyond the Tracy substation, which must use a portion of the CAISO Controlled Grid to obtain service to the Tesla substation. Although the COTP is in SMUD's Balancing Authority Area, in an amendment to the CAISO's Interconnected Control Area Operating Agreement with the Sacramento Municipal Utility District ("SMUD"), the CAISO deemed the Control Area (the predecessor of the Balancing Authority Area) boundary as the Tracy substation for scheduling and settlement purposes. Exh. ISO-2 at ¶¶ 21-22. As discussed below, the treatment of the COTP TOR is particularly relevant to the PACI-PN because, like the PACI-PN, transactions over the COTP TOR cannot be delivered to the CAISO Balancing Area (and specifically to Congestion Management Zone NP15) without the use of a portion of the CAISO Controlled Grid.

c. Scheduling Provisions of the Operating Agreement

PacifiCorp, similarly to other parties with lines within the CAISO Balancing Authority Area connected to, but not part of, the CAISO Controlled Grid, *see Cal. Indep. Sys. Operator*, 110 FERC ¶ 61,196 at PP 1-3, 8-9, 33-34, *reh'g denied*, 111 FERC ¶ 61,360 (2005), must comply with the scheduling provisions of the CAISO Tariff and protocols. The Commission has previously noted that reliability of the CAISO Controlled Grid would be compromised unnecessarily by instituting alternate scheduling arrangements for one intertie. *Cal. Indep. Sys. Operator Corp.,* 114 FERC ¶ 61,077 at P 18 (2006). Although the CAISO expects that PacifiCorp would prefer at least one exception to the CAISO scheduled procedures – the 20-minute scheduling rights contained in its tariff – the CAISO believes that this would unnecessarily complicate the CAISO's coordination of the PACI lines. *See* Exh. ISO-2 at ¶ 10. The only instances in which the CAISO has agreed to the continuation of 20-minute scheduling rights is when it has been required to do so by Existing Contracts or in interim arrangements that perpetuate Existing Contract rights for a short period. *See, e.g., Cal. Indep. Sys. Operator Corp.,* 109 FERC ¶ 61,391 at P 42 (2004). In this instance, there is no Existing Contract that would require the CAISO's departure from its procedures, and a departure would be particularly unjustified in light of the fact the schedules on the PACI-PN must also be schedules on the PACI-PS, *i.e.,* on the CAISO Controlled Grid.

As noted in the CAISO's protest in Docket No. ER07-882, scheduling on the PACI-PN is complicated pre-MRTU by the absence of a substation at Indian Spring. Although the PACI-PS is part of the CAISO Controlled Grid, no schedules on that portion will be feasible unless the party has also arranged transmission on the PACI-PN with PacifiCorp. In the OA, the CAISO proposes to address this issue by establishing a Malin-Round Mountain #2 line Scheduling Point for transactions using the PACI-PN. *See* Exh. ISO-2 at ¶¶ 6-8.

Section 2 of the OA provides that PacifiCorp shall be the Scheduling Coordinator ("SC") for customers using the PacifiCorp portion of the PACI. As the SC, PacifiCorp will be able to submit schedules for the full ATC of the PACI-PN using the PACI Branch Group Scheduling Point. OA *§* 4.6. PacifiCorp's full 1600 MW of transmission rights, or the derated MW amount, as determined by the path operator consistent with any OCOA curtailment instructions, will be reserved back solely for their use and scheduling. Any capacity that PacifiCorp does not schedule by the deadlines in the CAISO Tariff will be available to the CAISO as necessary to maintain the reliability of the CAISO Controlled Grid without compensation to PacifiCorp. OA § 7.6.

Although the provision provides PacifiCorp, as the SC for transactions using the PacifiCorp portion of the PACI, the ability to control schedules on the PACI-PS, it is not unduly discriminatory. Discrimination is undue only if the parties are similarly situated and there is no good reason for the disparate treatment. *El Paso Gas Co.*, 104 FERC ¶ 61,045 at PP 115-17 (2003). Because of PacifiCorp's ownership of the PACI-PN and the fact that PacifiCorp has not transferred Operational Control of the PACI-PN to the CAISO under the Transmission Control Agreement, PacifiCorp is not similarly situated to other users of the CAISO Controlled Grid and the necessity of scheduling on the PACI-PN justifies the arrangement. In other circumstances, the Commission concluded that the CAISO's scheduling practices were not discriminatory when a portion of capacity on one transmission line could only be scheduled initially by the owners of a Generating Unit connected to the line. *See City of Anaheim, CA, et al.,* 113 FERC ¶ 61,091 at PP 132-33 (2005), *reh'g denied*, 114 FERC ¶ 61,311 (2006).

In this instance, the lack of undue discrimination is even more apparent. The PACI-P segment of the PACI will not be available solely for PacifiCorp; rather PacifiCorp is only scheduling the segment. As a public utility under the Commission's jurisdiction, PacifiCorp must offer use of the facility to all parties on a non-discriminatory basis. *See generally, Promoting Wholesale Competition Through Open Access Non-discriminatory Transmission Services by Public Utilities*, Order No. 888, 61 Fed. Reg. 21,540 (May 10, 1996), FERC Stats. & Regs. ¶ 31,036 (1996), *order on reh'g*, Order No. 888-A, 62 Fed. Reg. 12,274 (March 14, 1997), FERC Stats. & Regs. ¶ 31,048 (1997), *order on reh'g*, Order No. 888-B, 81 FERC ¶ 61,248 (1997), *order on reh'g*, Order No. 888-C, 82 FERC ¶ 61,046 (1998).

d. Charges under the PacifiCorp Transmission Ownership Right

In this case, the terms and conditions of the PacifiCorp TOR must be structured to address the fact that schedules or power flows on the PacifiCorp segment of the PACI (PACI-PN) are dependent upon use of the CAISO Controlled Grid, and automatically flow on and impact the CAISO Controlled Grid to the south of Indian Spring. Therefore, because all transactions on the PACI-PN also use the PACI-PS, which is part of the CAISO Controlled Grid, the OA provides that PacifiCorp is responsible for all CAISO Charges applicable to imports, exports, and Inter-Scheduling Coordinator trades. The Commission has previously approved the applicability of the Grid Management Charge plus charges for Ancillary Services, Imbalance Energy, and losses to transactions within the Balancing Authority Area on lines connected to the CAISO Controlled Grid, but not under the Operational Control of the CAISO. *See Cal. Indep. Sys. Operator*, 110 FERC ¶ 61,196 at P 9.

