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[PUBLIC VERSION]

July 15, 2002

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

**Re: California Independent System Operator Corporation
Docket No. ER02-____-____
Amendment No. 46 to the ISO Tariff**

Dear Secretary Salas:

Pursuant to Section 205 of the Federal Power Act ("FPA"), 16 U.S.C. § 824d, and Section 35.13 of the Commission's regulations, 18 C.F.R. § 35.13, the California Independent System Operator Corporation ("ISO")¹ respectfully submits for filing an original and six copies of an amendment ("Amendment No. 46") to the ISO Tariff. Amendment No. 46 would modify the ISO's Tariff by amending its provisions concerning Metered Subsystems ("MSS").

In addition, the ISO is filing the Northern California Power Agency MSS Aggregator Agreement; the City of Roseville Metered Subsystem Agreement; and the Silicon Valley Power Metered Subsystem Agreement.

As noted below, this filing is pursuant to a settlement agreement filed on July 15, 2002 in Docket Nos. ER01-2998-000, ER02-358-000, and EL02-64-000.

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

I. BACKGROUND

In Amendment No. 27 to the ISO Tariff, the ISO proposed a new rate methodology for recovery of its transmission Access Charge. Amendment No. 27 also included provisions to enable New Participating TOs to qualify as MSSs to facilitate their continued operation as vertically integrated utility systems while also providing an alternative way to participate in the ISO's markets and to use the ISO Controlled Grid for transactions with their surplus resources. These changes were reflected in Section 3.3 of the Tariff. The Commission accepted Amendment No. 27 subject to refund and hearing and suspended the hearing pending settlement procedures. These settlement proceedings are ongoing.

Following the Amendment No. 27 filing, only one governmental entity, the City of Vernon, California has joined the ISO as a Participating Transmission Owner. Although recently, four additional governmental entities: the Cities of Anaheim, Azusa, Banning and Riverside, California have filed Notices of Intent to become Participating Transmission Owners effective January 1, 2003.

On August 30, 2001, Pacific Gas and Electric Company ("PG&E") filed a Notice of Termination of the Interconnection Agreement dated September 14, 1983 among it and the Northern California Power Agency ("NCPA") and ten of its member utilities, including the City of Roseville, and a proposed replacement Interconnection Agreement among PG&E, NCPA and ten of NCPA's member utilities. On November 16, 2001, PG&E filed a Notice of Termination of the 1983 Interconnection Agreement between it and the City of Santa Clara's electric utility, Silicon Valley Power ("SVP") and a proposed replacement Interconnection Agreement between PG&E and SVP. On February 27, 2002, NCPA filed an Emergency Petition For Declaratory Order against PG&E and the ISO seeking, among other relief, a technical conference to resolve disputed issues regarding ongoing contractual rights under agreements other than the current NCPA Interconnection Agreement ("IA") and operational questions related to the change to ISO Tariff requirements.

On March 14, 2002, the Commission issued an order conditionally accepting the Notices of Termination and the replacement interconnection agreements, suspending their effectiveness until September 1, 2002. That order directed that a technical conference be held to resolve issues regarding the effect of terminating the current NCPA IA and the current SVP IA on other agreements involving transmission service to NCPA, Roseville and SVP.

Through the extensive efforts of all parties and greatly facilitated by Commission staff, the parties to these proceedings were able to reach a comprehensive settlement. This Amendment and the three individual MSS agreements effectuate the settlement being submitted in Docket Nos. ER01-2998-000, ER02-358-000, and EL02-64-000.

Section IV.E.5 of the Offer of Settlement states:

The Parties recognize that the ISO will, concurrent with the filing of this Settlement Agreement, make a filing pursuant to Section 205 of the Federal Power Act with FERC of the NCPA MSS Aggregator Agreement ..., the Roseville Metered Subsystem Agreement ..., the SVP Metered Subsystem Agreement ..., and the revised ISO Tariff language reflecting the changes in MSS terms and conditions.... The Parties to this Settlement Agreement agree to support or not oppose a filing that incorporates the ISO Tariff provisions and agreements in the form attached; however, the Parties may intervene and participate in any FERC or appellate proceeding regarding this filing.

To fully incorporate those changes, this filing consists of: (1) this letter; (2) the proposed ISO Tariff amendments needed to implement the MSS agreements; (3) the NCPA MSS Aggregator Agreement; (4) the City of Roseville Metered Subsystem Agreement; and (5) the Silicon Valley Power Metered Subsystem Agreement. These changes will enable a smooth transition from operation under Interconnection Agreements with PG&E to operation within the ISO system.

