



CALIFORNIA ISO

May 24, 2005

The Honorable Magalie R. Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, NE – Room 1A
Washington, D.C. 20426

**Re: *California Independent System Operator Corporation*
Docket No. ER05-____-000**

Dear Secretary Salas:

Pursuant to Section 205 of the Federal Power Act (“FPA”), 16 U.S.C. § 824d, the California Independent Operator Corporation (“ISO”) submits for Commission filing the “SWPL Operations Agreement” (“Operations Agreement”) between the ISO and San Diego Gas & Electric Company (“SDG&E”).¹ As described below, this Operations Agreement effectuates, in part, a settlement between the ISO and SDG&E that resolves protracted litigation related to the ISO’s assessment of rates and charges to certain transactions on the Southwest Powerlink (“SWPL”). The settled matters include *California Independent System Operator Corp.*, Docket No. ER04-24-000 and *California Independent System Operator Corp.*, Docket No. ER04-115, *et al.* This Operations Agreement will bring substantial benefits to the ISO and its customers by ensuring that the SWPL transmission line will remain in the ISO Control Area and continue to provide curtailment sharing and non-firm access to additional transfer capability, and that the line will be operated and scheduled in a reliable manner. Pursuant to Section 205(c) of the FPA, and Section 35.11 of the Commission’s rules and regulations, 18 C.F.R. § 35.11, the ISO requests waiver of the 60-day prior notice requirement and that this Operations Agreement be made effective as of June 1, 2005.

I. Background

SWPL is a 500 kV transmission line that runs from the Palo Verde/Hassayampa Substation in Arizona to the Miguel Substation in San Diego County, California. The entire SWPL line is located within the ISO Control Area. SDG&E, Arizona Public Service Company (“APS”) and Imperial Irrigation District (“IID”) jointly own SWPL, with the percentage of their respective ownership interest varying by geographic segment of the line, as follows:

¹ Capitalized terms not otherwise defined herein have the meanings set forth in the Master Definitions Supplement, Appendix A to the ISO Tariff.

	<u>APS</u>	<u>IID</u>	<u>SDG&E</u>
Palo Verde/Hassayampa to North Gila	11%	12.78%	76.22%
North Gila to Imperial Valley	0%	14.36%	85.64%
Imperial Valley to Miguel	0%	0%	100%
Capacity (MW)	140	163	970

The rights of the joint owners of SWPL are provided in two contracts executed in the 1980s, one between SDG&E, APS, and IID and the other between SDG&E and IID. The Operations Agreement refers to these contracts as the "SWPL Agreements". Under the terms of the SWPL Agreements, SDG&E, as the majority owner, operates the line and serves as the scheduling agent for APS and IID transactions on SWPL, and is responsible for submitting Schedules for such transactions to the ISO. As detailed below, the ISO has billed SDG&E as the Scheduling Coordinator for certain charges under the ISO Tariff for the APS/IID SWPL Transactions since the line is in the ISO Control Area. The SWPL Agreements establish procedures for determining line losses on SWPL transactions and allocate cost responsibility for those losses among the joint owners, among other things.

SDG&E transferred Operational Control of its transmission facilities and Entitlements, including the SWPL line, to the ISO by signing the Transmission Control Agreement ("TCA") in 1998. Since start up, the ISO has treated the APS and IID owned portions of SWPL and attendant rights ("APS/IID SWPL Shares") as Encumbrances on the ISO Controlled Grid under the TCA and has assessed the costs of transmission losses, uninstructed deviations, the Grid Management Charge ("GMC"), and other applicable charges to transactions on the APS/IID SWPL Shares ("APS/IID SWPL Transactions"). The ISO has assessed those charges to SDG&E as the Scheduling Coordinator for the APS/IID SWPL Transactions, and SDG&E has paid the invoiced amounts under dispute. The transmission loss percentages calculated by the ISO are higher than the losses provided for in the SWPL Agreements and result in ISO charges to SDG&E as the Scheduling Coordinator for APS/IID SWPL Transactions that exceed the cost responsibility of APS and IID under the terms of the SWPL Agreements. In 1997, SDG&E filed its original Transmission Owner Tariff, which would have allowed SDG&E to recover any cost differential between the ISO's charges for losses, Imbalance Energy and Ancillary Services and to recognize the compensation provided by Existing Contracts, such as the SWPL Agreements, through its Transmission Revenue Requirement; however, in 2002, the Commission rejected that approach.² SDG&E has appealed that decision³ and has absorbed the increased costs while that matter, and other related SWPL issues, are in litigation.