In this case, a broader application of CAISO market charges is necessary because any schedules on the PacifiCorp portion of the PACI must of necessity use the CAISO Controlled Grid itself. They are interdependent. In particular, as discussed below, any schedules on the PacifiCorp portion of the PACI will result in congestion charges for the use of the CAISO Controlled Grid. These congestion charges shall consist of Usage Charges under the current market design and the congestion component of Locational Marginal Prices ("LMP") under the MRTU design. Because the burdens that the PacifiCorp schedules place on the CAISO Controlled Grid are not distinguishable from those that the

CAISO incurs for other users, it would be unduly discriminatory to exempt PacifiCorp from charges for use of the CAISO Controlled Grid. *El Paso Gas Co.*, 104 FERC ¶ 61,045 at PP 115-17. The Commission has recognized the operating agreements concerning lines that are not under the CAISO's Operational Control do not affect charges for transactions that do use the CAISO Controlled Grid. 110 FERC ¶ 61,196 at PP 25-29. In this case, those conditions are not present and PacifiCorp's use of the PACI-PN directly impacts and uses the CAISO Controlled Grid (the PACI-PS).

Currently, the CAISO computes Inter-Zonal Congestion charges (Usage Charges) according to Inter-Zonal Interfaces, which include all Scheduling Points. CAISO Tariff at § 27. At present, the two Malin-Round Mountain lines constitute the PACI and Malin is the Scheduling Point for interchange transactions with Bonneville, into or out of CAISO to the northwest. Exh. ISO-2 at ¶ 5.

Under the OA, Users of the PACI-PN will pay Congestion charges calculated for the PACI, because the Malin-Round Mountain line #2 and the PACI-W will be treated as a single branch group. Users of both PACI lines must compete for the limited transmission capacity into or out of CAISO at Malin, and pay the same Usage Charge. *See* Exh. ISO-2 at ¶ 15. While the CAISO's proposed OA preserves PacifiCorp's ability to submit schedules (up to the 1600 MW limit) on its facility (PACI-PN), the OA appropriately charges PacifiCorp for use of the CAISO Controlled Grid.

The allocation of Congestion charges for transactions using the PACI-PN and the associated PacifiCorp TOR is consistent with the treatment of the COTP TOR described above. The COTP participants each schedule their respective share of the COTP project south of the COTP terminus without benefit of an exemption from any CAISO charges unless they are exercising an Existing Contract right. The COTP Participants must therefore compete for the use of scarce transmission capacity over the CAISO Controlled Grid to reach NP15. *See id.* at ¶¶ 21-22.

The COTP precedent does differ from the PACI in one respect. As described above, some COTP participants have an Existing Contract providing service from the COTP terminus to the Midway Substation, which would allow them to avoid Congestion charges to the extent that they interconnect with non-CAISO facilities at Midway and to the extent they do not exceed the capacity under the Existing Contract. Only transactions that meet both these criteria would avoid Congestion Charges. PacifiCorp does not have any such Existing Contract, and there is therefore no basis for their avoidance of Congestion Charges. *Id.*

In addition, the CAISO has determined that there is no way to allow the Scheduling Coordinator for the PACI-PN to submit Adjustment Bids to value the use of the COI when the interface is congested. *Id.* at ¶ 15. The CAISO proposes to assess Congestion charges for use of the PACI-PN based on other Adjustment Bids for use of the COI and on an after-the-fact basis. *Id.* In other words, while CAISO New Firm Users will be able to denote, through the submission of Adjustment Bids, the value they place on securing transmission over the applicable Inter-Zonal Interface, PacifiCorp (and its transmission customers) will not be able to submit specific Adjustment Bids contemporaneously with the submission of Day-Ahead Schedules to the CAISO and in advance of the CAISO's Congestion Management process. The end result is that PacifiCorp (and its customers) will pay congestion costs commensurate with their use of the CAISO Controlled Grid, but will not have an effective way of managing their congestion cost exposure on a basis comparable to other CAISO transmission users.

The CAISO recognizes that this is an imperfect short-term solution, but believes this approach is more just and reasonable than to allow schedules over the PACI-PN to avoid congestion charges for use of the PACI-PS – part of an Inter-Zonal interface. Between Round Mountain and any other point on the CAISO Controlled Grid, PacifiCorp transactions contribute to Congestion in the same manner as any other transaction using the PACI.

This approach is an interim measure because the CAISO's approved MRTU design is scheduled to be implemented as of March 31, 2008. September 2007 Status Report of the CAISO at 1, filed Aug. 31, 2007, in Docket No. ER06-615. Under MRTU, the CAISO will establish a PNode at Indian Spring. Establishment of such a PNode at Indian Spring will enable the CAISO to clearly identify and isolate the Congestion costs associated with use of the PACI-PN. Under the MRTU LMP-based pricing system, each LMP can be decomposed into an Energy price component, a Congestion cost component, and a Marginal

Losses component. Therefore, under MRTU, PacifiCorp will be credited back the Marginal Cost of Congestion and the Marginal Losses specifically related to its transmission facilities between Malin and Indian Spring on the PACI-P line, but will continue to be liable for Congestion Management and other CAISO Market Charges on the PACI for the balance of their Market Transmission usage into CAISO.

To operate otherwise – *i.e.*, to exempt PacifiCorp from CAISO Congestion costs – would be bad policy, would establish problematic precedent, would require CAISO customers to subsidize PacifiCorp customers and would in effect establish a new form of Existing Transmission Contract rights on the CAISO Controlled Grid, contrary to the Commission's previous refusals to require creation of new contractual rights on the CAISO Controlled Grid. *See Pacific Gas & Elec. Co.,* 109 FERC ¶ 61,255 at P 72 (2004). While other transmission providers provide transmission service pursuant to established Commission-approved Open Access Transmission Tariffs, such entities provide transmission service *up to* the interties with the CAISO Controlled Grid but not *on* the CAISO Controlled Grid.

No other owner of transmission rights or party to an Existing Contract enjoys such an exemption. While Western is exempt from Congestion Management Charges from Round Mountain to Tracy on its contractual right to 400 MW, that exemption was consideration for Western providing the CAISO rights to three times that capacity from Malin to Round Mountain. Western is able to schedule from Tracy to other points within the CAISO Balancing Authority

Area using its own or other non-CAISO facilities. PacifiCorp provides no such exchange. Moreover, if Western were to schedule a transaction on the CAISO Controlled Grid south of Tracy, it would be subject to Congestion Management Charges for that portion of its transaction in the same manner as any other user of the CAISO Controlled Grid. *See* Exh. ISO-2 at ¶¶ 23-27.

Enabling PacifiCorp's transmission customers to access the CAISO Controlled Grid without exposing them to Congestion charges is at odds with the generally applicable provisions of service over the CAISO Controlled Grid, could create problematic incentives for arbitrage, and may establish a minimum default Usage Charge on the CAISO Controlled Grid portion of the COI. Moreover, under the Commission's new Order No. 890 resale rules, PacifiCorp transmission customers could lock up long-term access to the CAISO Controlled Grid and have the power to dictate the resale price for transmission over the COI. *See, e.g., Preventing Undue Discrimination and Preference in Transmission Service*, Order No. 890, *FERC Stats. and Regs., Regs. Preambles* ¶ 31,241 at PP 85, 808, and Sec. 23 of pro forma OATT. By requiring PacifiCorp to pay all relevant charges for its use of the CAISO Controlled Grid, including Congestion Management Charges, the OA avoids this potential discrimination against other Market Participants.

