

December 22, 2008

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, D.C. 20426

**Re: California Independent System Operator Corporation
Docket No. ER09-____-000
Transmission Control Agreement, Rate Schedule No. 7**

Dear Secretary Bose:

Pursuant to Section 205 of the Federal Power Act (“FPA”), 16 U.S.C. § 824d, the California Independent System Operator Corporation (“CAISO”), on behalf of itself, Pacific Gas and Electric Company (“PG&E”), San Diego Gas & Electric Company (“SDG&E”), Southern California Edison Company (“SCE”), the Cities of Anaheim, Azusa, Banning, and Riverside, California (collectively, “Southern Cities”), the City of Vernon, California (“Vernon”), Atlantic Path 15, LLC (“Atlantic Path 15”), Western Area Power Administration – Sierra Nevada Region (“Western”), the City of Pasadena, California (“Pasadena”), Trans Bay Cable LLC (“TBC”), and Startrans IO, L.L.C. (“Startrans”), respectfully submits for filing an amendment to the Transmission Control Agreement (“TCA”) among the CAISO and Participating Transmission Owners (“PTOs”).¹ The current PTOs are PG&E, SDG&E, SCE, the Southern Cities, Vernon, Atlantic Path 15, Western, Pasadena, and Startrans.

The CAISO requests an effective date for this TCA amendment to coincide with the effective date of the CAISO Tariff to implement the CAISO’s Market Redesign and Technology Upgrade (“MRTU”) market design (the “MRTU Tariff”). The earliest implementation date of MRTU, and therefore of the MRTU Tariff, is March 31, 2009.

The revisions being filed today are made in order to permit PG&E to relinquish its role as the facilitator of the Encumbrances on the transmission facilities comprising Path 15 established by Existing Contracts (“ETCs”) between

¹ Capitalized terms not otherwise defined herein have the meanings set forth in the Master Definitions Supplement, Appendix A of the MRTU Tariff, and in Appendix D of the TCA.

PG&E and its transmission customers as of the effective date of the MRTU Tariff. PG&E's current role is described in the TCA as the "Path 15 ETC Facilitator."

I. BACKGROUND

A. The Purpose of the TCA

The TCA is the agreement among the CAISO and PTOs that establishes the terms and conditions under which Transmission Owners place certain transmission facilities and Entitlements under the CAISO's Operational Control, thereby becoming PTOs. The TCA describes how the CAISO and each PTO will discharge its respective duties and responsibilities with respect to the operation of those facilities and Entitlements.

B. PG&E's Obligations as Path 15 ETC Facilitator Pursuant to Appendix B-1

For all other Existing Contract rights specified in TCA Appendix B as Encumbrances on the CAISO Controlled Grid, the PTOs simply provide the CAISO a separate set of operating instructions under the provisions of the CAISO Tariff that direct the CAISO how to honor each of those rights. However, because of the complexity and interrelated nature of PG&E's ETCs for the use of Path 15, PG&E and the CAISO determined that the administration of PG&E's Path 15 contracts required a more elaborate set of operating instructions and daily involvement of PG&E personnel in order for the CAISO to be able to honor those contracts in a manner consistent with PG&E's interpretation of its obligations. In fact, this special set of operating instructions has specified a role for PG&E as the "Path 15 ETC Facilitator" in coordination with the CAISO. Because this level of involvement by PG&E in the CAISO's administration of these particular Encumbrances has been greater than that generally specified in the TCA and the CAISO Tariff, the parties incorporated this set of consolidated operating instructions directly into the TCA as Attachment B-1 to PG&E's TCA Appendix B in order to obtain agreement by the other PTOs and acceptance by the Commission.