In addition, the January 2002 Operational Audit sponsored by the Commission, identified the absence of broad municipal participation in the ISO as a significant problem that needed addressing. Amendment No. 46 is intended to respond to this concern.

II. PROPOSED TARIFF REVISIONS

A. General Nature of Relationship Between ISO and MSS

Under the existing ISO Tariff Section 3.3, only a New Participating TO could qualify as an MSS. Under the Amendment, any entity that is determined by the ISO to qualify as an MSS and that undertakes in writing to comply with the applicable provisions of the ISO Tariff shall be considered an MSS Operator and shall have the rights and obligations set forth in Section 23 of the ISO Tariff. (Section 23.1.1)

B. Ancillary Service Obligations for MSS

Ancillary Service obligations will be allocated to the Scheduling Coordinator ("SC") for the MSS in accordance with the ISO Tariff. The ISO may call upon Ancillary Service capacity self-provided by an SC or procured by the ISO from an SC. The MSS SC may bid or self-provide Ancillary Services from a System Unit or from individual Generating Units or Participating Loads in the MSS, or the MSS SC may purchase Ancillary Services from the ISO or third parties to meet all or part of its Ancillary Service obligations in accordance with the ISO Tariff. (Section 23.11.1)

If the MSS Operator desires to follow internal Load with a System Unit or Generating Units in the MSS and also provide Regulation to the ISO, the MSS must

provide adequate telemetry consistent with the ISO Tariff and all applicable standards. The telemetry must allow performance in response to ISO AGC signals to be measured at the interconnection of the MSS to the ISO Controlled Grid. (Section 23.11.2)

C. Load Following

An MSS Operator may operate a System Unit or Generating Units in the MSS to follow its Load if two conditions are met. First, the SC for the MSS shall remain responsible for purchases of Imbalance Energy if it does not operate its System Unit or Generating Units or schedule imports into the MSS to match the metered Demand in the MSS and exports from the MSS. Second, if the deviation between (a) the Generation in the MSS and imports into the MSS and (b) metered Demand in the MSS and exports from the MSS exceeds a Deviation Band equal to 3% of the lesser of the MSS Operator's metered or Hour-Ahead scheduled Demand and exports from the MSS, adjusted for Forced Outages and any ISO directed firm Load Shedding, then the MSS SC must pay a "Deviation Price." (Section 23.12.1)

The Deviation Price will be based on the effective weighted average *ex post* price applicable to the MSS SC for the billing interval. If the metered Generation Resources and imports exceed the metered Demand and exports (and Energy expected to be delivered by the MSS in response to the ISO's Dispatch instructions and/or Regulation set-point signals issued by the ISO's AGC) by more than the Deviation Band, the MSS SC will pay the ISO an amount equal to 100% of the product of the Deviation Price and the amount of the Imbalance Energy that is supplied in excess of the Deviation Band. (Section 23.12.2.1) If metered Generation resources and imports into the MSS are insufficient to meet the metered Demand and exports (and Energy expected to be delivered by the MSS in response to the ISO's Dispatch instructions and/or Regulation set-point signals issued by the ISO's AGC) by more than the Deviation Band, the MSS SC will pay an amount equal to the product of the Deviation Price and 200% of the shortfall that is outside the Deviation Band, in addition to the Imbalance Energy charges that may be applicable under the ISO Tariff. (Section 23.12.2.2)

If the ISO is charging Grid Management Charges ("GMC") for uninstructed deviations, and the MSS SC has uninstructed deviations associated with Load following from the MSS resources, then the ISO will net the Generation and imports into the MSS to match the Demand and exports out of the MSS. The ISO will not assess GMC associated with uninstructed deviations for such portion of Energy that is used to match MSS Demand and net exports. (Section 23.12.3) If Generation, above the amount to cover Demand and exports, was sold into the ISO's Imbalance Energy market, the MSS SC will be charged GMC associated with uninstructed deviations for this quantity. (Section 23.12.3.1) If insufficient Generation and imports were available to cover Demand and exports, and the MSS SC purchased Imbalance Energy from the ISO's

market, then the SC will be charged GMC associated with uninstructed deviations for this quantity. (Section 23.12.3.2)²

D. Information Sharing

The ISO, MSS Operator and Participating TOs shall share information such as projected Load growth and system expansions to the extent that they may affect the operation of the ISO Control Area. Each MSS Operator must provide the ISO annually its ten-year forecasts of Demand growth, internal Generation, and expansion or replacement of transmission facilities. Each MSS Operator must also submit weekly and monthly peak Demand forecasts in accordance with the ISO's protocols. (Section 23.13.1)