Under the MRTU Tariff, certain charges in connection with TORs are limited under Section 17 of MRTU Tariff, but only to the extent of the TOR. In addition, schedules on the TOR are still charged under the CAISO Tariff for matters such as marginal losses and Ancillary Services that are not self-supplied.

Cal. Indep. Sys. Operator, 116 FERC ¶ 61,274 (2006) at PP 976, 1003; MRTU Tariff Section 17.3.3, as filed Aug. 3, 2007, in Docket No. ER06-615. Because transactions that use both the CAISO Controlled Grid and a TOR remain liable for any charges in connection with the schedules on the CAISO Controlled Gird under MRTU, users of the PACI-PN will still be liable for other charges in connection with transmission on the PACI-PS and elsewhere on the CAISO Controlled Grid.

To the extent any party suggests that Section 17 of the MRTU Tariff could be read to exempt the PacifiCorp TOR from paying Congestion charges, the CAISO notes that the Commission has expressly held that, under MRTU, the terms of an operating agreement like the OA with PacifiCorp will trump any inconsistent provisions in Section 17 of the MRTU Tariff: "We agree with the CAISO that section 17 should govern treatment of TORs, except to the extent that a provision in a FERC-approved and existing settlement agreement or operations agreement expressly provides for different treatment of a TOR." 116 FERC ¶ 61,274 at P 987.

e. Inclusion of PACI-PS Costs in the Transmission Access Charge

The CAISO is concerned that some might argue the establishment of the single Scheduling Point for PacifiCorp transactions on the PACI-P means that the PG&E portion of the PACI-P is not being used by the CAISO to provide transmission to its customers. Under the Commissions ruling in Opinion No. 479, *City of Vernon,* 111 FERC ¶ 61,092 at PP 73, 78, *order on rehearing¸* 112 FERC ¶ 61,207 (2005), *reh'g denied*, 115 FERC ¶ 61,297 (2006), such a finding might preclude inclusion of the costs of the PACI-PS in PG&E's Transmission Revenue Requirement and therefore in the CAISO's Transmission Access Charge ("TAC"). The establishment of the Malin-Round Mountain #2 line Scheduling Point for pre-MRTU purposes, however, does not eliminate the need for a party to take service from the CAISO in order to schedule a transaction on the PACI-P. The OA therefore makes clear that any transaction on the PACI-PN requires the party also to take service under the CAISO Tariff for the PG&E portion of the line and that nothing in the OA diminishes the CAISO's Operational Control of the PG&E portion of the PACI-P. As noted above, as a public utility under the Commission's jurisdiction, PacifiCorp must provide open, nondiscriminatory transmission access under its Tariff. Therefore, the PACI-P, in its entirety, remains available for scheduling by all CAISO customers on a nondiscriminatory basis. The CAISO believes this clarification eliminates any questions as to whether the costs of the PACI-PS are appropriately included in PG&E's Transmission Revenue Requirement.

B. If the Commission Does Not Require PacifiCorp to Become a Party to the OCOA and the COI Path Operating Agreement, the Commission Should Delay Termination of the Capacity Agreement Until January 1, 2009 to Allow Implementation of Alternative Arrangements.

As discussed above, the CAISO cannot perform its role as path operator for COI unless the necessary contractual arrangements exist between all owners of the transmission line and with the CAISO. The CAISO believes that any alternative path operator would similarly be unable to reliably coordinate the COI without the types of arrangements the CAISO describes above. Termination of the coordinated operation of the COI would have a disastrous effect on the reliability of transfers of energy between California and the Pacific Northwest. Exh. ISO-1 at ¶ 25.

If PacifiCorp were not to become a party to the OCOA and COI Path Operating Agreement, the CAISO would need to implement alternative arrangements to address PacifiCorp's lack of participation in order to preserve its ability to coordinate the operations of the COI. Those arrangements would require establishing a new Scheduling Point (specifically, for the PACI-P line) at Round Mountain and moving the Control Area boundary to that point. *See* Exh. ISO-1 at 29, Exh. ISO-2 at 12. Such action would remove the PacifiCorp segment of the PACI from the COI and from the CAISO's Balancing Authority Area, along with PG&E's portion of the PACI-P. As a result, all owners of the COI would be signatories to the amended OCOA and the COI Path Operating Agreement, and the CAISO theoretically could continue to coordinate the COI as path operator, although operating the COI in this configuration would raise additional issues to be addressed.

The CAISO could thereafter file an Interconnecting Control Area Operating Agreement based on the CAISO's *pro forma* agreement, to govern its relations with PacifiCorp. Because the PACI-PN would no longer be within the CAISO Balancing Authority Area, and the CAISO would not have scheduling responsibility, the agreement would not need to address the many issues that arise with scheduling a jointly-owned PACI within the CAISO's Balancing Authority Area. Rather, the agreement would be similar to the Interconnecting

Control Area Agreements that the CAISO has executed with other neighboring control areas.

To implement this approach, the CAISO and PacifiCorp would need to secure NERC and WECC approval of the new intertie and ensure continued compliance with all applicable reliability criteria. Exh. ISO-1 at 29. The CAISO also would need to modify arrangements associated with interconnected Control Area operations with Bonneville. *Id.*

In addition, the CAISO and PacifiCorp would need to install appropriate metering and facilities at the new intertie point. *Id.* Finally, the CAISO would need to model the new Intertie for inclusion in its scheduling and market software. *Id.*

These activities would require significant time, and could not be accomplished by January 1, 2008. The process would take at least six months after the start-up of MRTU, *Id.,* and there no assurance that it could be completed in that time, particularly consider that the CAISO must coordinate this effort with another Balancing Authority. The CAISO therefore requests that, if the Commission does not require PacifiCorp to execute the OCOA and COI Path Operating Agreement as a condition of approving the termination of the Capacity Agreement, it should delay termination until January 1, 2009 so that the CAISO can undertake these measures.

The Federal Power Act authorizes the Commission to implement such a delay. Chief Administrative Law Judge Curtis Wagner persuasively explained the

Commission's authority in his Initial Decision in *Nevada Power Co.,* 1 FERC ¶ 63,004 at 60,53031 (1976):

> The Federal Power Commission's assertion of jurisdiction over cancellation or termination of service by electric public utilities subject to the jurisdiction of the Commission is well founded. Section 205(c) of the Federal Power Act, 16 U.S.C. 824d(c), requires the filing with the Commission of schedules of all rates and charges for any transmission or sale subject to the jurisdiction of the Commission, the classification, practices, and regulations affecting such rates and charges, and all contracts which affect or relate to such rates, charges, classifications, and *services* in any way; Section 205(d), 16 U.S.C. 824d(d), provides that no change shall be made in any rate, charge, classification or service except after thirty days' notice to the Commission; and Section 205(e), 16 U.S.C. 824d(e), confers upon the Commission authority to suspend the effective date of the change for up to five months. In addition to the foregoing, Section 206 of the Federal Power Act, 16 U.S.C. 824e(a), provides that if, after hearing, a practice of a public utility is found to be unjust or unreasonable the Commission shall determine a just and reasonable practice. It goes almost without saying that the Federal Power Commission would not have been empowered to suspend a proposed change in service and to hold hearings concerning it if it did not have the power and authority to deny the change. Further, there is absolutely no question that a complete elimination or abandonment of service is a change in service. Section 205 and 206 of the Federal Power Act give the Federal Power Commission ample authority and jurisdiction over termination or abandonment of electric service by public utilities subject to the jurisdiction of the Federal Power Commission, and the authority to order the continuance of such service if the proposed termination or abandonment is not shown to be just, reasonable, and in the public interest.