² *Pacific Gas and Electric Co., et al.*, Opinion No. 458, 100 FERC ¶ 61,156, and Opinion No. 458-A, 101 FERC ¶ 61,151 (2002).

³ *Southern California Edison Co., et al., v. FERC*, Case Nos. 02-1374, *et al.* (D.C. Cir).

Since 2000, SDG&E has taken action in several fora to challenge the ISO's authority to assess the charges on the APS/IID SWPL Transactions, claiming that the APS/IID SWPL Shares were not transferred to the ISO's Operational Control under the TCA, are not ISO Controlled Grid facilities subject to ISO Tariff charges, and that SDG&E is not a Scheduling Coordinator under the ISO Tariff for the APS/IID SWPL Transactions.⁴ The ISO in each matter defended its authority to assess charges to the APS/IID SWPL Transactions as being transmitted on the ISO Controlled Grid and to SDG&E as the Scheduling Coordinator for the transactions pursuant to the Scheduling Coordinator Agreement it executed with the ISO. This litigation has failed to resolve the SWPL issues. It has resulted in inconsistent language in a Commission decision and an arbitration Award as to whether the APS/IID SWPL Shares are part of the ISO Controlled Grid.⁵ The parties have appealed those decisions and the appeals remain pending.⁶

In order to settle this protracted litigation, the ISO and SDG&E have entered into companion agreements, the "SWPL Settlement Agreement" ("Settlement Agreement") and the Operations Agreement, under which the ISO will treat the APS and IID owned portions of SWPL as outside the ISO's existing Transmission Control Agreement and will refund to SDG&E the historic charges for transmission losses and uninstructed deviations, GMC, and other applicable charges. SDG&E, as the line operator for SWPL, will pay a new annual Line Operator Charge to the ISO to compensate the ISO for its capital costs and administrative expenses related to SWPL operation and transactions. SDG&E will also operate SWPL in accordance with specified operating requirements.

⁴ *California Indep. Sys. Operator Corp.*, Docket No. EL04-24-000 (ISO appeal of October 23, 2003 Award in an arbitration initiated by SDG&E under ISO Tariff Section 13.2.2, which held that the non-SDG&E owned portions of SWPL are not part of the ISO Controlled Grid and are not subject to ISO charges); *San Diego Gas & Elec., Co. v. FERC*, Case No. 04-1092 (D.D. Cir.) (SDG&E appeal of Commission Decisions in 2001 GMC case, at 103 FERC ¶ 61,144 (2003) and 106 FERC ¶ 61,032 (2004), which held that APS and IID Schedules transmit Energy on the ISO Controlled Grid and the ISO has authority to charge SDG&E the ISO's administrative costs for procuring Imbalance Energy to cover imbalances, including transmission losses on the APS and IID SWPL shares; and *California Indep. Sys. Operator Corp.*, Docket Nos. ER04-155, *et al.* (April 27, 2005 Commission Decision in 2004 GMC case, at 111 FERC ¶61,125 (2005), which granted SDG&E's request for rehearing and instituted hearing procedures on the reserved issue concerning SDG&E's objection to the application of GMC charges to Energy Schedules for APS/IID SWPL Transactions. SDG&E has also protested the ISO's compliance report in Docket Nos. EL03-131-002, *et al.*, related to refunds for SDG&E's self-provision of Imbalance Energy for the APS/IID SWPL transactions in the 2001 GMC case. This protest is also pending.

⁵ In its Order on Rehearing of the 2001 GMC case, the Commission held that: "The SWPL schedules are wheel through transactions. The generation which originates outside of the ISO control area, is *imported and transmitted over ISO grid facilities* and subsequently exported to serve APS and IID's load." 106 FERC ¶ 61.032, at ¶ 61, 117 (*emphasis added*). The October 23, 2003 Award of Arbitrator held that: "SDG&E could not and did not transfer to [the ISO] Operational Control over those portions of SWPL owned by APS and IID. Therefore *the APS and IID portions of SWPL are not part of the ISO Controlled Grid.*"

⁶ See footnotes 4 and 5.