II. REVISIONS TO THE TCA

Over time, certain ETCs providing rights on Path 15 have terminated, and the capacity of Path 15 has been increased, combining to reduce the complexity of administration of the remaining ETC rights on that path. This matter was addressed in the settlement proceedings on PG&E's tenth proposed revisions to its transmission rates under its Transmission Owner Tariff and its related revisions to its transmission service rates under certain of its Existing Contracts ("2008 TO10/ETR") in Commission Docket Nos. ER07-1213 *et al.* In those proceedings, PG&E filed an offer of settlement and stipulation on September 2,

2008 and the Commission approved that settlement by order dated October 22, 2008.²

PG&E's 2008 TO10/ETR offer of settlement and stipulation provides that the remaining parties with Existing Contract rights on Path 15, the Transmission Agency of Northern California ("TANC") and the California Department of Water Resources ("CDWR"), have both concluded that as of the start-up of MRTU there will no longer be the need for PG&E real-time and contract administration personnel involvement as the ETC Path 15 Facilitator.³ Section 5.11 of PG&E's 2008 TO10/ETR offer of settlement and stipulation provides:

PG&E and SWP conclude that as of the start-up of MRTU there will no longer be the need for PG&E real-time and contract administration personnel involvement as the ETC Path 15 Facilitator. The following four actions (collectively "Revised Curtailment Instructions") and the CAISO's cooperation will be necessary to achieve the removal of ETC Path 15 Facilitator function:

1. CAISO filing of an amendment to the Transmission Control Agreement;
2. Inclusion of Path 15 curtailment provisions in the TRTC instructions of those parties with Path 15 ETC rights;
3. CAISO's modification of the CAISO's M-423 Operating Procedure; and
4. Development of a computational tool (*i.e.*, spreadsheet) for the CAISO to use in administering Path 15 curtailments.

Section 6.5 of PG&E's 2008 TO10/ETR offer of settlement and stipulation approved by the Commission includes essentially identical provisions with regard to TANC and PG&E.

In addition, the CAISO's operations staff has determined that it will be able to manage the rights on Path 15 under the MRTU structure pursuant to PG&E's Transmission Rights and Transmission Curtailment ("TRTC") Instructions, which will provide sufficient direction to the CAISO regarding the manner in which the CAISO must continue to honor the subject Existing Contract rights. Under the MRTU Tariff, TRTC Instructions will replace the current form of operating instructions as the vehicle for the communication by PTOs of the manner in

² *Pacific Gas and Electric Company*, 125 FERC ¶ 61,084 (2008).

³ See Offer of Settlement and Stipulation, Pacific Gas and Electric Company, Docket Nos. ER07-1213-000; ER07-1213-001; ER07-1213-002; ER08-267-000; ER08-267-001, Sections 5.11 and 6.5.

which the CAISO will need to administer their ETC rights in order to honor those rights under the MRTU structure.

To implement this relinquishment by PG&E of its role as Path 15 ETC Facilitator and to reflect the elimination of the need for the special operating instructions currently set forth in Appendix B-1 to PG&E's TCA Appendix B as of the implementation of the MRTU Tariff, the attached revisions to the TCA delete virtually all of the provisions of Appendix B-1. However, rather than delete Appendix B-1 entirely as no longer relevant, the parties propose to amend it to incorporate a reference to the future administration by the CAISO of the Existing Contract rights for Path 15 pursuant to the TRTC Instructions provided by PG&E under the terms of the MRTU Tariff. The parties have agreed to this approach in order to provide an explanation for readers of the TCA who may note the deletion of the special operating instructions in comparing previous and future versions of the TCA.

III. AGREEMENT OF THE PTOs

The CAISO is authorized to state that none of the PTOs object to the TCA being revised in a limited manner, as set forth above.

IV. EFFECTIVE DATE

The CAISO requests that the TCA amendment be made effective as of the date the MRTU Tariff becomes effective. The earliest implementation date of the MRTU Tariff is March 31, 2009.

In the event that the MRTU Tariff is implemented more than 120 days after the submittal of the instant filing, the CAISO also requests waiver, pursuant to Section 35.11 of the Commission's regulations (18 C.F.R. § 35.11), of Section 35.3 of the Commission's regulations (18 C.F.R. § 35.3), in order to permit the TCA amendments to become effective as of that implementation date. Granting a waiver in this instance would be consistent with the similar waivers of Section 35.3 that the Commission has granted for other MRTU-related filings.

V. EXPENSES

No expense or cost associated with this filing has been alleged or judged in any judicial or administrative proceeding to be illegal, duplicative, unnecessary, or demonstratively the product of discriminatory employment practices.