It follows from the Commission's authority to require continuation of service under Section 206 that the Commission can require such continuation on a more limited basis, *i.e.,* to a date certain – such as January 1, 2009. Nonetheless, if the Commission has any doubts about its authority to modify PacifiCorp's filing in this manner, it could accomplish the same result by rejecting the termination filing under Section 205 without prejudice to PacifiCorp's right to re-apply for termination of the Capacity Agreement to become effective after January 1, 2009.

V. CONCLUSION

For the reasons discussed above, the CAISO requests that the Commission (1) condition approval of the termination of the Capacity Agreement on PacifiCorp's execution of the OCOA and the COI Path Operating Agreement; (2) modify the OCOA to accommodate the termination of the Capacity Agreement; and (3) approve the CAISO's proposed Operating Agreement. If the Commission declines to require PacifiCorp to execute the OCOA and COI Path Operating Agreement, the CAISO requests that the Commission delay the termination of the Capacity Agreement until January 1, 2009 so that the CAISO may complete arrangement for the establishment of a Scheduling Point at Round Mountain and the revision of the Control Area boundary.

Respectfully submitted,

/s/ Sean A. Atkins

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Exhibit 1

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

PacifiCorp	)	Docket Nos. ER07-882-000
	)	ER07-973-000
Pacific Gas and Electric Company	)	ER07-967-000
	)	ER07-968-000
	)	ER07-969-000
	)	ER07-994-000
Southern California Edison Company	)	ER07-978-000
	)	
	)	EL07-84-000

DECLARATION OF JAMES McINTOSH

I, James McIntosh, declare as follows:

1. I am Director of Grid Operations for the California Independent System Operator Corporation ("CAISO"). As Director of Grid Operations I am responsible for day-to-day operations at the CAISO.

2. The CAISO is both the operator of the transmission facilities placed under its Operational Control[1] by its Participating TOs and a Balancing Authority under the standards of the North American Electric Reliability Corporation ("NERC") and the Western Electricity Coordinating Council ("WECC"). As such, the CAISO's operating functions include, among others, all pre-scheduling and scheduling activities for its Balancing Authority Area, transmission and generation outage management, resource commitment, and real-time dispatch

[1] Capitalized terms not otherwise defined or explained have the meaning given them in CAISO's tariff on file with the Commission ("CAISO Tariff").

functions. Each of these functions is performed in conformance with established CAISO Tariff business and market rules. In addition, the CAISO must satisfy all applicable reliability requirements, as established by the NERC and the WECC for all NERC-certified Balancing Authority Area operators.

3. As I have been informed by counsel, this proceeding concerns changes in the agreements governing the rates, terms and condition of service over the 47-mile segment of the Pacific AC Intertie ("PACI") that is owned by PacifiCorp but that has been leased to California utilities for the past 40 years. The configuration of the PACI, the California Oregon Transmission Project ("COTP") and the California-Oregon Intertie ("COI") is discussed in the CAISO's brief and the Declaration of my colleague Kyle Hoffman. Pacific Gas and Electric Company ("PG&E"), Southern California Edison Company, San Diego Gas & Electric Company, the Western Area Power Administration, the Sacramento Municipal Utility District ("SMUD"), and the Transmission Agency of Northern California retained the CAISO as the Path Operator to coordinate the operations of the COI, effective January 1, 2006, and pay the CAISO $2 million per year for this service.

4. The purpose of my testimony is to detail and explain the information and operating instructions the CAISO requires in order to fulfill both its Balancing Authority responsibilities and to reliably manage the California-Oregon Intertie ("COI"). Mister Hoffman will address certain of the market and scheduling issues that have arisen in this proceeding.

5. Prior to the formation of the CAISO, the operation of the COI was coordinated by PG&E pursuant to the Coordinated Operations Agreement. The CAISO assumed that coordination role when the CAISO commenced operations in 1998. On January 1, 2005, because of the expiration of various contracts, and the transfer of the COTP to a different control area, the Coordinated Operations Agreement was replaced by the Owners' Coordinated Operations Agreement ("OCOA") and the California-Oregon Intertie Path Operating Agreement (the "COI Path Operating Agreement" or "CPOA") was agreed upon. The CAISO coordinates operations of the COI consistent with the terms of both of these agreements.

6. As Balancing Authority, the CAISO has responsibilities established by NERC and the WECC. Pursuant to Version 3 of the NERC Reliability Functional Model (a copy of which is provided as Attachment 1), a Balancing Authority's responsibilities fall into three timeframes: "Ahead of Time", Real Time", and "After the Hour". In the "Ahead of Time" timeframe, which typically includes the day-ahead and pre-operating hour periods, a Balancing Authority, among other functions, approves, validates and confirms interchange schedules, confirms ramping capabilities with Interchange Authorities, makes dispatch adjustments so as not to exceed transmission facility limits, and coordinates system restoration plans with transmission operators. In addition, a Balancing Authority will coordinate with Generators and Load-Serving Entities within the Balancing Authority Area regarding their operational status and plans, availability,

load forecast, and other items. The Balancing Authority will share this information and communicate with the applicable Reliability Coordinator.

7. In the "Real Time" timeframe, generally within each operating hour, a Balancing Authority will receive real-time operating information from Transmission Operators, adjacent Balancing Authorities and Generators and will provide real-time operational information to, and implement instructions from, the applicable Reliability Coordinator. In addition, the Balancing Authority will direct resources (Generators and Load-Serving Entities) to take action to manage congestion and ensure that the system is balanced in Real Time. Balancing Authorities will also, as necessary, implement emergency procedures and system restoration plans in Real Time.

8. "After the Hour", Balancing Authorities will confirm interchange schedules with Interchange Authorities and adjacent Balancing Authorities for "checkout."

9. As both a Balancing Authority and Transmission Provider, the CAISO must satisfy all of the 83 currently approved NERC reliability standards. The NERC reliability standards fall into the following 13 general categories:

i. **Resource and Demand Balancing** (BAL-001 through 006);

ii. **Communications** (COM-001 through 002);

iii. **Critical Infrastructure Protection** (CIP-001);

iv. **Emergency Preparedness and Operations** (EOP-001 through 009);

v. **Facilities Design, Connections, and Maintenance** (FAC-001 through 013(in part));

vi. **Interchange Scheduling and Coordination** (INT-001 through 010);

vii. **Interconnection Reliability Operations and Coordination** (IRO-001 through 016 (in part));

viii. **Modeling, Data, and Analysis** (MOD-006 through 021 (in part));

ix. **Personnel Performance, Training, and Qualifications** (PER-001 through 004);

x. **Protection and Control** (PRC-001 through 022 (in part));

xi. **Transmission Operations** (TOP-001 through 088);

xii. **Transmission Planning** (TPL-001 through 004); and

xiii. **Voltage and Reactive** (VAR-001 through 002).

