

January 13, 2003

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

**Re: California Independent System Operator Corporation,
Docket No. ER03-____-000
Amendment No. 48 to the ISO Tariff**

Dear Secretary Salas:

Pursuant to Section 205 of the Federal Power Act, 16 U.S.C. § 824d, and Sections 35.11 and 35.13 of the regulations of the Federal Energy Regulatory Commission ("Commission"), 18 C.F.R. §§ 35.11, 35.13, the California Independent System Operator Corporation ("ISO")¹ respectfully submits for filing an original and six copies of an amendment ("Amendment No. 48") to the ISO Tariff. Amendment No. 48 would modify the Tariff to provide Congestion revenues, Wheeling revenues, and FTR auction revenues to entities other than Participating Transmission Owners ("PTOs"), if any such entities fund transmission facility upgrades on the ISO Controlled Grid.²

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

² ISO Tariff sheets regarding the allocation of Congestion, Wheeling, and FTR auction revenues to entities other than Participating Transmission Owners upgrading the grid are contained in Attachment A. Black-lines illustrating these proposed changes are provided in Attachment B.

I. THE PROPOSED AMENDMENTS

The proposed modifications to the ISO Tariff have been approved conceptually by the ISO Governing Board. They are intended to encourage investment in the transmission grid by providing benefits to those who fund transmission upgrades of ISO Controlled Grid facilities.

A. Background

Section 3.2.7.3 of the ISO Tariff provides that a Project Sponsor (*i.e.*, the entity funding an upgrade of the ISO Controlled Grid) is entitled to receive:

- (a) its share of the Wheeling revenues attributable to the transmission addition or upgrade which shall be allocated to each of the Project Sponsors and specifically identified beneficiaries in the proportion that the cost of the transmission addition or upgrade borne by it bears to the total cost of the transmission addition or upgrade; and
- (b) a share of any Congestion Charges for the use of a Congested Inter-Zonal Interface of which the transmission addition or upgrade forms part in the proportion that the incremental transmission capacity of the Inter-Zonal Interface the cost of which has been allocated to it bears to its total transmission capacity.

In 1998, the ISO implemented the concept of Firm Transmission Rights (FTRs).³ While the ISO expressly provided in Tariff Section 3.2.7.3 (b) that the Project Sponsor is entitled to a share of Congestion revenues for the capacity added to the system across a path, the ISO Tariff did not expressly provide a means of compensation for entities that provided additional transmission capacity other than for Participating TOs – utilities that turned over their transmission assets and Entitlements in accordance with the Transmission Control Agreement to the ISO's Operational Control and recovered the embedded costs through the ISO's transmission Access Charge and Wheeling Access Charge.

In the current ISO system, the Original Participating TOs are not provided with FTRs. They are required to purchase FTRs through the auction, but are

³ The ISO Tariff defines a Firm Transmission Right as:

A contractual right, subject to the terms and conditions of the ISO Tariff, that entitles the FTR Holder to receive, for each hour of the term of the FTR, a portion of the Usage Charges received by the ISO for transportation of energy from a specific originating Zone to a specific receiving Zone and, in the event of an uneconomic curtailment to manage Day-Ahead congestion, to a Day-Ahead scheduling priority higher than that of a schedule using Converted Rights capacity that does not have an FTR.

provided with the revenues from auctioning those FTRs.⁴ This practice ensures that the Original Participating TOs put their FTRs up for sale and precludes an Original Participating TO from hoarding FTRs. New Participating TOs are given FTRs and are not required to auction them.

Since Original Participating TOs are provided with the FTR auction revenues, however, an Original Participating TO that wants to retain FTRs can do so by out-bidding all other competitors for those FTRs. The financial effect is a wash, since the Participating TO receives back whatever price they bid for the FTRs. Participating TOs also retain the FTRs associated with any transmission capacity that they own or have an Entitlement to that is not purchased during the auction. The ISO proposes to treat the FTRs provided to the entity paying for the upgraded facilities in exactly the same way as they are treated for the Original Participating TOs.