VI. COMMUNICATIONS

The CAISO requests that all correspondence, pleadings, and other communications concerning this filing be served upon the following:

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* Individual designated for service pursuant to Rule 203(b)(3),
18 C.F.R. § 385.203(b)(3).

VII. SERVICE

Copies of this transmittal letter and all attachments have been served upon the Public Utilities Commission of the State of California, the California Energy Commission, PG&E, SDG&E, SCE, the Southern Cities, Vernon, Atlantic Path 15, Western, Pasadena, TBC, Startrans, and all parties with effective Scheduling Coordinator Agreements under the CAISO Tariff.

VIII. SUPPORTING DOCUMENTS

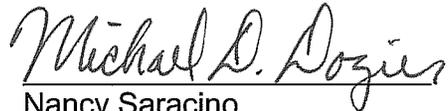
In addition to this transmittal letter, the instant filing contains the following attachments:

Attachment A	Revised pages of the Transmission Control Agreement; and
Attachment B	Blacklined text showing the changes to the Transmission Control Agreement.

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An additional copy of this filing is enclosed to be date-stamped and returned in the enclosed, pre-paid Federal Express envelope. If there are any questions concerning this filing, please contact the undersigned.

Respectfully submitted,

A handwritten signature in black ink that reads "Michael D. Dozier". The signature is written in a cursive style and is positioned above the typed name and title.

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Attachments

Attachment A – Clean Sheets
TCA Amendment for MRTU
Second Replacement Transmission Control Agreement
December 23, 2008

**EXHIBIT B-1
(TO PG&E APPENDIX B)**

**Path 15 Curtailment Instructions
For Existing Encumbrances Across the Path 15 Interface**

Purpose and Objective

Path 15 Curtailment Instructions provide direction to the ISO regarding the management of congestion on Path 15 and are submitted to the ISO, as part of the Transmission Rights and Transmission Curtailment (TRTC) Instructions, by PG&E as the Responsible PTO for the Existing Transmission Contract (ETC) rights on the path.

These instructions are to be administered and adhered to by the ISO except when the ISO determines that system reliability requires that other steps be taken. The ISO is solely responsible for continued system reliability and must unilaterally take all steps necessary to preserve the system in times of emergency.

[NOT USED]

Attachment B – Blacklines
TCA Amendment for MRTU
Second Replacement Transmission Control Agreement
December 23, 2008

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**EXHIBIT B-1
(TO PG&E APPENDIX B)**

**Path 15 Operating Curtailment Instructions
For Existing Encumbrances Across the Path 15 Interface
April 1, 2003, Revision 1**

Introduction

~~As contemplated by the ISO Tariff, and as directed by the Federal Energy Regulatory Commission in its orders on Amendments 3 and 7 to the ISO Tariff, which were filed by the ISO, Pacific Gas and Electric Company (PG&E) has worked with the parties with whom it has existing contracts for transmission service over Path 15 (ETC Parties), in order to develop these Operating Instructions, which, pursuant to sections 2.4.3.1, 2.4.4.4.1, and 2.4.4.4.3 of the ISO Tariff, are to be followed by the ISO in operating this constrained Path. The constraints on Path 15 have been known by all transmission users for many years and have not been alleviated by the creation or operation of the ISO. The Operating Instructions which follow are intended to preserve each ETC Party's pre-existing contract rights[±] to transmission service over Path 15 and PG&E's use of that transmission path. These Operating Instructions will remain in place until PG&E submits replacement instructions to the ISO. PG&E will not submit revised operating instructions to become effective prior to January 1, 2005, except as necessary due to a materially revised ISO market design or to reflect a material change in ETC rights. All parties reserve all rights to argue for the implementation of different Operating Instructions and priorities for Path 15 consistent with their ETC contract rights, in the event PG&E submits any revised Operating Instructions. Further, any party may oppose any modification of these Operating Instructions that materially affects the rights of such party as set forth herein. Any Party that believes these Operating Instructions should be revised may at any time present the suggested revision to PG&E for its consideration.~~