10. As a Balancing Authority, the CAISO must ensure compliance with all, or portions of, the following categories of standards: BAL; COM; CIP; EOP; FAC; INT; IRO; MOD; PER; PRC; TOP; and VAR. Therefore, as a Balancing Authority, the CAISO must ensure its compliance with all of the NERC reliability standard categories (except Transmission Planning).

11. As part of its responsibilities as a Balancing Authority, the CAISO must, among other functions, be able to coordinate with all Transmission Operators within its Balancing Authority Area and be able to implement real-time instructions from the Reliability Coordinator and otherwise take action to keep the system balanced.

12. There is a strong correlation between the duties and responsibilities of the CAISO as COI Path Operator as specified in the CPOA and the functions and responsibilities of a Balancing Area Authority as detailed in the NERC

Functional Model. Because the PACI and the COTP operate in parallel, the reliable operation of both lines requires that they be coordinated as if they were in the same Balancing Authority Area. Similarly, the CAISO cannot fulfill its Balancing Authority responsibilities without assurance that operation and scheduling of the various lines of the COI will be coordinated.

13. Unfortunately, from the perspective of reliability, the PACI and the COTP are not in the same Balancing Authority Area. The COTP is in SMUD's Balancing Authority Area. As COI Path Operator, the CAISO must manage and communicate the requisite information to *both* California Balancing Authorities at COI, *i.e.*, to SMUD and to its own operations.

14. The CPOA codifies the information requirements and duties and obligations of the CAISO and the COI owners so as to enable the CAISO to perform the broader obligations even though the lines are under the operational control of different entities and are in different Balancing Authority Areas. While the CAISO theoretically could obtain the requisite information and establish the appropriate relationships with the involved parties through NERC's newly established reliability standards and related processes and requirements, the CPOA establishes the most effective means to satisfy all applicable NERC and WECC requirements regarding reliable operation of the Balancing Area and the COI.

15. The COI Path Operating Agreement provides the CAISO with the authority and mechanisms to carry out these responsibilities with respect to the COI.

16. The COPA sets forth the various obligations of the owners of the coordinated facilities. Pursuant to Section 8.5 of the CPOA, each owner or its COI Control Area Operator must provide real-time status, power flow, voltage, remedial action scheme ("RAS"), and other information related to the party's Electric System to the Path Operator. In addition, each owner must provide outage schedules for equipment that may impact the rating of the COI and otherwise make arrangements for reliable telecommunication facilities to transmit real-time information to the Path Operator.

17. Section 8 of the CPOA, which pertains to system operation, sets forth the duties for the Path Operator of COI. Section 8 provides that COI Operating Procedures will be consistent with the WECC Unscheduled Flow Mitigation Plan ("USFMP"). The WECC USFMP sets forth the procedures for managing unscheduled or "loop flows" in real time. Left unaddressed, loop flow can result in real-time overloads on critical transmission facilities like the COI.

18. Other duties and responsibilities in Section 8 include determining, in coordination with the Pacific Northwest Path Operator (currently the Bonneville Power Administration ("Bonneville")), the Operating Transfer Capability Limit ("OTC") of the COI based on WECC seasonal studies as performed by the owners and considering hydroelectric generation conditions in Northern California. Based on the results of those findings, the CAISO as Path Operator is also responsible for determining the Available System Transfer Capability ("ASTC") and Available Scheduling Capability ("ASC") of the path on both a pre-schedule and a real-time basis and allocating the ASC to the PACI-P, PACI-W

and COTP in conformance with the OCOA. As provided in Section 8, if feasible, the CAISO as Path Operator is then to determine and allocate the ASTC among the Owners based on operating conditions at or south of the Malin and Captain Jack substations.

19. As detailed in Sections 8.3.4 and 8.3.5 of the CPOA, the CAISO as Path Operator must provide timely communications to the COI Control Area Operators and the Pacific Northwest Path Operator concerning: OTC, ASTC, ASC, ASC Shares; limitations thereon resulting from actual and estimated Unscheduled Flow and applicable Nomograms; schedules exceeding ASC Share; and the determination and allocation of the amount of Power Flow Reduction Measures. As defined in the CPOA, Power Flow Reduction Measures are:

> Actions taken to promptly and rapidly reduce power flow, including but not limited to: the circulation of power on the PDCI, the increase of generation within the control area through changes initiated by a Control Area Operator that create counter flow, and Curtailments that result in immediate responses from the parties to scheduled transactions to change the amount of generation or load accordingly.

As provided in Section 8.3.5 of the CPOA, these actions and measures are necessary to enable the Path Operator to comply with the WECC Reliability Management System Agreement, avoid sanctions established in the WECC Reliability Criteria Agreement, and comply with other applicable obligations and procedures.

20. Further, as specified in Section 8.3.6 of the CPOA, the CAISO, as Path Operator, must monitor all electric system conditions that may reasonably

affect ASTC and ASC, including the operating status of 500 kV and 230 kV equipment and related power flows, Unscheduled Flow and voltages. In addition, the Path Operator must monitor the status of Generators and related power flows and voltages as well as the status of Remedial Action Schemes and telecommunications and available remedial actions.

21. The CAISO as Path Operator must also become and remain a party to the WECC Reliability Management System Agreement and the WECC Reliability Criteria Agreement. As provided in Section 8.3.12 of the CPOA, the Path Operator must make all reasonable efforts to maximize both the OTC and ASC consistent with the obligations set forth in the CPOA by, among other things, reviewing the equipment outage plans of the parties to the CPOA and COI Control Area Operators and the Pacific Northwest Path Operator, and to the extent such outage plans affect OTC, recommending changes to such plans to minimize reductions in OTC.

22. In the event of an Operating Emergency, the Path Operator must also notify the Control Area Operators of any limitations on OTC or ASC, direct appropriate action including Power Flow Reduction Measures, and maintain continuous reliable communication with the applicable WECC Reliability Coordinator.

23. The CAISO's most important responsibility under the CPOA is the implementation and execution of the real-time procedures necessary to preserve reliable operation of the path and the CAISO Balancing Area. As I discussed earlier, these are specifically referred to as Power Flow Reduction Measures in

the CPOA. Among the identified Power Flow Reduction Measures, it is imperative that the CAISO have clear curtailment instructions so as to appropriately allocate and execute curtailments across the COI Owners. Any delay in the allocation and assignment of curtailments by the CAISO could overload critical COI facilities and endanger the reliable operation of the path.