The Commission has recognized that there is a need to encourage new generation and transmission investment in California. The ISO's proposal furthers this goal. The ISO's proposal also is consistent with the position the Commission has taken in its Standard Market Design Notice of Proposed Rulemaking issued on July 31, 2002 in Docket No. RM01-12.⁵ In that regard, the Commission proposed that "[i]f an entity pays to construct new generation or transmission facilities that add transfer capability, and the costs of the upgrade are not rolled in, the entity would receive the Congestion Revenue Rights associated with the new transfer capability." SMD NOPR at P 238.

B. FP&L's Upgrade

FP&L has paid Edison to increase the transmission rating on Edison's Blythe-Eagle Mountain transmission line. This upgrade involved increasing the rating on the 161/230 kV transformer at the Eagle Mountain substation. This transmission facility was made part of the ISO Controlled Grid when the ISO began operation on March 31, 1998. The upgrade for these facilities, which

⁴ In Amendment No. 27 to the ISO Tariff, the ISO proposed that New Participating TOs, entities that turn over Operational Control of their transmission assets and Entitlements to the ISO after June 1, 2000, be given FTRs commensurate with their transmission rights for a ten-year transition period. After that, New Participating TOs would be treated the same as the three Original Participating TOs (Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company) and have the right to receive auction revenues for the sale of FTRs associated with the transmission assets turned over to the ISO. This filing, submitted in Docket No. ER00-2019, is currently being litigated. In its Comprehensive Market Redesign ("MD02") proposal, the ISO has proposed to continue the transition allocation of FTRs to New Participating TOs and then assign FTRs directly to Loads. This proposal is still under consideration before the Commission.

⁵ *Remedying Undue Discrimination Through Open Access Transmission Service and Standard Electricity Market Design*, Notice of Proposed Rulemaking, 67 Fed. Reg. 55,451 (Aug. 29, 2002), FERC Stats. & Regs. ¶ 32,563 (2002), Docket No. RM01-12-000 ("SMD NOPR").

increased the amount of FTRs on this path in the import direction from 72 MW to 168 MW, was placed in service on December 14, 2002.

C. Proposed ISO Tariff Modification

The ISO proposes to amend Section 3.2.7.2 to include a sentence that was previously contained in Section 3.2.7.3.

The ISO proposes to modify Section 3.2.7.3 to provide shares of Wheeling, Congestion and FTR auction revenues to entities that fund upgrades of the ISO Controlled Grid, provided the ISO has Operational Control of the upgraded transmission facility and that the cost of the upgrade has not been recovered through the transmission Access Charge or been reimbursed or paid for by the Participating TO. The ISO's proposal to provide Congestion, Wheeling and FTR auction revenues to entities that fund transmission upgrades applies to merchant transmission projects that will not recover costs through the transmission Access Charge. If sunk costs were going to be passed on through the Access Charge, the ISO would expect that the owner would become a Participating TO and establish a FERC-approved Transmission Revenue Requirement.

The ISO proposes that the Participating TO whose facilities were upgraded and the entity upgrading the facilities reach agreement on the shares of Wheeling, Congestion revenues and FTR auction revenues to be provided to the entity paying for the upgrade to the transmission facilities rather than automatically providing shares equal to the amount of new capacity. Upgrading existing facilities may create a "free-rider" problem where the capacity associated with the upgraded facility may not be proportional to the investment both parties have put into the facilities. For example, a Participating TO may invest tens of millions of dollars in constructing a new transmission line with a rating of 100 MW, while another party may spend far less upgrading the same facility to create an additional 50 MW of new capacity. If the parties cannot agree to the shares to be provided to the entity upgrading the ISO Controlled Grid within 90 days of when the new capacity was placed in service the parties would submit to ISO arbitration in accordance with ISO Tariff Section 13 to determine the shares. The ISO proposes to escrow any Wheeling revenue, Congestion revenue, or FTR auction revenue amounts for the upgraded transmission line until the associated share of those revenues is finally determined.

The ISO proposes to provide Congestion and Wheeling revenues for the share of the incremental capacity that the Participating TO and entity upgrading the ISO Controlled Grid agree on or are given through arbitration. Since the ISO currently sets the amount of FTRs to be auctioned on each path by looking at the amount of transfer capability that is available 99.5 percent of the hours in the

previous year, the amount of FTRs released for auction may be less than the entities' agreed-upon share.