Each MSS Operator must provide such information as the ISO may reasonably request to enable the ISO to conduct reviews and prepare reports following major Outages. The MSS Operator, however, will be solely responsible for the preparation of any reports required by any governmental entity or the Western Electricity Coordinating Council ("WECC") with respect to any Outage that affects only customers in the MSS Service Area. (Section 23.13.3.3)

Each MSS Operator must promptly inform the ISO, and the ISO must promptly inform the MSS Operator, of any circumstances or incidents that are reasonably likely to threaten the reliability of the ISO Controlled Grid or the integrity of the MSS respectively.³ Such information must be provided in a form that is sufficient to give timely warning of the threat, and the ISO may not unduly discriminate with respect to its provision of similar information to other entities. (Section 23.13.3.4)

E. MSS Settlements

The ISO will assess the MSS SC the neutrality adjustments and Existing Contracts cash neutrality charges pursuant to Section 11.2.9 (or collect refunds therefor) based on the net metered Demand and exports of the MSS. (Section 23.15.1) If the ISO is charging SCs for summer reliability or demand programs, the MSS Operator may petition the ISO for an exemption from these charges. The ISO will grant an exemption from these charges if the MSS Operator demonstrates by November 1

² Only GMC associated with uninstructed deviations (the Ancillary Services and Real-Time Energy Operations Charge (ASREO)) will be treated on a net basis. GMC for Control Area Services will be charged based on Gross Load and exports out of the MSS. The GMC Congestion Management Charge will be assessed in accordance with Section 8.3 of the Tariff. Ancillary Service bids accepted by the ISO and Instructed Energy will be assessed the GMC ASREO. (Section 23.12.3.3)

³ Such circumstances may include such things as abnormal temperatures, storms, floods, earthquakes, and equipment depletions and malfunctions. Incidents may include such things as equipment outages, over-loads or alarms.

that it has secured generating capacity⁴ for the following year at least equal to 115% of the peak Demand responsibility of the MSS Operator.⁵ (Section 23.15.2)

If the ISO is compensating Generating Units for emissions and start-up costs, and if an MSS Operator charges the ISO for the emissions and start-up costs of the Generating Units serving the Load of the MSS, then the MSS SC shall bear its proportionate share of the total amount of those costs incurred by the ISO based on the MSS gross metered Demand and exports, and the Generating Units shall be made available to the ISO through the submittal of Supplemental Energy bids. If the MSS Operator chooses not to charge the ISO for the emissions and start-up costs of the Generating Units serving its Load, the MSS SC will bear its proportionate share of the total amount of those costs incurred by the ISO based on the MSS's net metered Demand and exports. The MSS Operator must make the election whether to charge the ISO for these costs on an annual basis on November 1 for the following calendar year. (Section 23.15.3)

The MSS SC will be responsible for transmission losses only within the MSS, at any points of interconnection between the MSS and the ISO Controlled Grid, and for the delivery of Energy to the MSS or from the MSS, provided the MSS Operator fulfills its obligation to provide for transmission losses on the transmission facilities forming part of the MSS. (Section 23.15.4) For internal Generation serving internal Load, the ISO will be using a GMM of 1.0. If internal Generation is used to serve Load outside the MSS boundary, then the ISO will assign a GMM in accordance with the ISO Tariff requirements.

F. Load Shedding

If the ISO forecasts in advance of the Hour Ahead Market that Load curtailment will be necessary due to a resource deficiency, the ISO will identify any UDC or MSS Service Area that is resource deficient. If Load curtailment is required to manage a System Emergency associated with insufficient Hour-Ahead Schedules of resources, the ISO will determine the amount and location of Load to be curtailed and will allocate a portion of that required Load curtailment to each UDC and MSS Operator whose Service Area has been identified, based on Hour-Ahead Schedules, as being resource-deficient. Such allocation will be based on the ratio of the Service Area resource deficiency to the total Control Area resource deficiency.⁶ The UDC and MSS Operator will be responsible for notifying its customers and Generators regarding curtailments and service interruptions. (Section 4.5.3.2) In other Load curtailment circumstances,

⁴ Eligible generating capacity for such a demonstration may include on-demand rights to Energy, peaking resources, and Demand reduction programs.

⁵ The peak Demand responsibility of the MSS Operator equals the annual peak Demand Forecast of the MSS Load plus any firm power sales by the MSS Operator, less interruptible Loads, and less any firm power purchases.