24. The OCOA current calls for a pro rata sharing of curtailments. The sharing of curtailments is a matter primarily of interest of the parties to that agreement. I would note, however, that the CAISO's interchange software, CAS, has automatic features which provide for "Rapid Curtailment" on a pro rata basis. To implement curtailments in another manner would require significant manual intervention in the automated CAS curtailment process by our real-time schedulers to differentiate curtailments by line. Differential curtailment instructions would require that each interchange e-tag be individually curtailed on the branch group, per the instructions, during intensive mitigation events. From a reliability standpoint, pro rata sharing is preferable.

25. Coordinated operation of the COI, as currently provided for pursuant to the terms of the OCOA and the CPOA, is critical to maintaining both the reliable and effective operation of both the COI and the CAISO's larger Balancing Authority Area.

26. Coordinated and reliable operation of the COI would be compromised if not all owners of the COI are parties to both the OCOA and the CPOA. Absent coordinated operation of the COI by all owners, the CAISO may be forced to operate the path under potential conflicting instructions, potentially

compromising the reliable operation of the path and the larger CAISO Balancing Area. In particular, the CAISO requires that the owners provide to the CAISO clear, unambiguous, and uncontested instructions with respect to the allocation and potential curtailment of COI capacity to the owners.

27. If any one owner were not to become a party to the OCOA or the CPOA, the CAISO would still need to contract with that owner to obtain the same information and establish the same duties and responsibilities between the CAISO and the owner as those established in the CPOA. More importantly, the CAISO and all the parties would have to ensure that there were no conflicting requirements between the agreements and the CAISO would need to ensure it had clear instructions as to how to allocate capacity and curtailments on the path. Having multiple agreements between the CAISO as Path Operator and the COI owners is suboptimal. Therefore, the most reliable outcome in this case is for PacifiCorp to become a party to the OCOA and the CPOA.

28. A less desirable alternative would involve moving the Balancing Authority Area boundary to Round Mountain. If the CAISO chose to remain Path Operator under such circumstances, it would only need to work with the current parties to the OCOA and the CPOA. This would be a lengthy and complicated process.

29. First, Balancing Authority Area boundaries are under the control of NERC and the WECC. The CAISO would need to make application and obtain approval of the move. Second, new metering and telemetry would be needed at Round Mountain. The information from this equipment is a prerequisite to the

management of Balancing Authority Area Interchange and settlement. Third, both the CAISO and the Bonneville Power Authority would need to develop procedures and software modifications in order to govern the Interchange.

30. All of these matters require a significant commitment of time and resources. I would estimate that a change in the Balancing Authority Area boundary would require at least six months.

I declare the foregoing to be true under penalty of perjury. Executed this 10 day of September, 2007.

James McIntosh

James McIntosh

Exhibit 2

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

PacifiCorp	)	Docket No. ER07-882-000
Pacific Gas and Electric Company	)	Docket No. ER07-967-000

DECLARATION OF KYLE T. HOFFMAN

I, Kyle T. Hoffman, declare as follows:

1. I am Manager of Scheduling for the California Independent System Operator Corporation in Folsom, California.

2. The purpose of my testimony is to discuss scheduling and market issues that arise in connection with the termination of the Agreement for Use of Transmission Capacity among Pacific Power & Light Company, Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company dated August 1, 1967 (the "Capacity Agreement"), amendment of the Owners' Coordinated Operating Agreement ("OCOA"), and the Operating Agreement ("OA") that the CAISO believes is necessary as a result of the first two events.

3. The California-Oregon Intertie ("COI") is a 4,800 MW transmission path comprised of three parallel 500 kV lines: the Pacific AC Intertie ("PACI") line owned by the Western Area Power Administration – Sierra Nevada Region ("Western") from Malin to Round Mountain #1 ("PACI-W"); the PACI line owned by PacifiCorp from Malin to Indian Spring and Pacific Gas & Electric Company

("PG&E") from Indian Spring to Round Mountain ("PACI-P")[1]; and the California Oregon Transmission Project ("COTP"). The COTP is owned by a number of municipal utilities. The two PACI lines are currently located within the Control Area or Balancing Authority Area[2] of the CAISO and the COTP line resides within the Sacramento Municipal Utility District ("SMUD") Balancing Authority Area. Each line has an individual maximum rated capacity of 1600 MW. In accordance with the OCOA among Southern California Edison Company, PG&E, San Diego Gas & Electric Company, the Participants in the COTP and Western, owners of each of these transmission facilities have agreed to operate the entire COI path in a coordinated fashion and each line shares capacity derates when the path is collectively derated for operating constraints. In accordance with the COI Path Operating Agreement, the COI transmission owners have retained the CAISO as the COI path operator on the California side of the path to coordinate operations between SMUD and the CAISO (the two Balancing Authorities on the south side of the COI path). The Bonneville Power Authority ("Bonneville") is the Balancing Authority and path operator on the north side of the COI path.

4. Within the CAISO market and scheduling systems, the CAISO currently uses Scheduling Points to schedule transactions on the PACI in the

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1 The terms PACI-W and PACI-P are used for consistency with the Transmission Exchange Agreement, discussed below. In the Transmission Exchange Agreement, however, the term PACI-P includes the entire path owned by PacifiCorp from Malin to Indian Springs and PG&E from Indian Springs to Tesla.

2 Capitalized terms not otherwise defined or explained have the meaning given them in the tariff of the CAISO on file with the Commission ("CAISO Tariff"). The definition of a Control Area in the CAISO Tariff applies to a Balancing Authority Area as described in revised standards of the North American Electric Reliability Corporation. This Declaration will therefore use the updated terms "Balancing Authority" and "Balancing Authority Area".

same manner as all other exports out of and imports into the CAISO Balancing Authority Area are scheduled, using the transmission facilities under the CAISO's Operational Control ("CAISO Controlled Grid"). The CAISO Tariff defines a Scheduling Point as follows:

> A location at which the ISO Controlled Grid is connected, by a group of transmission paths for which a physical, non-simultaneous transmission capacity rating has been established for Congestion Management, to transmission facilities that are outside the ISO's Operational Control. A Scheduling Point typically is physically located at an "outside" boundary of the ISO Controlled Grid (e.g., at the point of interconnection between a Control Area utility and the ISO Controlled Grid). For most practical purposes, a Scheduling Point can be considered to be a Zone that is outside the ISO's Controlled Grid.

Under Section 30.2.6.3 of the CAISO Tariff, all imports into or exports from the CAISO Controlled Grid must specify the Scheduling Point. In addition, the CAISO considers this path to be a Zonal boundary for Congestion Management purposes.

5. Because both PACI lines are currently under the CAISO's Operational Control, and terminate at Malin, the CAISO uses Malin as the Scheduling Point for all transactions on the PACI. The CAISO does not distinguish the power flow scheduled on one line from that on the other. Following the termination of the Capacity Agreement between PacifiCorp and PG&E, the CAISO will no longer have Operational Control of the segment of the PACI-P owned by PacifiCorp (the northern end of the line or "PACI-PN"). The CAISO Controlled Grid would therefore terminate at Indian Spring, the intersection between the PACI-PN and the portion of the PACI-P owned by PG&E (the southern end of the line or "PACI-PS"). That said, because the PACI-

P is a single line (comprised of the PACI-PN and PACI-PS), flows on the PACI-PN automatically flow on the PACI-PS, and vice versa.