The ISO proposes to amend Section 7.1.4.3 to provide for the disbursement of Wheeling revenues to the entity upgrading the ISO Controlled Grid in accordance with the methods set forth in that section and associated subsections.

The ISO proposes to amend Section 7.3.1.6 to provide for the disbursement of Net Usage Charge (*i.e.*, Congestion) revenues to the entity upgrading the ISO Controlled Grid in accordance with the methods set forth in that section and associated subsections.

The ISO proposes to amend Section 7.3.1.7 to include the entity upgrading the ISO Controlled Grid among the parties that will be charged according to the provisions existing in that section if the transfer capacity is reduced on the upgraded transmission path.

In sum, the ISO proposes to amend Sections 3.2.7.3, 7.1.4.3, 7.3.1.6, and 7.3.1.7 and create a new Section 9.5.3 to:

- 1) Provide the agreed upon share of revenues from the FTR auction to the Project Sponsor;
- 2) Direct the Participating TO and Project Sponsors to agree on the shares of FTR auction, Wheeling, and Congestion revenues within 90 days of the later of the in-service date of the upgrade or the effective date of the proposed amendment or submit to ISO arbitration for the shares to be determined;
- 3) Escrow all Wheeling, Congestion, and FTR auction revenues for the ISO Controlled Grid facility that has been upgraded until the revenue shares are finally determined;
- 4) Disburse the agreed upon share of Wheeling revenues to the Project Sponsor;
- 5) Provide the agreed upon share of Congestion revenues prior to the FTR auction; and
- 6) Provide the agreed upon share of Congestion revenues not conveyed through FTRs.

II. 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:

Charles F. Robinson
General Counsel
The California Independent System
Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630
Tel: (916) 351-4400
Fax: (916) 608-7296

David B. Rubin
Bradley R. Miliauskas
Swidler Berlin Shereff Friedman, LLP
3000 K Street, NW
Suite 300
Washington, DC 20007
Tel: (202) 424-7500
Fax: (202) 424-7643

III. EFFECTIVE DATE

The ISO respectfully requests waiver of the Commission's 60-day notice period, pursuant to Section 35.11 of the Commission's regulations, 18 C.F.R. § 35.11, to permit Amendment No. 48 to become effective on the date the present filing is being submitted, January 13, 2003. This waiver is necessary to provide FP&L, the entity who paid for the upgrade of the Blythe interconnection, with their share of revenues from the FTR auction, which will be held on January 14, 2003.

IV. SERVICE

The ISO has served copies of this letter, and all attachments, on the California Public Utilities Commission, the California Energy Commission, the California Electricity Oversight Board, on all parties with effective Scheduling Coordinator Service Agreements under the ISO Tariff, and the Participating TOs. In addition, the ISO is posting this transmittal letter and all attachments on the ISO's Home Page.

V. ATTACHMENTS

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

Attachment A Revised Tariff Sheets

Attachment B Black-lined Tariff Sheets showing proposed
modifications

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Attachment C Notice of this filing, suitable for publication in the
Federal Register (also provided in electronic format)

Two extra copies of this filing are also enclosed. Please stamp these
copies with the date and time filed and return them to the messenger.

Please feel free to contact the undersigned if you have any questions
concerning this matter.

Respectfully submitted,

Charles F. Robinson
General Counsel

The California Independent System
Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630

J. Phillip Jordan
David B. Rubin
Bradley R. Miliauskas
Swidler Berlin Shereff Friedman, LLP
3000 K Street, NW
Washington, DC 20007

Enclosures

ATTACHMENT A

ATTACHMENT B

Proposed black-lined Tariff amendments

3.2.7.2 Where the need for a transmission addition or upgrade is determined by the ISO or as a result of the ISO ADR Procedure as set forth in Section 3.2.1.1.3, the costs shall be borne by the beneficiaries, in the approximate relative proportions by which they benefit, if those beneficiaries and such proportions can reasonably be determined. **If specific beneficiaries cannot be reasonably identified then the cost of the transmission addition or upgrade borne by the Participating TO that is the owner of the transmission addition or upgrade shall be reflected in its Transmission Revenue Requirement.**