⁶ The ISO's prioritization schedule in these circumstances will include only those UDCs and MSS Operators that have Scheduling Coordinators that are scheduling insufficient resources to meet the Load in the UDC and MSS Service Area. (Section 2.3.2.6)

the ISO will allocate a portion of the Load to be reduced to each UDC and MSS Operator based on the ratio of its Demand (at the time of the Control Area annual peak for the previous year) to total Control Area annual peak Demand for the previous year. This allocation will take into account system considerations and the MSS Operator's curtailment rights under its tariffs. (Section 4.5.3.3)

III. EFFECTIVE DATE

The ISO respectfully requests waiver of the Commission's 60-day prior notice requirement, pursuant to Section 35.3 of the Commission's regulations, 18 C.F.R. § 35.3, in order to make these revisions effective on September 1, 2002. Good cause supports the request for waiver as it will permit the new MSS arrangements to go into effect coincident with the termination of the existing interconnection agreements between PG&E and NCPA, and between PG&E and SVP.

IV. THE MSS AGREEMENTS

Also included in this filing are the Northern California Power Agency MSS Aggregator Agreement; the City of Roseville Metered Subsystem Agreement; and the Silicon Valley Power Metered Subsystem Agreement. These agreements establish the terms and conditions on which NCPA, SVP and Roseville: (1) will operate electric resources within the ISO Control Area; (2) will, as or through a Scheduling Coordinator, schedule transactions using the ISO Controlled Grid and participate in the ISO's markets; and (3) will meet their obligations under the ISO Tariff.

Under the ISO Tariff an MSS is "a geographically contiguous system located within a single Zone which has been operating as an electric utility for at least ten years prior to the ISO Operations Date as a municipal utility, water district, irrigation district, State agency or Federal power administration subsumed within the ISO Control Area and encompassed by ISO certified revenue quality meters at each interface point with the ISO Controlled Grid and ISO certified revenue quality meters on all Generating Units or, if aggregated, each individual resource and Participating Load internal to the system, . . ." Both the ISO and the governmental entities would obtain benefits from the proposed MSS Agreement as follows:

- Develop workable market participation, scheduling, operational and settlement relationship with governmental entities that have Load serving responsibility.
- Require governmental entities to affirmatively represent and warrant the obligation to serve their Load.
- Continue to honor Existing Contracts.
- Allocate costs based on cost causation principles and minimize cost-shifting among Market Participants.
- Encourage governmental entities to more fully integrate with the ISO.

- Provide for governmental entities to follow Load with minimal, if any, economic consequences.

NCPA, since it is acting on behalf of its member agencies and is therefore an aggregator of a number of MSSs, has an Aggregator Agreement rather than a MSS Agreement. SVP and Roseville have executed separate MSS Agreements. However, Roseville's agreement is slightly different as it is interconnected to Western Area Power Administration transmission facilities and not directly connected to the ISO Controlled Grid. Significant components of the agreements are as follows:

- Generating Unit outages will be coordinated and approved by the ISO.
- The ISO will consider the MSS Operator's interests, including cost causation and Load following, when unilaterally proposing changes to the ISO Tariff.
- The MSS may participate in the ISO's markets.
- A deviation band will be established that would allow the MSS to follow its own Load with its own resources within a tolerance band of three percent (3%), with penalties if the MSS were outside such deviation band. Any penalties received as a result of such deviations would be credited as an offset to the Control Area bucket of the GMC and, thus, facilitate the trade off between other Market Participants and the MSS Operators operating under an MSS Agreement.
- Special settlement treatment will be established for neutrality, Summer Reliability and Demand relief programs, emissions and start-up costs, and the Ancillary Services and Real-Time Energy Operations Charge ("ASREO") component of the Grid Management Charge (GMC), to the extent the ISO is charging other Scheduling Coordinators for these costs.
- Neutrality will be based on the Demand and exports from the MSS that use the ISO Controlled Grid, rather than the gross Demand and exports of the MSS.
- The MSS will not have to pay Grid Operations Charges if the intra-zonal congestion is outside the MSS. If the intra-zonal congestion is inside the MSS, then it will bear all costs associated with the congestion.
- The MSS will not have to pay Voltage Support charges and Black-Start service charges to the extent the MSS demonstrates that it is providing those services for its own system.
- If the MSS provides documentation on an annual basis to the ISO that it has its own peaking resources to meet its peak Demand plus 15%, then the ISO will exempt it from paying for the Summer Reliability and Demand relief programs.
- If the ISO is compensating for emissions and start-up costs, the MSS may make an annual election to either participate in the reimbursement and pay the costs based on its gross Demand and exports, or not participate in the reimbursement of these costs and pay the costs based on the Demand and exports that use the ISO Controlled Grid.
- The Load following component of the agreement will allow the MSS to net its own resources following its own Load for purposes of application of the ASREO component of the GMC.

