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

REPLY 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 Reply Brief.

I. Introduction

This proceeding concerns changes in the agreements governing the rates, terms and conditions of transmission service over the 47-mile eastern segment of the Pacific AC Intertie ("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 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"). Pursuant to the schedule established by the Commission, the CAISO filed its Initial Brief on September 13, 2007. The factual and procedural background is set forth in the CAISO's Initial Brief.[1] In its Initial Brief, the CAISO explained that the coordinated operation of the California

[1] Subsequent to the filing of the CAISO's Initial Brief, the parties have participated in settlement discussions on September 20 and 21, 2007.

Oregon Transmission Project and the PACI is critical to the reliability of the California-Oregon Intertie ("COI"). The CAISO therefore asked that the Commission condition termination of the Capacity Agreement upon PacifiCorp's execution of a revised Owner Coordinated Operation Agreement ("OCOA") and PacifiCorp's execution of the related agreement, the California-Oregon Intertie Path Operating Agreement ("COI Path Operating Agreement").[2]

The CAISO also explained that, 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. In its Initial Brief, the CAISO asked the Commission to approve the Operating Agreement it would be filing to fulfill that function. Consistent with that request, the CAISO filed an unexecuted Operating Agreement with PacifiCorp in Docket No. ER07-1373 on September 14, 2007.

Nine other parties submitted Initial Briefs in this proceeding. Significantly, no party questioned the fact that coordinated operation of the California Oregon Transmission Project and the PACI is critical to the reliability of the COI and no party opposed PacifiCorp's execution of the Owner Coordinated Operation Agreement. Neither did any party address the issue of whether the termination of the Capacity Agreement be conditioned upon PacifiCorp becoming a party to the OCOA and the related COI Path Operating Agreement, as proposed by the

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[2] The CAISO also requested that, in the event that the Commission does not condition termination of the Capacity Agreement on PacifiCorp's execution of the OCOA, the Commission delay termination of the Capacity Agreement until January 1, 2009, to provide time to move the Balancing Authority Area boundary to the intersection of PacifiCorp's and Pacific Gas and Electric Company's ownership rights on the PACI.

CAISO. Moreover, the Western Electric Coordinating Council has stated that it is important that the OCOA and the COI Path Operating Agreement not terminate without successor agreements in place. In light of the absence of disagreement with the CAISO's fundamental position, and the October 5, 2007, deadline for comments on the CAISO's proposed Operating Agreement, the CAISO has only limited responses to the other Initial Briefs.

II. Specific Responses

A. PacifiCorp

In its brief, PacifiCorp stated that it had addressed the CAISO's operational and reliability concerns. PacifiCorp Br. at 17. PacifiCorp asserted that, in an e-mail dated April 24, 2007, Mr. Stephen Greenleaf, the CAISO's Director of Regional Market Initiatives, acknowledged that PacifiCorp had agreed to arrangements that effectively resolved all of the CAISO's reliability concerns about PacifiCorp's resumption of control over the capacity of the Malin-Indian Spring line.

As noted by both PacifiCorp and the CAISO, the two parties made significant progress in negotiating an Interim Operating Agreement prior to PacifiCorp's filing of its termination notice for the Capacity Agreement. Much of this progress is reflected in the Operating Agreement that the CAISO filed.[3] It is, however, an overstatement to contend that the CAISO had acknowledged that

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3 When the termination of the Capacity Agreement in July 2007 was a possibility, the CAISO worked with PacifiCorp to develop a version of the Operating Agreement that was intended to be effective for an interim period and that would require revisions to reflect the CAISO's Market Redesign and Technology Upgrade ("MRTU"). The version of the PacifiCorp Operating Agreement filed in Docket No. ER07-1373 includes terms that address both the CAISO's current market design and the MRTU market design scheduled for implementation in 2008. As such, that Operating Agreement is no longer "interim."

PacifiCorp had agreed to arrangements that effectively resolved all of the CAISO's reliability and operational concerns.

As the CAISO stated in its Answer to PacifiCorp's Answer to Protests, Mr. Greenleaf, CAISO Director of Regional Market Initiatives, stated in the cited e-mail that ISO reliability concerns *would* be addressed if 1) there was no control area boundary change; 2) PacifiCorp became a signatory to the OCOA; and 3) arrangements were made for maintaining all existing reliability and operating procedures for managing the intertie. Contrary to PacifiCorp's implication, this did not mean that those issues *had been* addressed. Mr. Greenleaf explained that the CAISO's concerns with the termination of the Capacity Agreement *could be* resolved with the development of operational and reliability arrangements and the amendment and execution of various agreements. The CAISO has engaged in good faith discussions with PacifiCorp toward resolution of these issues, but many of these matters are not within the CAISO's control. The necessary events have not as yet occurred.

PacifiCorp, as well as PPM, assumed in their arguments that schedules on the PACI-PN would be exempt from CAISO Congestion charges. PacifiCorp Br. at 15, PPM Br. at 4, 8. As the CAISO explained in its Initial Brief, although there would be no congestion charges in connection with schedules on PacifiCorp's Transmission Ownership Right on the PACI-PN, all such schedules will use the CAISO Controlled Grid south of Indian Spring and, under the CAISO Tariff, must pay Congestion charges in connection with that use of the CAISO Controlled Grid.

B. Bonneville Power Administration

Bonneville Power Authority ("Bonneville") objected to Pacific Gas and Electric Company's proposal to amend section 4.42 of the OCOA to eliminate the circulation of power on the Pacific DC Intertie ("DC line") as a measure that the path operator for the COI may take to rapidly reduce power flows when they exceed OTC. Bonneville Br. at 3-4. As Bonneville explained, the DC line is a 500-kV direct current transmission line between Oregon and southern California. Circulation of power on the DC line is a vital tool that the CAISO and Bonneville employ to maintain the reliability of the COI and the Northwest AC Intertie. It is the first step that the parties take to mitigate COI flows in excess of the Operating Transfer Capability Limit, prior to counter-scheduling and curtailments. Loss of this authority would increase the need for curtailments. As Bonneville explains, because Bonneville's Power Services function cannot always adjust generation due to the hydro system management in the Pacific Northwest, counter-schedules are not always available. The CAISO endorses Bonneville's request that circulation of power on the DC line as a power flow reduction measure not be deleted from the OCOA.

III. CONCLUSION

In light of the consensus regarding the need for continued coordination of the COI, the CAISO reiterates its request 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. The CAISO further requests that modifications of the OCOA not include elimination of the authority to circulate power on the DC Line.

Respectfully submitted,

/s/ Michael E. Ward

Sean A. Atkins
Michael E. Ward
Alston & Bird LLP
The Atlantic Building
950 F Street, N.W.
Washington, DC 20004-1404
Tel: (202) 756-3405
Fax: (202) 756-3333

Counsel for the California Independent System Operator Corporation

John Anders, Assistant General Counsel
The California Independent System Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630
Tel: (916) 351-4400
Fax: (916) 351-4436

Certificate of Service

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

Dated this 28th day of September, 2007 at Folsom in the State of California.

*/s/ Susan Montana*_______
Susan Montana