Purpose and Objectives

~~These Path 15 Operating Curtailment Instructions provide direction to the ISO regarding the management of congestion on Path 15 during the ISO's Day Ahead, Hour Ahead and Real Time markets. The objective of these instructions is are submitted to assure, on an ongoing basis, the ISO, as part of the efficient use each day of available Path 15 transfer capability while maintaining the t[Transmission] r[Rights] and priorities on Path 15 that were in existence as of the ISO Operations Date. These instructions also clarify individual and joint responsibilities between the ISO as the Control Area Operator and Transmission Curtailment (TRTC) Instructions, by PG&E as the Path 15 Responsible PTO for the Existing Transmission Contract (ETC) Facilitator.[±] rights on the path.~~

[±] ~~These operating instructions apply only to unexpired contract rights. Expired contracts will be removed from these instructions at the time of any revision or update. The inclusion of an expired contract in these instructions pending a revision in which the expired contract rights are removed does not confer any extension of such contract.~~

[±] ~~Specific operating instructions have been provided to the ISO by PG&E in other documents for each of the Existing Contracts for which it is the Responsible Participating Transmission Owner on Path 15. In the contract specific instructions, information is provided on the maximum MW of transmission service available over the path; the quality of transmission service; daily, hourly and real time scheduling rights and responsibilities; curtailment procedures; points of receipt and points of delivery and effective and termination dates of the contract. This set of additional instructions will clarify how the relative~~

These instructions are to be administered and adhered to by the ISO except when the ISO determines that system reliability requires that other steps be taken. The ISO is solely responsible for continued system reliability and must unilaterally take all steps necessary to preserve the system in times of emergency.

Path 15 Existing Transmission Contract Facilitator (ETC Facilitator)

~~PG&E will serve in the capacity of ETC Facilitator to assist the ISO and to provide necessary guidance to the ISO in the administration of Path 15 ETC rights. The ETC Facilitator shall:~~

- ~~1. Provide to the ISO, for each hour of the Trading Day, the total amount of megawatts that should be reserved for use by the ETC Parties.^{2/} Such amounts shall be provided generally by 8:30 a.m. of each weekday prior to the start of a Trading Day for the Day Ahead Market, and generally by 4:30 p.m. of the weekday prior to the start of a Trading Day for the Hour Ahead Market.³ Any revisions to the amount of megawatts reserved for use by the ETC Parties after these times shall be as provided in ISO operating procedures (currently M-423).~~
- ~~2. Facilitate all Path 15 schedules from ETC Parties, including those ETC Parties for which the ETC Facilitator is not the Scheduling Coordinator (SC), unless otherwise agreed by PG&E and the ETC Party.^{4/}~~
- ~~3. Schedule all SC to SC transfers^{5/} that utilize ETC rights across Path 15, unless otherwise agreed by PG&E and the ETC Party.~~
- ~~4. Inform ETC Parties, affected SCs, and the ISO, pursuant to these Operating Instructions, when an ETC Party's scheduled usage of Path 15 is reduced and the amount of such reduction.~~
- ~~5. In performing these tasks, ensure that all transmission rights and priorities on Path 15 that were in existence as of the ISO Operations Date are maintained and protected.~~

Day Ahead Market Congestion Management

~~transmission rights and priorities of the parties should be managed and administered during times of congestion and possible curtailment on Path 15.~~

~~^{2/} The ETC Facilitator's specification of the megawatt reservation amount does not limit, in any way, ETC Parties' ability to exercise their rights, including making schedule changes in real time.~~

~~^{3/} PG&E and most of the ETC Parties pre-schedule Monday through Friday only. PG&E generally provides its ETC reservation for Sunday and Monday by close of business on Friday and to the extent practicable, encourages ETC Parties to provide pre-schedules in time to meet the ISO's Day Ahead market deadline.~~

~~^{4/} PG&E may make arrangements with an ETC party to permit that party to self-schedule its Path 15 rights. Any such arrangements will preserve the purpose and objectives of these Operating Instructions.~~

~~^{5/} Currently, Southern California Edison Company (Edison) schedules its SC-SC transfers for its Existing Contracts directly with the ISO. Upon mutual agreement by Edison and PG&E, PG&E may become a party to these SC-SC transfers across Path 15.~~