II. Description of the Operations Agreement

The Operations Agreement establishes operating requirements for SWPL to ensure that SWPL is operated and scheduled in a reliable manner. These operating requirements are to be implemented in accordance with applicable provisions of the ISO Tariff, the TCA, and the SWPL Agreements. The operating requirements provide that SDG&E, as the line operator in California, will coordinate with the ISO planned Outages and the restoration of forced Outages on SWPL, including removal and restoration of any facilities within the ISO Control Area, in accordance with the ISO Tariff. SDG&E will also make available to the ISO necessary status and telemetry information and operate, under the direction of the ISO, the associated voltage control and reactive facilities on the portion of the SWPL within California to meet voltage control standards under Applicable Requirements and the ISO Tariff. The ISO is required to initiate requests for, or implement as appropriate, emergency response procedures to isolate inoperable components of SWPL and to restore the available SWPL facilities to service without undue delay. The agreement additionally commits the parties to abide by the WECC Reliability Criteria Agreement with respect to Qualified Path Unscheduled Flow Relief.

The Operations Agreement also allows the ISO to continue to use unused SWPL capacity in real time. If the schedules submitted by SDG&E, as the Scheduling Coordinator for APS/IID SWPL Transactions, do not fully utilize the transmission capacity of the APS/IID SWPL Shares, the ISO will have the right to use all or any portion of unused capacity on SWPL in real-time in accordance with the SWPL Agreements.

A new Line Operator Charge will be implemented under the Operations Agreement. The ISO will assess the Line Operator Charge to SDG&E to compensate the ISO for its capital costs and operating expenses associated with the administration of the joint ownership of SWPL for the benefit of all ISO customers. The Line Operator Charge will be a total of \$1 million for the years 2001 through 2004. For the period from 2005 through 2010, the annual Line Operator Charge will be \$1,577,000. Effective January 1, 2011, the amount of the Line Operator Charge will be evaluated annually and adjusted to reimburse the ISO for the forecasted costs associated with such joint ownership, unless the parties mutually agree to a multi-year calculation.

The Operations Agreement additionally resolves the transmission loss issue. It provides that Transmission Losses for the APS/IID SWPL Transactions will be assessed to SDG&E based on a fixed percentage of 0.5 percent for calendar years 2005 through 2008, and thereafter on a fixed loss percentage determined annually based on actual losses for the prior year. If SDG&E, as the Scheduling Coordinator for APS/IID SWPL Transactions, submits schedules using the APS/IID SWPL Shares SDG&E will be responsible for procuring or self-providing: (1) Ancillary Services consistent with the requirements of the Control Area in which the Load is served; (2) Imbalance Energy which occurs during the period after a curtailment has

occurred and the associated Schedules are changed; and (3) Transmission Losses determined in accordance with the agreement. It is the intent of SDG&E to self-provide the required Ancillary Services and Energy; however, to the extent that it does not self-provide the required amounts for the transactions scheduled under the agreement and instead procures all or a portion of the required amounts from the ISO, the ISO will impose the applicable ISO Tariff charges or credits for such amounts.

The Operations Agreement is to be effective as of the later of June 1, 2005 or the date the agreement is accepted for filing and made effective by the Commission. It will continue in effect until terminated; however, if the joint owners of SWPL elect to remove any portion of the line from the ISO Control Area, notice of termination for that reason cannot occur until January 1, 2010 at the earliest.

