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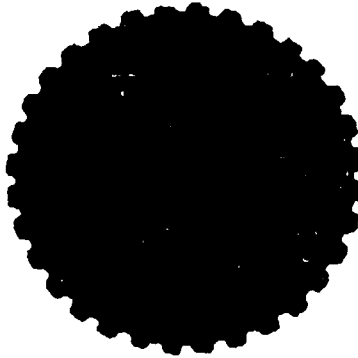
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December 20, 2000

BY FACSIMILE AND AIR COURIER

Ms. Deborah A. LeVine
Director of Contracts & Compliance
California Independent System Operator Corporation
151 Blue Ravine Road
Folsom, California 95630
Fax No. (916) 351-2144

Dear Ms. LeVine:

This letter responds to your letter to me of December 19, 2000, which states that it provides an update "with regard to the ISO's filing a revised transmission control agreement". We consider the positions taken by the ISO in your letter to amount an attempt to bully Vernon at the absolute midnight hour of the hoped for effectiveness of Vernon's becoming a Participating Transmission Owner ("PTO"). It also appears to be an attempt to deprive the Commission of any review over this matter.

Contrary to the assertions of the ISO as stated in your letter, Vernon has already unconditionally executed the transmission control agreement ("TCA") proffered to it by the ISO.¹ The Vernon City Council's December 5, 2000 approval of that agreement and

¹Your December 19 letter is a bit confusing in its discussion of a "revised" TCA. We assume that the agreement that you state was executed by the ISO and the existing PTOs is the same TCA as previously proffered to Vernon, executed by Vernon, and submitted to the Commission by Vernon. If our assumption is incorrect, please let us know immediately.

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the Mayor's December 5, 2000 execution of the agreement pursuant to that City Council authority fully binds Vernon to the TCA as it is or as it may be changed by the Commission. Indeed, as you know, Vernon filed that TCA on December 7, 2000 with the Commission seeking immediate implementation of that agreement.² Your letter, while it refers to and quotes from earlier correspondence between the ISO and Vernon, it does not refer to Vernon's December 7 filing. That filing discusses and attaches, as Appendix B, the earlier correspondence discussed in your December 19 letter—except for Vernon's December 7 letter to you, which simply describes what Vernon in fact did in its December 7 filing at the Commission.

In that filing, at page 4, Vernon clearly stated that:

[I]n the circumstances, the ISO's "take it or leave it" proposal forced Vernon to execute the TCA. However, Vernon recognized that Section 26.11(3) of the TCA expressly provides the Commission with authority and discretion to modify provisions of the TCA. Thus, the execution of the TCA by Vernon would not preclude the Commission from modifying the TCA as appropriate, much less require Vernon to remain mute as to its concerns—which are concerns imbued with significant public interest. At this late date, the ISO should not be allowed to withhold the execution and filing of a TCA approved for execution by the ISO Board and proffered by the ISO to Vernon.

In the December 7 letter referenced in your December 19 letter, at page 2, Vernon stated:

[A]s Vernon has previously indicated, Vernon does not think the newly added Section 16.2 [on refunds] is appropriate. Vernon intends to state as much to the Commission in Docket No. EL01-14. Vernon understands that the ISO understands from your December 5, 2000 letter that: "While the ISO would be willing to consider alternative language that addresses this concept, we are not willing to defer this issue to another proceeding. If Vernon chooses to litigate this question through a motion for leave to answer or by other means, the ISO would be forced to respond as appropriate." Thus, Vernon would not represent that the ISO is amenable to Commission review of the issue.

² As you also know, since Vernon's December 7 filing, the ISO and Vernon have executed a UDC Agreement, which the ISO stated was necessary to Vernon PTO status, and the ISO has changed its mind and determined that a Metered Services Agreement is not necessary to Vernon's PTO status and it is being deferred at this time. So far as Vernon is aware, no controversies remain between the ISO and Vernon concerning those agreements, and that it is only the TCA that is asserted by the ISO to stand between Vernon and PTO status.

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Thus, in its December 7 filing, Vernon did exactly what it said that it would do. Vernon stated to the Commission that the newly added Section 16.2 is not appropriate and Vernon described the background of the issue, noting, among other things, that the ISO was not amenable to Commission review of the issue. Vernon, of course, cannot preclude the ISO from responding appropriately and Vernon welcomes the public airing of this important provision.