3.2.7.3 ~~If specific beneficiaries cannot be reasonably identified then the cost of the transmission addition or upgrade borne by the Participating TO that is the owner of the transmission addition or upgrade shall be reflected in its Access Charge.~~ **Provided that the ISO has Operational Control of the transmission upgrade or addition,** ~~Each of the Project Sponsors and specifically identified beneficiary~~**ies that does not recover the investment cost under a FERC-approved rate through the Access Charge or a reimbursement or direct payment from a Participating TO** shall be entitled to receive:

- (a) its share, **as determined in subsection (d) below,** of the Wheeling revenues attributable to the transmission addition or upgrade; ~~which shall be allocated to each of the Project Sponsors and specifically identified beneficiaries in the proportion that the cost of the transmission addition or upgrade borne by it bears to the total cost of the transmission addition or upgrade; and~~
- (b) a **its share, as determined in subsection (d) below,** of any **the proceeds of the FTR auction for FTRs defined on the** ~~Congestion Charges for the use of a Congested Inter-Zonal Interface of which the transmission addition or upgrade forms a part in the proportion that the incremental transmission capacity of the Inter-Zonal Interface the cost of which has been allocated to it bears to its total transmission capacity~~ **as set forth in**

Section 9.5.3, provided each of the Project Sponsors or beneficiaries do not receive FTRs from the ISO; and

(c) its share, as determined in subsection (d) below, of the Congestion revenues provided as calculated pursuant to Section 7.3.1.6 on the Inter-Zonal Interface of which the transmission addition or upgrade forms a part.

(d) The Project Sponsor(s), specifically identified beneficiaries and the Participating TO shall agree in writing as to the shares of FTR auction, Wheeling and Congestion revenues to be allocated to each Project Sponsor and specifically identified beneficiary. If the Project Sponsor(s), specifically identified beneficiaries and the Participating TO cannot agree on the allocated shares of FTR auction, Congestion and Wheeling revenues by the later of the date the incremental capacity is placed in service or ninety (90) days after this provision becomes effective, the dispute shall be resolved in accordance with the procedures set forth in Section 13 of the ISO Tariff. If the capacity associated with the upgrade is placed in service before the allocated shares are finally determined, the ISO shall place all FTR auction, Wheeling and Congestion revenues associated with the transmission addition or upgrade in escrow from the time the capacity associated with the upgrade is placed in service until the time the allocated shares are finally determined. Interest accruing on the escrow amounts shall be disbursed in proportion to the allocated shares.

* * *

7.1.4.3 Disbursement of Wheeling Revenues. The ISO shall collect and pay to Participating TOs and other entities as provided in Section 3.2.7.3 all Wheeling revenues at the same time as other ISO charges and payments are settled. Wheeling revenues shall be disbursed by the ISO to Participating TOs based on the following:

7.1.4.3.1 **Scheduling Point with All Participating TOs in the Same TAC Area:** With respect to revenues received for the payment of High Voltage Wheeling Access Charges for Wheeling to

a Scheduling Point at which all of the facilities and Entitlements, less all Encumbrances, are owned by Participating TOs in the same TAC Area, Wheeling revenues shall be disbursed to each such Participating TO based on the ratio of each Participating TO's High Voltage Transmission Revenue Requirement to the sum of all such Participating TO's High Voltage Transmission Revenue Requirements. If the Scheduling Point is located at a Low Voltage Facility, revenues received with respect to Low Voltage Wheeling Access Charges for Wheeling to that Scheduling Point shall be disbursed to the Participating TOs that own facilities and Entitlements making up the Scheduling Point in proportion to their Low Voltage Transmission Revenue Requirements. **Additionally, if a Participating TO has an upgrade or transmission addition that was funded by a Project Sponsor and specifically identified beneficiaries, the Wheeling revenue shall be disbursed as provided in Section 3.2.7.3.**