6. In order to effect the transfer or exit of the PACI-PN from the CAISO Controlled Grid, the CAISO will need to revise the scheduling process on the PACI because the ability of the CAISO to schedule transactions to Malin on the PACI-P would necessitate use of the PACI-PN and would depend on the CAISO Scheduling Coordinator's ability to also take service under PacifiCorp's Open Access Transmission Tariff ("OATT") for service on the PACI-PN, while transactions on the PACI-W do not require service under PacifiCorp's OATT or otherwise implicate use of non-CAISO Controlled Grid. In addition, the PACI-W does not interconnect with the PACI-P, and the scheduling of the PACI-W line is governed by the Transmission Exchange Agreement among Western, PG&E and the CAISO.

7. As a result, the CAISO must distinguish transactions on the PACI-P. There is no metering or substation at Indian Spring, however. Therefore, under the proposed OA, the CAISO proposes to establish a Malin-Round Mountain scheduling mechanism to represent transactions on the PACI-PN.

8. Nonetheless, it remains appropriate to use "Malin" as the interchange scheduling point for imports and exports on the PACI as the interchange points must align with the Balancing Authority Area metered perimeter point of interconnection with the adjacent Balancing Authority Area. In this case, that point is the location where the CAISO intersects with Bonneville

and where meters are located, the Malin substation. In addition, for Congestion Management purposes, CAISO will need to manage Congestion on the two lines simultaneously as there is a transfer capability limit at the southern terminus of the two lines – Round Mountain.

9. Because all customers scheduling on PACI-P must also take service under PacifiCorp's OATT, the CAISO cannot accept such schedules unless the customer has made arrangements with PacifiCorp in advance. Moreover, only PacifiCorp can market their non-participating transmission on the PACI-PN. Therefore, the CAISO must necessarily reserve back the entire 1600 MW of capacity on PACI-P for PacifiCorp and therefore cannot offer this capacity on the PACI-P to Market Participants as New Firm Use capacity in accordance with the CAISO Tariff.

10. The CAISO therefore proposes that PacifiCorp will act as the sole Scheduling Coordinator for all interchange schedules submitted by PacifiCorp to the CAISO on behalf of PacifiCorp's transmission customers. The proposed OA provides for PacifiCorp to become a Scheduling Coordinator and to submit aggregate schedules to the CAISO for the Malin-Round Mountain line #2 Scheduling Point. Only PacifiCorp will be allowed to submit such schedules on behalf of their transmission customers. PacifiCorp will be required to comply with the CAISO schedule procedures. Although the CAISO expects that PacifiCorp would prefer at least one exception to the CAISO scheduled procedures – the 20-minute scheduling rights contained in its tariff – the CAISO believes that this would unnecessarily complicate the CAISO's coordination of the PACI lines. The

only instances in which the CAISO has agreed to the continuation of 20 minute scheduling rights is when it has been required to do so by Existing Contracts or in interim arrangements that perpetuate Existing Contract rights for a short period.

11. In all respects other than PacifiCorp's submission of the aggregated schedules for the entire capacity, the schedules using PACI-P transmission are like any other export, import, or Inter-SC Trade, and the CAISO does not believe there is any reason to treat them differently. PacifiCorp transactions on the CAISO Controlled Grid, including the PACI-PS, will therefore be subject to all applicable charges under the CAISO Tariff, including, but not limited to, Congestion Management charges for use of the CAISO Controlled Grid, Grid Management Charges, and Imbalance Energy charges associated with derates after the close of the market. I discuss below a number of these charges, but this is not intended to be an all inclusive list of the applicable charges under the CAISO Tariff.

12. For example, the CAISO must procure any non-self-provided Ancillary Services for the Load served by non-firm imports and exports in accordance with the CAISO Tariff and Western Electricity Coordinating Council Minimum Operating Reliability Criteria. Unless self-provided, PacifiCorp must therefore pay for such Ancillary Services.

13. PacifiCorp will need to submit Day-Ahead and Hour-Ahead schedules to the CAISO so that its schedules are managed in the same manner as other schedules using the CAISO Controlled Grid. PacifiCorp interchange

schedules will be subject to Imbalance Energy charges for any deviations from the Final Hour-Ahead Schedule, including any deviations attributable to path derates or loop flow mitigation. The metered Demand of any Scheduling Coordinator that is served by a transaction using PacifiCorp's PACI-PN will pay the CAISO's transmission Access Charge. Imports that are wheeled through the CAISO Controlled Grid and exports using PACI-PN will pay the Wheeling Access Charge.

14. The interchange transactions will incur losses on the CAISO Controlled Grid which must be reimbursed. Under the current Tariff, the CAISO establishes Generation Meter Multipliers for the determination of losses. The Generation Meter Multiplier for transactions from Scheduling Points is referred to as a Tie Meter Multiplier ("TMM"). Losses will be calculated according to a TMM applied to imports using the Malin-Round Mountain line#2 Scheduling Point.

15. PacifiCorp schedules will also be subject to Congestion charges. Because the CAISO cannot adjust schedules on the PACI-PN as part of its Congestion Management, however, the CAISO has determined that there is no way to allow the Scheduling Coordinator for the PACI-PN to submit Adjustment Bids to value the use of the COI when the interface is congested. The CAISO will assess users of the PACI-PN Usage Charges that it will determine after-the-fact for both lines, which constitute a single branch group under the CAISO's Pre-MRTU Zonal Congestion Management system, based on Adjustment Bids submitted by other users of the PACI. Historically, congestion charges on the

PACI from April 2006 through March 2007 from Malin to Round Mountain were approximately $6.9 Million and Round Mountain to Malin was $0.

16. PacifiCorp's use of the CAISO Controlled Grid causes the CAISO to incur the same administrative costs as for any other importer of energy. PacifiCorp's use of the PACI-PN benefits from all CAISO's services as the responsible Balancing Authority. There is therefore no reason to exempt PacifiCorp from the applicable Grid Management Charges under the CAISO Tariff.

17. Although the nature of some charges will change when the CAISO implements its Market Redesign and Technology Update tariff ("MRTU Tariff"), PacifiCorp will remain subject to the CAISO tariff requirements. PacifiCorp will need to submit Import Bids and Export Bids and Inter-SC Trades in the Day-Ahead Market and the Hour-Ahead Scheduling Process. Use of PACI-PN will be modeled in the CAISO's network systems so as to provide the special scheduling and settlements treatment afforded by the CAISO to Non-Participating Transmission Owners for use of their own transmission rights, referred to as Transmission Ownership Rights or TORs. PacifiCorp will be subject to all CAISO charges applicable to TORs, including relevant GMC charges, Imbalance Energy, and Ancillary Services and Losses that are not self-supplied.