~~Prior to the start of the ISO Day Ahead process, the ETC Facilitator will provide the ISO with an hourly reservation for ETC schedules utilizing Path 15. The ISO will determine the hourly amount of the Path 15 operating limit available for New Firm Uses^{6f} for use in its Congestion Management Process^{7f} by subtracting the ETC megawatt reservation amount from the operating limit for Path 15 for each hour. After the deadline for receiving Day Ahead Preferred Schedules, the ISO performs its Congestion Management Process and determines the Usage Charges, if any, for each hour of congestion on Path 15. ETC Parties whose schedules over Path 15 are submitted to the ISO by the ETC Facilitator will not be assessed Usage Charges associated with their Path 15 schedules by the ETC Facilitator.~~

Hour-Ahead Market Congestion Management

~~Because scheduling timelines in ETC Parties' contracts (including third party contracts using ETC Party rights) differ from the ISO's scheduling timeline, some pre-schedules from such parties are likely to be scheduled in the Hour-Ahead Market. The ETC Facilitator's ETC megawatt reservation amount submitted in the Day Ahead Market is intended to provide sufficient reservation to accommodate the schedules submitted in the Hour Ahead Market. After the close of the Hour Ahead Preferred Market, the ISO performs its Congestion Management Process and determines the Usage Charges, if any, for such hour on Path 15. ETC Parties whose schedules over Path 15 are submitted to the ISO by the ETC Facilitator will not be assessed Usage Charges associated with their Path 15 schedules by the ETC Facilitator.~~

Real Time Curtailment Priorities

~~Any and all ETC Parties' rights (including third party contracts using ETC Party rights) to change schedules after the close of the ISO's Hour Ahead market will continue to be honored. In the event of curtailments on Path 15 South to North in real time, the ETC Facilitator will determine the appropriate order and magnitude of curtailments given the circumstances that occur in real time and the terms and provisions of the ETCs. This determination will be made consistent with the following table "Path 15 South to North Real Time Curtailment Priorities", a copy of which is Attachment A, which is incorporated into and made a part of these Path 15 Operating Instructions by this reference.~~

~~In Attachment A, the relative priorities of the various ETC Parties' transmission service rights across Path 15 in real time are identified by grouping the various rights into separate blocks and ordering the blocks by their relative priority. Attachment A addresses only Path 15 South to North real-time curtailment priorities. The Path 15 North to South real-time curtailment priorities will be addressed in a separate and distinct set of Operating Instructions and will be separately submitted to the ISO after review by the Path 15 ETC Parties.~~

EXHIBIT B-1 ————— ATTACHMENT A

^{6f} ~~Regulatory Must Take and Regulatory Must Run resources that contribute to the "imputed use" of Path 15 are treated as New Firm Uses for this purpose. The "imputed use" is the expected power flow resulting from the load, interchange, and resource schedules of all SCs.~~

^{7f} ~~The ISO's Congestion Management Process uses Adjustment Bids to reduce the amount of New Firm Use, if necessary, so that such use does not exceed the amount of the Path 15 operating limit less the ETC reservation megawatt amount.~~

(TO PG&E APPENDIX B)

Path 15 Real-Time South-to-North Curtailment Priorities^{4/}

Priority Group	ETC/Priority Holder	South-to-North
1 ^{2/}	GDWR EHV Agreement ^{3/} SCE CCPIA encumbered rights SDG&E CCPIA encumbered rights PG&E must take encumbrances GDWR Comprehensive Agreement	300 MW 320 MW 0 ^{4/} — 810 MW
2	TANC SOTP ^{6/}	300 MW
3	TID IA (Reserve rights)	32 MW
4 ^{6/}	PG&E SOTP SCE CCPIA unencumbered rights ^f SDG&E CCPIA unencumbered rights ^f	500 MW 347 MW 109 MW
5	New ETC Requests ^{7/} Other "As Available"	unspecified

^{1/} This table may change from time to time as existing contracts are terminated, or the rights under those contracts change (e.g., termination of a QF contract).

^{2/} Curtailments within Priority Group 1 are based on each party's contract right or entitlement amount.

^{3/} GDWR has both EHV and Comprehensive Agreement rights. When curtailments are required, GDWR's EHV schedules are curtailed beginning at the then-current maximum operating limit of the path (as it may increase or decrease from time to time).