III. Request for Waiver of 60-Day Notice Requirement

Section 205(c) of the FPA, 16 U.S.C. §824d(c), and Section 35.3 of the Commission's regulations, 18 C.F.R. §35.3, provide that, absent waiver, public utilities must give the Commission at least 60 days' prior notice of every proposed change in their rates, terms and conditions. Section 35.11 of the Commission's regulations, 18 C.F.R. §35.11, allows the Commission to waive the 60-day prior notice requirement, for good cause, so that such changes can become effective on less than 60 days' notice. The ISO requests that the 60-day notice requirement be waived and that this Operations Agreement be made effective as of June 1, 2005. The ISO submits that good cause exists for the waiver because the ISO is in the process of undertaking the preparatory rerun calculations approved by the Commission in Docket No. ER03-746 and an effective date for this agreement no later than June 1, 2005 is necessary for the ISO to reflect the settlement in such calculations; otherwise, time-consuming manual adjustments will be required going back to April 1998. In addition, this Operations Agreement is part of a broader settlement between the ISO and SDG&E, which resolves long-standing litigation and brings substantial benefits to the ISO and its customers by ensuring that the SWPL transmission line will remain in the ISO Control Area and continue to provide curtailment sharing and non-firm access to additional transfer capability, and that the line will be operated and scheduled in a reliable manner. Allowing the Operations Agreement to become as soon as possible will also limit the financial impact of the settlement to Market Participants.

IV. 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 produce of discriminatory employment practices.

V. Service

Copies of this filing have been served on SDG&E, APS, IID, the California Public Utilities Commission, the California Electricity Oversight Board, and all ISO Scheduling Coordinators.

Enclosed for filing are six copies of each of the following:

- (1) This letter of transmittal;
- (2) The SWPL Operations Agreement (Attachment A); and
- (3) A Notice of Filing suitable for publication in the Federal Register (Attachment B), together with an electronic version of the Notice.

Also enclosed are two additional copies of this filing to be date-stamped and returned to our messenger.

VI. Correspondence

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

Beth Ann Burns*
Litigation Counsel
Deborah A. LeVine⁷
Director of Contracts
California Independent System
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* Individuals designated for service pursuant to Rule 203(b)(3), 18 C.F.R. 203(b)(3).

⁷ In addition to Ms. Burns and Mr. Jaffe, the ISO respectfully request that Ms. Le Vine be included in the Official Service List. Ms. Burns and Ms. Le Vine work in separate buildings, and it would be of assistance to the ISO if both were included on the list.


VII. Proposed Designations

The ISO proposes that SWPL Operations Agreement be designated as Original Rate Schedule No. 60.

Please contact the undersigned with any questions.

Respectfully submitted,

Kenneth G. Jaffe
Julia Moore
Swidler Berlin LLP
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Charles F. Robinson
Vice President, General Counsel,
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ATTACHMENT A

**CALIFORNIA INDEPENDENT SYSTEM
OPERATOR**

AND

**SAN DIEGO GAS & ELECTRIC
COMPANY**

SWPL OPERATIONS AGREEMENT

SWPL Operations Agreement

THIS SWPL OPERATIONS AGREEMENT is made this _____ day of May, 2005, and is entered into, by and between:

(1) **San Diego Gas & Electric Company** having its registered and principal place of business located at 8330 Century Park Court, San Diego, California 92123 ("SDG&E");

and

(2) **California Independent System Operator Corporation**, a California nonprofit public benefit corporation having a principal executive office located at such place in the State of California as the ISO Governing Board may from time to time designate("ISO").

Hereinafter collectively referred to as "Parties", and individually as "Party".

Whereas:

- A. SDG&E shares joint ownership of the Southwest Powerlink ("SWPL") with Arizona Public Service Company ("APS") and the Imperial Irrigation District ("IID"), in percentages defined by the SWPL Agreements.
- B. SDG&E has executed a TCA with the ISO, transferring SDG&E's transmission ownership and rights, including those in SWPL, to the ISO's Operational Control, making the SDG&E SWPL Share part of the ISO Controlled Grid.
- C. SDG&E, as the Scheduling Agent under the SWPL Agreements, submits energy schedules to the ISO for the APS/IID SWPL Transactions, and the ISO assesses charges to SDG&E, as the Scheduling Coordinator under the ISO Tariff for the APS/IID SWPL Transactions, but SDG&E does not recover certain of such ISO charges from APS and IID pursuant to the terms of the SWPL Agreements.
- D. The SWPL is currently within the ISO Control Area and the inclusion of SDG&E's joint ownership of SWPL provides substantial benefits to ISO customers, such as curtailment sharing and non-firm access to additional transfer capability, and also causes the ISO to incur costs in connection with the operation of the ISO Controlled Grid, including SDG&E's joint ownership of SWPL.
- E. SDG&E has filed disputes and commenced litigation in several forums challenging the ISO's charges on the APS/IID SWPL Transactions, and the ISO has appealed an arbitration decision regarding such charges to FERC, which matters are currently pending.