Additionally, Amendment No. 46 addresses a concern in California regarding blackouts needed solely because one or more Scheduling Coordinators have made an economic decision not to procure sufficient resources to meet their load responsibility and the ISO's BEEP stack is insufficient to meet all of the Control Area needs. Thus, a distinction will be made between System Emergencies associated with an entity's resource deficiency or failure to maintain an Approved Credit Rating, and System Emergencies associated with operational contingencies, which will be set forth in part in the agreements and in part in proposed ISO Tariff amendment provisions. The agreements will provide that a UDC or MSS will not be obligated to shed Load or commit excess generating capacity or Energy in the case of System Emergencies associated with an entity's resource deficiency or failure to maintain an Approved Credit Rating, subject to compliance with market mitigation requirements. The ISO Tariff amendment provisions provide that if the ISO must curtail Load, and an entity is short of resources to serve its Load because it did not procure sufficient resources, then only that entity(ies) will be required to shed Load.

Article I of the Agreement provides definitions and general rules of interpretation. Article II specifies the term and conditions for termination of the agreement. Article III specifies the general terms and conditions, and it defines the scope of the agreement, the ISO's responsibilities, the relationship between the MSS agreement and the ISO Tariff and the process for amending the agreement. Article IV governs interconnection requirements. Article V coordinates operations of the MSS with the ISO. Article VI provides for sharing of data, and Article VII covers emergency operations. Article VIII specifies responsibilities for ensuring local and regional reliability. Article IX ensures access to the ISO Controlled Grid and the ISO markets. Article X discusses operation of generating units and participating loads. Article XI covers scheduling. Article XII coordinates metering. Article XIII specifies the treatment of ISO charges. Article XIV contains certain penalties and sanctions. Articles XV - XIX cover such areas as dispute resolution, representations and warranties, liability and indemnification, uncontrollable forces, notice, and governing law and forum.

The Agreements also contain a number of schedules. As provided in the agreements, the emergency plans in Schedule 11 are being submitted for informational purposes. In addition, the ISO requests privileged treatment for the instant filing pursuant to 18 C.F.R. § 388.112. Simultaneous with the instant filing, the ISO has submitted a version of the filing that is intended to be publicly released. In the version to be publicly released, the Schedule 6, as well Schedule 11 which set forth specific emergency operating procedures, for each MSS agreement have been redacted as shown in the Schedules in that filing; in all other respects the version of the filing to be publicly released is identical in substance to the instant filing. The ISO requests privileged treatment for the instant filing because public disclosure of the redacted materials could impair system operations, unnecessarily reveal sensitive information, and pose significant security problems as to the facilities referenced therein. For the reasons described above, the ISO submits that the instant filing should be exempt from public disclosure and should be granted privileged treatment.

V. COMMUNICATIONS

Communications regarding this filing should be addressed to the following individuals, whose names should be placed on the official service list established by the Secretary with respect to this submittal:

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VI. SERVICE

The ISO has served this filing on the Public Utilities Commission of the State of California, the California Energy Commission, the California Electricity Oversight Board, and all parties with effective Scheduling Coordinator Service Agreements under the ISO Tariff. In addition, the ISO has posted a copy of this filing on its Home Page.

VII. SUPPORTING DOCUMENTS

The following documents, in addition to this letter, support this filing:

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| Attachment A | Revised Tariff Sheets |
| Attachment B | Blackline of Tariff revisions |
| Attachment C | Northern California Power Agency MSS Aggregator Agreement |
| Attachment D | City of Roseville Metered Subsystem Agreement |
| Attachment E | Silicon Valley Power Metered Subsystem Agreement |
| Attachment F | Offer of Settlement in Docket Nos. ER01-2998-000, ER02-358-000, and EL02-64-000 |
| Attachment G | Notice of filing |

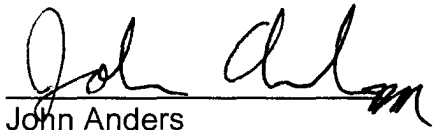
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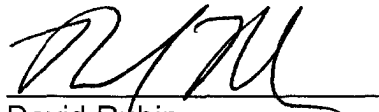
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An additional copy of this filing is enclosed to be date-stamped and returned to our messenger. If there are any questions concerning this filing, please contact the undersigned.

Respectfully submitted,



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