When the ISO stated that it "would be forced to respond as appropriate" the only reasonable assumption was that the ISO would consider the matter at the time and either change its position or continue to assert that the Commission should not alter Section 16.2, and that it would address these matters to the Commission.

What the ISO has instead chosen to do, however, is utterly unreasonable. The ISO has waited twelve days to run the clock down to December 19, and has not addressed the issues to the Commission, but is seeking to circumvent Vernon's request in that December 7 filing, that the Commission review and rule upon certain provisions of the TCA. Apparently what the ISO, and the investor-owned existing PTOs, would require Vernon to do is not only to execute the TCA, but to give up any right to ask the Commission to modify the provisions of the TCA under its Section 26.11(3) or otherwise. The ISO, after arguing strenuously that there must be a consistent, generic TCA applicable to all PTOs, now seeks to file new provisions to that TCA (that, were not even set forth in the ISO's November 29 answer to Vernon's complaint and contrary to the ISO's assertions were not presented to Vernon until December 1, 2000) without Vernon having any ability to even comment to the Commission on the changes.

Vernon complained in its December 7 filing about being forced to execute the TCA on a take it or leave it basis. The ISO has now gone beyond take it or leave it, to take it and remain mute about it. This is beyond outrageous.

You state that the "ISO anticipates within the next few days that it will file a revised TCA executed by the ISO and the Original Participating Transmission Owners". But, you state, page 3:

Because Vernon has not yet expressed its willingness to assume all obligations associated with being a Participating TO, including those affirmed by Section 16 of the TCA, the amended TCA includes Appendix A and Appendix B for Vernon effective on a conditional basis. The effectiveness of these appendices, and of Vernon's membership as a Participating TO, is conditioned upon Vernon's executing the TCA without condition and forwarding its signature page to the ISO for filing.

Vernon has executed the TCA without condition and the ISO already has Vernon's signature page. Vernon demands that the ISO make its transmission access charge filing and to seek whatever waivers are appropriate so that Vernon becomes a PTO effective January 1, 2001.

The ISO has committed to have the Commission determine in Docket No. EL01-14 the issues raised by Vernon with respect to the arbitration provisions of the TCA. But despite Vernon's repeated requests, the ISO has not stated what provisions it would deem necessary, if any, to explicitly reserve this issue. Vernon considers such issues sufficiently stated and ripe for decision in that docket.

With respect to Section 16.2, the ISO has never fully explained or supported that provision, and it is very vague at best. You state that the ISO intends to file a revised TCA within a few days. Vernon assumes that the ISO will necessarily provide support for Section 16.2 in that filing, and that further response by Vernon and other affected parties may be appropriate. In the meantime, Vernon has executed the TCA with that provision and will be bound by it, if it is finally accepted by the Commission. In any event, Vernon, as it has previously stated, intends to be bound to make refunds to the same extent an investor-owned utility would be when such refund provisions are required by the Commission. This commitment should take care of any *Mid-Continent* concerns. However, at this time the requirements of Section 16.2 are uncharted and the ISO's proposal appears to go far beyond that concern. Frankly, Vernon believes that the ISO places itself at the risk of great liability if it persists in attempting through coercion to deny Vernon's right to address this issue.

With respect to the definition of Vernon's transmission rights as entitlements, Vernon has asked for clarification in the EL01-14 docket, and believes that that clarification is still necessary. Vernon hopes, as you state, that there remains no substantive disagreement over the nature of the rights that Vernon has been attempting to run over to ISO control. However, Vernon believes that minor adjustments to specific portions of the TCA leave ambiguities that a simple overall recognition of the nature of Vernon's transmission rights, as originally proposed by the ISO, does not.

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If this letter does not resolve the issues raised in your letter of December 19, please contact Vernon as soon as possible. Vernon's administrative offices will be officially closed tomorrow, December 21, through December 25, but please call Jorge Somoano at (323) 528-4974 at any time and let him know of any response by the ISO or desire by the ISO to contact Vernon, so that Vernon can receive any communications or make whatever other arrangements are appropriate. Vernon will make available at any time whatever representatives or other of its personnel are necessary to further its PTO status or otherwise address these matters.

Very truly yours,



Bruce V. Malkenhorst
City Clerk/City Administrator

cc: Terry M. Winter, President and CEO of ISO
Kenneth J. DeDario, Director of Utilities
Jorge C. Somoano, Assistant Director of Resource Management
Eduardo Olivo, City Attorney
David B. Brearley, Special Consultant
Channing D. Strother, Jr.