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7.3.1.6 ISO Disbursement of Net Usage Charge Revenues. The ISO will determine the net Usage Charges on an interface-by-interface basis by subtracting the Usage Charge fees paid to Scheduling Coordinators from the Usage Charge fees paid by Scheduling Coordinators. The net Usage Charge revenues collected by the ISO for each Inter-Zonal Interface shall be, subject to the provisions of Section 7.3.1.7 of the ISO Tariff, paid to: (i) FTR Holders, in accordance with Section 9.6; and (ii) to the extent not paid to FTR Holders, to Participating TOs who own the Inter-Zonal Interfaces **and Project Sponsors and specifically identified beneficiaries as provided in Section 3.2.7.3. Participating TOs will** ~~(to be credited in turn by them~~ **the Usage Charge revenue** to their Transmission Revenue Balancing Accounts, or, for those Participating TOs that do not have such accounts, to their transmission revenue requirements).

7.3.1.7 ISO Debit of Net Usage Charge Revenues. If, after the issuance of Final Day-Ahead Schedules by the ISO, (a) Participating TOs instruct the ISO to reduce interface limits based on operating conditions or (b) an unscheduled transmission outage occurs and as a result of either of those events, Congestion is increased and Available Transfer Capacity is decreased in the Inter-Zonal Interface in the Hour-Ahead Market, the ISO shall: (1) charge each Participating TO,

Project Sponsor and specifically identified beneficiary as provided in Section 3.2.7.3, and FTR Holder with an amount equal to its proportionate share, based on its financial entitlement to Usage Charges in the Day-Ahead Market in accordance with Section 7.3.1.6, of the product of (i) the Usage Charge in the Day-Ahead Market and (ii) the reduction in Available Transfer Capacity across the Inter-Zonal Interface in the direction of the Congestion (such amount due to the Participating TOs to be debited by them in turn from their Transmission Revenue Balancing Accounts or, for those Participating TOs that do not have such accounts, to their transmission revenue requirements); (2) charge each Scheduling Coordinator with its proportionate share, based on Schedules in the Day-Ahead Market across the Inter-Zonal Interface in the direction of the Congestion, of the difference between the amount charged to Participating TOs, **Project Sponsors and specifically identified beneficiaries as provided in Section 3.2.7.3**, and FTR Holders under clause (1) and the Usage Charges in the Hour-Ahead Market associated with the reduced Available Transfer Capacity across the Congested Inter-Zonal Interface; and (3) credit each Scheduling Coordinator whose Schedule in the Hour-Ahead Market for the transfer of Energy across the Congested Inter-Zonal Interface was adjusted due to the reduction in Available Transfer Capacity an amount equal to the product of the adjustment (in MW) and the Usage Charge in the Hour-Ahead Market (in\$/MW).

The ISO will issue a notice to Scheduling Coordinators of the operating hour, and extent, for which the derate will apply in the relevant Hour-Ahead Markets. The timing and form of such notices shall be set forth in ISO procedures.

* * *

9.5 Distribution of Auction Revenues Received by the ISO for Firm Transmission Rights

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9.5.3 In the event the transmission facilities or rights making up an Inter-Zonal Interface with respect to which FTRs are defined have been upgraded resulting in increased transmission capacity on the Inter-Zonal Interface, and the costs of construction and operation were paid for by a Project Sponsor pursuant to Section 3.2.7.1 or

specifically identified beneficiaries as specified in Section 3.2.7.2, and were not included in the ISO's transmission Access Charge or a reimbursement or direct payment from a Participating TO, the proceeds of the auction of such FTRs shall be allocated to the Project Sponsors or specifically identified beneficiaries according to the allocated shares determined as set forth in Section 3.2.7.3 (d).

3.2.7.1 Where a Project Sponsor commits to pay the full cost of a transmission addition or upgrade as set forth in Section 3.2.1.1.2, the full costs shall be borne by the Project Sponsor.

3.2.7.2 Where the need for a transmission addition or upgrade is determined by the ISO or as a result of the ISO ADR Procedure as set forth in Section 3.2.1.1.3, the costs shall be borne by the beneficiaries, in the approximate relative proportions by which they benefit, if those beneficiaries and such proportions can reasonably be determined. If specific beneficiaries cannot be reasonably identified then the cost of the transmission addition or upgrade borne by the Participating TO that is the owner of the transmission addition or upgrade shall be reflected in its Transmission Revenue Requirement.