18. For transactions on the PACI-PS (and all lines to the south), PacifiCorp will remain responsible for all charges for use of the CAISO Controlled Grid, including the Access Charge or Wheeling Access Charge and charges from the CAISO's Day-Ahead Market, Hour-Ahead Scheduling Process and the Real-

Time Market. However, under MRTU the CAISO will be better able to specifically isolate CAISO Controlled Grid charges from those associated with the 47-mile segment of line owned by PacifiCorp, the PACI-PN. The CAISO will update the network model to include a special Pricing Node ("PNode") at Indian Springs under the Full Network Model to facilitate Locational Marginal Pricing for this line segment. Such a precise modeling and pricing approach is not possible under the CAISO's current Zonal model.

19. Thus PacifiCorp interchange transactions at Malin will pay the Marginal Cost of Congestion to and from the Indian Spring PNode only, for exports and imports respectively. Transmission losses will be incurred for transmission schedules between the Malin PNode and the Aggregated PNode for the Existing Zone Generation Trading Hub (the PNode at which the Energy scheduled on PACI-PS is transferred back to another Scheduling Coordinator), or the Demand PNode, import intertie PNode, or export intertie PNode, within the CAISO Balancing Authority Area.

20. The treatment of PacifiCorp schedules on the CAISO Controlled Grid is consistent with other arrangements that govern the treatment of Transmission Ownership Rights under the CAISO Tariff (and will persist under the MRTU Tariff). With only limited exceptions, the holders of Transmission Ownership Rights pay all applicable charges for new firm use of the CAISO Controlled Grid (*i.e.,* that which is not provided under Existing Contracts or owned transmission rights). Two such situations involve the COI and deserve particular mention.

21. The first involves the California Oregon Transmission Project ("COTP"), a 500 kV transmission line that parallels the PACI and is part of the COI. The COTP terminates seven miles south of Tracy at the eastern boundary of the existing right-of-way of the Tesla-Tracy 500 kV transmission line, at which point the COTP's conductors extending from Western's Tracy Substation meet PG&E's conductors extending from PG&E's Tesla Substation. Although most of the COTP is in SMUD's Balancing Authority Area and the Balancing Authority Area boundary with the CAISO is established at Tracy. Therefore, the COTP extends seven miles into the CAISO Balancing Authority Area. In addition, all COTP schedules must use the CAISO Controlled Grid between the COTP terminus and Tesla. Thus, as in the case of PacifiCorp, the COTP owners have Transmission Ownership Rights in the CAISO's Balancing Authority Area that require use of the CAISO Controlled Grid between those rights and any Load or Generation in the CAISO Control Area.

22. The CAISO's Inter-Control Area Operating Agreement establishes the COTP Interconnection Point at Tracy and specifically provides that (1) imports into the CAISO Control Area at the COTP Interconnection Point that use the CAISO Controlled Grid beyond the COTP Terminus shall pay all applicable CAISO Tariff-based charges; and (2) exports from the CAISO Control Area at the COTP Interconnection Point that use the CAISO Controlled Grid shall pay all applicable CAISO Tariff-based charges. This is precisely the circumstance that would be applicable to PacifiCorp. The only difference is that select COTP participants have an Existing Contract that provides 300 megawatts of firm

bidirectional point-to-point service on PG&E's transmission system between the COTP terminus and PG&E's Midway substation. The existence of the Existing Contract exempts transactions from some CAISO charges, but *only* to the extent that their usage does not exceed 300 MW and is only for deliveries to the Midway substation.

23. The second case involves the Transmission Exchange Agreement between PG&E, the CAISO, and Western. Western's PACI-W terminates at Round Mountain. Western also has facilities within the SMUD Balancing Authority Area that terminate at Tracy. PG&E, however, owns the PACI facilities between Round Mountain and Tracy. As a result, Western cannot reach its facilities (from which it serves its own Demand) without use of the intervening CAISO Controlled Grid. Conversely, CAISO Market Participants cannot otherwise use Western's PACI-W north of Round Mountain to gain access to northwest power. In order to remedy this situation, the parties executed the Transmission Exchange Agreement.

24. Under the Transmission Exchange Agreement, Western provides the CAISO access to 1200 MW of its 1600 MW on the PACI-W north of Round Mountain (Western retains use of the remaining 400 MW), and the CAISO provides Western with access to 400 MW of capacity from Round Mountain to Tracy. In essence, Western is given the equivalent of a Transmission Ownership Right between Round Mountain and Tracy. As such, Western is exempt from most charges, such as the Wheeling Access Charge and Congestion Charges for its use of the CAISO Controlled Grid between those points. Western is also

exempt from the Grid Management Charges, including those that would apply to TOR schedules. Western is still responsible for self-providing or paying for Ancillary Services and losses.

25. The CAISO concluded that these special arrangements with Western were justified for a number of reasons. First and foremost, Western is providing three times as much capacity to the CAISO's Scheduling Coordinators as the CAISO is providing to Western. Second, the Transmission Exchange Agreement eliminates the possibility of pancaked transmission rates, thus promoting efficient electricity markets at the COI. Third, the arrangement allows the continued coordinated operation of the COI.

26. PacifiCorp's situation at the COI is markedly different, however, in that it does not require wheel-through transmission to serve its own Demand within the CAISO Balancing Authority Area or in an adjacent Balancing Authority Area.

27. It is also important to note that the Transmission Exchange Agreement does not exempt Western from CAISO charges to the extent that it uses the CAISO Controlled Grid other than pursuant to its rights under the agreement. If Western were to schedule transactions between Round Mountain and other points on the CAISO Controlled Grid, those transactions would be subject to the same charges as other transactions on the CAISO Controlled Grid.

28. As the CAISO discusses in its brief, one option for addressing the termination of the Capacity Agreement would be to relocate the Control Area

boundary to Round Mountain. This option, however, would require significant time, cost, and the agreement of Bonneville, to accomplish.

29. First, the CAISO and Bonneville, the Balancing Authority on the northern side of Malin, would need permission from the Western Electricity Coordinating Council and the North American Electric Reliability Corporation. Second, the parties would need to install metering equipment, both revenue metering and telemetry, at Round Mountain in order to measure and operate the new Interchange point. Third, the CAISO would need to coordinate procedures with Bonneville to address the existence of two different Balancing Authority Area boundaries for schedules between Malin and Round Mountain. Finally, the CAISO would need to model the new Intertie for inclusion in its scheduling and market software. These processes would require at least 6 months to complete, provided it was not before the start of MRTU, predicated upon the time required to establish a new Control Area boundary between SMUD and the CAISO in 2005, when the COTP line was transferred from the CAISO to the SMUD Balancing Authority.

I declare the foregoing to be true under penalty of perjury. Executed this 13th day of September, 2007

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list for the captioned proceeding, in accordance with Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, CA, on this 13th day of September, 2007.

/s/ Charity Wilson
Charity Wilson