^{4/} The Priority Group 1 capacity available to PG&E south-to-north in real time is the capacity remaining after CDWR's EHV and SCE/SDG&E's CCPIA Existing Contract schedules (as may be curtailed) are subtracted from the amount of available capacity. This remaining capacity is available for GDWR's Comprehensive Agreement schedules and PG&E's must take encumbrances. PG&E's must take encumbrances rights correspond to the amount of Path 15 south-to-north transfer capability historically available for PG&E must take generation in ZP26, including but not limited to the generation of PG&E's Diablo Canyon Nuclear Power Plant, minus PG&E load in ZP26. As used in this footnote, "PG&E's must take encumbrances" means an amount of transmission transfer capability that is reserved for ISO New Firm Uses across Path 15 south-to-north that is the lesser of PG&E's must take encumbrances rights defined above or the IOU imputed use of Path 15. The IOU imputed use of Path

15 is the expected power flow resulting from the load, interchange and resource schedules of PG&E, SCE and SDG&E across Path 15. CDWR's Comprehensive Agreement schedules are curtailed, pro rata with the Priority Group 1 capacity available to PG&E, beginning at the then current maximum operating limit of the path (as it may increase or decrease from time to time).

~~6/~~ TANC's 300 MW is firm bi-directional service using the Points of Receipt and Delivery set forth in section 2.4 of the SOTP and in accordance with the Curtailment Priorities set forth in section 3.2 of the SOTP. PG&E supports these transfer capabilities by implementing mitigation measures when necessary, to the extent such measures are available, up to a total of 200 MW south to north and 700 MW north to south. These mitigation measures consist of switching PG&E's scheduled transmission service from the AC Lines to the DC Line.

~~6/~~ Priority Group 4 is available for ISO use for New Firm Uses.

~~7/~~ "New ETC Requests" includes any requested service by an ETC in excess of the rights set forth in this table for Priority Groups 1-4, provided that this footnote shall not apply to arrangements between or among PG&E and one or more ETC Parties for future capacity upgrades, if such parties agree, or an existing contractual commitment provides otherwise.

ATTACHMENT 1

CALIFORNIA ISO PATH 15 ATC DETERMINATION METHODOLOGY

Note: This document is intended to explain the procedures for calculation and allocation of Available Transfer Capacity (ATC) over Path 15 pursuant to the Federal Energy Regulatory Commission's May 22, 2002 order in Docket ER99-1770-001 (99 FERC ¶ 61,212). It should not be interpreted in any way to modify Exhibit B-1 of the Transmission Control Agreement.

California ISO calculation of Path 15 ATC in the Day Ahead and Hour Ahead Markets (largely described in Exhibit B-1):

- ~~1.~~ The ISO calculates the Operating Transfer Capability (OTC) for Path 15 and calculates the Existing Contract (ETC) rights of the Edison ETC rights holders.
- ~~2.~~ By 8:30 a.m. of each week day prior to the start of the Trading Day PG&E submits to the ISO the ETC capacity to be reserved in the Day Ahead Market, and by 4:30 p.m. of each week day prior to the start of the Trading Day PG&E may submit a revised ETC reservation amount to the ISO for the ETC capacity to be reserved in the Hour Ahead Market. Any revisions to the amount of megawatts reserved for use by the ETC Parties after these times shall be as provided in ISO operating procedures (currently M-423). (The amount reserved by PG&E in the Day Ahead Market is based

~~on pre-scheduled amounts submitted by the PG&E facilitated ETC rights holders to PG&E by 8:15 a.m. or on the previous day's schedules and PG&E's view of the capacity that will be used by such ETC rights holders, with an additional amount of margin to ensure that sufficient capacity is available to the PG&E facilitated ETC rights holders that wish to modify their pre-scheduled use of their capacity in the Hour Ahead and real time scheduling processes. PG&E can but does not ordinarily provide updates in advance of the Hour Ahead Market.)~~

- ~~3. The ISO subtracts the capacity reserved for the PG&E facilitated and Edison ETC rights holders over Path 15 from the Path 15 OTC to determine the ATC available for New Firm Uses (NFU).~~