3.2.7.3 Provided that the ISO has Operational Control of the transmission upgrade or addition, each Project Sponsor and specifically identified beneficiary that does not recover the investment cost under a FERC-approved rate through the Access Charge or a reimbursement or direct payment from a Participating TO shall be entitled to receive:

- (a) its share, as determined in subsection (d) below, of the Wheeling revenues attributable to the transmission addition or upgrade;
- (b) its share, as determined in subsection (d) below, of the proceeds of the FTR auction for FTRs defined on the Inter-Zonal Interface of which the transmission addition or upgrade forms a part as set forth in Section 9.5.3, provided each of the Project Sponsors or beneficiaries do not receive FTRs from the ISO; and
- (c) its share, as determined in subsection (d) below, of the Congestion revenues provided as calculated pursuant to Section 7.3.1.6 on the Inter-Zonal Interface of which the transmission addition or upgrade forms a part.
- (d) The Project Sponsor(s), specifically identified beneficiaries and the Participating TO shall agree in writing as to the shares of FTR auction, Wheeling and Congestion

revenues to be allocated to each Project Sponsor and specifically identified beneficiary. If the Project Sponsor(s), specifically identified beneficiaries and the Participating TO cannot agree on the allocated shares of FTR auction, Congestion and Wheeling revenues by the later of the date the incremental capacity is placed in service or ninety (90) days after this provision becomes effective, the dispute shall be resolved in accordance with the procedures set forth in Section 13 of the ISO Tariff. If the capacity associated with the upgrade is placed in service before the allocated shares are finally determined, the ISO shall place all FTR auction, Wheeling and Congestion revenues associated with the transmission addition or upgrade in escrow from the time the capacity associated with the upgrade is placed in service until the time the allocated shares are finally determined. Interest accruing on the escrow amounts shall be disbursed in proportion to the allocated shares.

3.2.7.4 Once a New Participating TO has executed the Transmission Control Agreement and it has become effective, the cost for New High Voltage Facilities for all Participating TOs shall be included in the ISO Grid wide component of the High Voltage Access Charge in accordance with Schedule 3 of Appendix F. The

Access Charge for Scheduling Points contained within a single TAC Area, that are not joint facilities, shall be equal to the High Voltage Access Charge for the applicable TAC Area in accordance with Section 3 of Appendix F plus the applicable Low Voltage Access Charge if the Scheduling Point is on a Low Voltage Transmission Facility. Wheeling Access Charges shall not apply for Wheeling under a bundled non-economy Energy coordination agreement of a Participating TO executed prior to July 9, 1996.

7.1.4.2 Wheeling Over Joint Facilities. To the extent that more than one Participating TO owns or has Entitlement to transmission capacity, less all Encumbrances, exiting the ISO Controlled Grid at a Scheduling Point, the Scheduling Coordinator shall pay the ISO each month a rate for Wheeling at that Scheduling Point which reflects an average of the Wheeling Access Charge applicable to those Participating TOs, weighted by the relative share of such ownership or Entitlement to transmission capacity, less all Encumbrances, at such Scheduling Point. If the Scheduling Point is located at High Voltage Transmission Facilities, the Wheeling Access Charge will consist of a High Voltage Wheeling Access Charge component. Additionally, if the Scheduling Point is located at Low Voltage Transmission Facilities, the applicable Low Voltage Wheeling Access Charge component will be added to the Wheeling Access Charge. The methodology for developing the weighted average rate for Wheeling at each Scheduling Point is set forth in Appendix H.

7.1.4.3 Disbursement of Wheeling Revenues. The ISO shall collect and pay to Participating TOs and other entities as provided in Section 3.2.7.3 all Wheeling revenues at the same time as other ISO charges and payments are settled. Wheeling revenues shall be disbursed by the ISO based on the following:

7.1.4.3.1 Scheduling Point with All Participating TOs in the Same TAC Area: With respect to revenues received for the payment of High Voltage Wheeling Access

Charges for Wheeling to a Scheduling Point at which all of the facilities and Entitlements, less all Encumbrances, are owned by Participating TOs in the same TAC Area, Wheeling revenues shall be disbursed to each such Participating TO based on the ratio of each Participating TO's High Voltage Transmission Revenue Requirement to the sum of all such Participating TO's High Voltage Transmission Revenue Requirements. If the Scheduling Point is located at a Low Voltage Facility, revenues received with respect to Low Voltage Wheeling Access Charges for Wheeling to that Scheduling Point shall be disbursed to the Participating TOs that own facilities and Entitlements making up the Scheduling Point in proportion to their Low Voltage Transmission Revenue Requirements. Additionally, if a Participating TO has an upgrade or transmission addition that was funded by a Project Sponsor and specifically identified beneficiaries, the Wheeling revenue shall be disbursed as provided in Section 3.2.7.3.

7.1.4.3.2 Scheduling Point without All Participating TOs in the Same TAC Area:

With respect to revenues received for the payment of Wheeling Access Charges for Wheeling to a Scheduling Point at which the facilities and Entitlements, less all Encumbrances, are owned by Participating TOs in different TAC Areas, Wheeling revenues shall be disbursed to such Participating TOs as follows. First, the revenues shall be allocated between such TAC Areas in proportion to the ownership and Entitlements of transmission capacity, less all Encumbrances, at the Scheduling Point of the Participating TOs in each such TAC Area. Second, the revenues thus allocated to each TAC Area shall be disbursed among the Participating TOs in the TAC Area in accordance with Section 7.1.4.3.1.

7.1.4.4 Information Required from Scheduling Coordinators. Scheduling Coordinators that schedule Wheeling Out or Wheeling Through transactions to a Bulk Supply Point, or other point of interconnection between the ISO Controlled Grid and the transmission system of a Non-Participating TO, that are located within the ISO

Charge for each hour they have counter-scheduled on the Congested Inter-Zonal Interfaces.

The amount payable shall be the product of the Usage Charge referred to in Section 7.3.1.2 for that particular hour, multiplied by the Scheduling Coordinator's scheduled flows.

7.3.1.5.2 If a Scheduling Coordinator fails to provide the scheduled flows in a counter direction, it must reimburse the ISO for the ISO's costs of buying or selling Imbalance Energy in each of the Zones affected by the non-provided scheduled flows in a counter direction, at the ISO's Zonal Imbalance Energy prices. That is, for any Scheduling Coordinator that does not produce, in real time, the amount of Energy scheduled in the Day-Ahead Market or Hour-Ahead Market will be deemed to have purchased/sold the amount of Energy under/over produced in the real time imbalance market at the real time price.

7.3.1.6 ISO Disbursement of Net Usage Charge Revenues. The ISO will determine the net Usage Charges on an interface-by-interface basis by subtracting the Usage Charge fees paid to Scheduling Coordinators from the Usage Charge fees paid by Scheduling Coordinators. The net Usage Charge revenues collected by the ISO for each Inter-Zonal Interface shall be, subject to the provisions of Section 7.3.1.7 of the ISO Tariff, paid to: (i) FTR Holders, in accordance with Section 9.6; and (ii) to the extent not paid to FTR Holders, to Participating TOs who own the Inter-Zonal Interfaces and Project Sponsors and specifically identified beneficiaries as provided in Section 3.2.7.3. Participating TOs will credit in turn the Usage Charge revenue to their Transmission Revenue Balancing Accounts, or, for those Participating TOs that do not have such accounts, to their transmission revenue requirements.

7.3.1.7 ISO Debit of Net Usage Charge Revenues. If, after the issuance of Final Day-Ahead Schedules by the ISO, (a) Participating TOs instruct the ISO to reduce interface limits based on operating conditions or (b) an unscheduled transmission outage occurs and as a result of either of those events, Congestion is increased and Available Transfer