~~Allocation of ATC on Path 15 in real-time, i.e. calculate ETC available rights and curtailments based on applicable priorities (largely described in Exhibit B-1 and Attachment A to Exhibit B-1):~~

- ~~1. Path 15 OTC: Confirm Path 15 South to North OTC and adjust for Unscheduled Flows.~~
- ~~2. Priority Group 1 ETCs: Retrieve all actual schedules by ETC Parties in Priority Group 1 (as set forth in Attachment A to Exhibit B-1) from all SCs scheduling on behalf of such parties over Path 15.~~
- ~~3. PG&E Must Take Encumbrance and IOU Imputed Use: Retrieve amounts for PG&E Must Take Encumbrance (which is available for NFU, but needed to assess certain parties' ETC rights) and the IOU Imputed Use—formerly PX Imputed Use—as set forth in footnote 4 of Attachment A to Exhibit B-1). Adjust, if necessary, for known changes in generation amounts from amounts forecast in Day Ahead Markets.~~
- ~~4. Capability Available to Lower Priority ETCs: Subtract from the Path 15 OTC the amounts for Priority Group 1 ETCs actual net south to north scheduled amounts (2 above) and for each hour the lesser of PG&E's Must Take Encumbrance or the IOU Imputed Use (3 above). This is the amount of transmission capacity available for lower priority ETCs (as set forth in Attachment A to Exhibit B-1).~~
- ~~5. ATC Available for NFU: All ATC not used by ETC Parties is available for NFU (this includes any amount remaining after subtracting from the Path 15 OTC the Priority Group 1-3 ETCs actual scheduled amounts as they are adjusted for any real-time curtailments). Thus the lesser of the PG&E Must Take Encumbrance or the IOU Imputed Use has priority over Priority 2-3 ETCs, but shares the available OTC with Priority 1 ETCs actually~~

~~scheduled amounts.~~

~~Thus, in real time, NFU access to transmission capacity over Path 15 has two levels of priority:~~

- ~~□ First, as the capacity represented by the lesser of the PG&E Must Take Encumbrance or the IOU Imputed Use amount, which has priority over lower priority ETCs and may use the unscheduled rights of Priority 1 ETC rights holders, and~~
- ~~□ Second, as any capacity that remains after subtracting from OTC the actual schedules for Priority 1-3 ETCs and the NFU amount above.~~

~~However, operationally the ISO does not allocate particular NFU schedules to a particular priority but rather treats all NFU schedules as a single block. The following example illustrates how this occurs:~~

~~Assume that OTC over Path 15 is 2,500 MW in a given hour and that there is no Unscheduled Flow. Assume that there are 800 MW of Priority 1 ETC actual schedules, 1,000 MW of PG&E Must Take Encumbrance, 200 MW of lower priority ETC actual schedules, and 1,500 MW of NFU. This NFU amount, as described above, uses the 1,000 MW of PG&E Must Take Encumbrance and the amount of capability remaining after accommodating the lower priority ETC schedules. Assume that Path 15 is derated to 2,000 MW. In this example, no ETC curtailment is indicated, thus the ISO must take actions to reduce the flow. The ISO would use Adjustment Bids and Supplemental Energy bids in the BEEP stack to attempt to accommodate the transactions without curtailing any of the NFU schedules. Assume that after bids in the BEEP stack are exhausted, 1,200 MW of NFU remain on Path 15 and curtailments are required (this occurrence is rare). If feasible within the time available to manage the Path derating, the 1,200 MW of NFU would be curtailed on a pro-rata basis to result in NFU of 1,000 MW. Assume that Path 15 is further derated to 1,000 MW and that all bids in the BEEP stack remain exhausted. If feasible within the time available to manage the Path derating, the 1,000 MW of NFU (the amount that is using the priority rights equal to the amount of the PG&E Must Take Encumbrance) would be curtailed on a pro-rata basis to result in NFU of 200 MW and the lower priority ETC schedules would be curtailed to 0 MW. Note: Priority 1 ETC rights are determined on the basis of the Path 15 OTC, and only curtailed if the Priority 1 ETC rights holder's schedule exceeds its contract right or entitlement amount~~

~~* * *~~