Capacity is decreased in the Inter-Zonal Interface in the Hour-Ahead Market, the ISO shall: (1) charge each Participating TO, Project Sponsor and specifically identified beneficiary as provided in Section 3.2.7.3, and FTR Holder with an amount equal to its proportionate share, based on its financial entitlement to Usage Charges in the Day-Ahead Market in accordance with Section 7.3.1.6, of the product of (i) the Usage Charge in the Day-Ahead Market and (ii) the reduction in Available Transfer Capacity across the Inter-Zonal Interface in the direction of the Congestion (such amount due to the Participating TOs to be debited by them in turn from their Transmission Revenue Balancing Accounts or, for those Participating TOs that do not have such accounts, to their transmission revenue requirements); (2) charge each Scheduling Coordinator with its proportionate share, based on Schedules in the Day-Ahead Market across the Inter-Zonal Interface in the direction of the Congestion, of the difference between the amount charged to Participating TOs, Project Sponsors and specifically identified beneficiaries as provided in Section 3.2.7.3, and FTR Holders under clause (1) and the Usage Charges in the Hour-Ahead Market associated with the reduced Available Transfer Capacity across the Congested Inter-Zonal Interface; and (3) credit each Scheduling Coordinator whose Schedule in the Hour-Ahead Market for the transfer of Energy across the Congested Inter-Zonal Interface was adjusted due to the reduction in Available Transfer Capacity an amount equal to the product of the adjustment (in MW) and the Usage Charge in the Hour-Ahead Market (in\$/MW).

The ISO will issue a notice to Scheduling Coordinators of the operating hour, and extent, for which the derate will apply in the relevant Hour-Ahead Markets. The timing and form of such notices shall be set forth in ISO procedures.

7.3.2 Grid Operations Charge for Intra-Zonal Congestion.

Scheduling Coordinators whose resources are redispatched by the ISO, in accordance with Intra-Zonal Congestion Management, will be paid or charged based on the Adjustment Bids or Imbalance Energy bids that they have provided to the ISO. The net

transmission capacity the New Participating TO is turning over to ISO Operational Control. FTRs issued in accordance with this section shall entitle the FTR Holder to receive Usage Charge revenues and to priority in the scheduling of Energy in the Day-Ahead Market in accordance with the provisions of the ISO Tariff. FTRs associated with Converted Rights shall terminate on the earlier of termination of the Existing Contract or the end of the ten-year transition period.

9.5 Distribution of Auction Revenues Received by the ISO for Firm Transmission Rights

9.5.1 For each Inter-Zonal Interface and direction for which an FTR is defined, the total proceeds received by the ISO through the auction described in Section 9.4 shall be allocated and paid by the ISO to the Participating TO that is entitled in accordance with Section 7.3.1.6 to receive Usage Charge revenues with respect to the corresponding Inter-Zonal Interface. Each Participating TO shall credit its FTR auction proceeds against its high voltage TRBA if the FTR is for a High Voltage Transmission Facility or against its low voltage TRBA if the FTR is a for a Low Voltage Transmission Facility.

9.5.2 In the event the transmission facilities or rights making up an Inter-Zonal Interface with respect to which FTRs are defined are owned by more than one Participating TO, the proceeds of the auction of such FTRs shall be allocated to those Participating TOs who auction FTRs in proportion to the FTRs associated with their Inter-Zonal Interface as of the date of the FTR auction compared to all FTRs auctioned for such Inter-Zonal Interface.

9.5.3 In the event the transmission facilities or rights making up an Inter-Zonal Interface with respect to which FTRs are defined have been upgraded resulting in increased transmission capacity on the Inter-Zonal Interface, and the costs of construction and operation were paid for by a Project Sponsor pursuant to Section 3.2.7.1 or specifically identified beneficiaries as specified in Section 3.2.7.2, and were not included in the ISO's transmission Access Charge or a reimbursement or direct payment from a Participating TO, the proceeds of the auction of such

FTRs shall be allocated to the Project Sponsors or specifically identified beneficiaries according to the allocated shares determined as set forth in Section 3.2.7.3 (d).

9.6 Distribution of Usage Charges to FTR Holders

9.6.1 The FTR Holder shall be entitled to receive from the ISO a portion of the total Congestion revenues related to Inter-Zonal Congestion calculated by the ISO in the Day-Ahead Market and collected by the ISO with respect to the Inter-Zonal Interface and direction combination for which the FTR was defined. This portion equals the Usage Charge calculated by the ISO in the Day-

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Comment Date: _____