- F.** In order to 1) ensure that SWPL remains in the ISO Control Area and is operated and scheduled in a reliable manner, and 2) resolve the pending litigation and disputes related to ISO charges on APS/IID SWPL Transactions, the Parties enter into this SWPL Operations Agreement (“Operations Agreement”) and the companion SWPL Settlement Agreement, which treat APS/IID SWPL Shares as non-ISO Controlled Grid, eliminate all ISO charges to SDG&E for APS/IID SWPL Transactions, except as otherwise provided herein, and provide for SDG&E to pay a Line Operator Charge to compensate the ISO for its operating expenses and capital costs related to the administration of SDG&E’s joint ownership of SWPL.
- G.** The Parties desire certainty to ensure that the SWPL is operated and scheduled in a reliable manner, and charges herein are settled with the ISO.

NOW, THEREFORE, in consideration of the mutual covenants set forth herein, **THE PARTIES AGREE as follows:**

1. DEFINITIONS AND INTERPRETATION

1.1 Master Definitions Supplement. Except as otherwise defined in Section 1.3 of this Operations Agreement, all terms and expressions used in this Operations Agreement with initial capitalization shall have the same meaning as those contained in the Master Definitions Supplement to the ISO Tariff.

1.2 Rules of Interpretation. The following rules of interpretation and conventions shall apply to this Operations Agreement:

- (a) if and to the extent a matter is specifically addressed by a provision of this Operations Agreement, the provision of this Operations Agreement shall govern notwithstanding any inconsistent provisions of the ISO Tariff,
- (b) if and to the extent this Operations Agreement provides that a matter shall be determined in accordance with the applicable provisions of the ISO Tariff, the applicable provisions of the ISO Tariff shall govern;
- (c) the singular shall include the plural and vice versa;
- (d) the masculine shall include the feminine and neutral and vice versa;
- (e) “includes” or “including” shall mean “including without limitation”;
- (f) references to a Section or Schedule shall mean a Section or a Schedule of this Operations Agreement, as the case may be, unless the context otherwise requires;

- (g) a reference to a given agreement or instrument shall be a reference to that agreement or instrument as modified, amended, supplemented or restated through the date as of which such reference is made;
- (h) unless the context otherwise requires, references to any law shall be deemed references to such law as it may be amended, replaced or restated from time to time;
- (i) unless the context otherwise requires, any reference to a "person" includes any individual, partnership, firm, company, corporation, joint venture, trust, association, organization or other entity, in each case whether or not having separate legal personality;
- (j) unless the context otherwise requires, any reference to a Party includes a reference to its permitted successors and assigns;
- (k) any reference to a day, week, month or year is to a calendar day, week, month or year; and
- (l) the captions and headings in this Operations Agreement are inserted solely to facilitate reference and shall have no bearing upon the interpretation of any of the terms and conditions of this Operations Agreement.

1.3 Special Agreement Definitions. In addition to terms defined in the beginning of this Operations Agreement and in Section 1.1 of this Agreement, for purposes of this Operations Agreement the following terms shall have the meanings set forth below.

APS/IID SWPL Shares means the respective percentage of joint ownership and attendant rights that APS and IID have in SWPL, including the use of the other joint owners' unused SWPL capacity, as defined in the SWPL Agreements.

APS/IID SWPL Transactions means transactions by APS and/or IID, or their scheduling agent, on the APS/IID SWPL Shares.

Arizona Agreement means the APS - SDG&E Arizona Transmission System Participation Agreement between APS, IID and SDG&E providing for the joint ownership of SWPL from the Palo Verde/Hassayampa 500 kV substations outside Phoenix, Arizona to the North Gila 500 kV substation outside Yuma, Arizona and the operation of SWPL from the Palo Verde/Hassayampa 500 kV substations to the Arizona/California border outside Yuma, Arizona.

Electric System means all physically connected properties and other assets, now or hereafter existing, owned or controlled by a single entity, and used for, or pertaining to, the generation, transmission, transformation, distribution, or sale of electric power and energy, including all additions, extensions, expansions, and improvements, but excluding subsidiaries and their properties and assets. To the extent that an entity is not the sole owner of an asset or property, only that entity's ownership interest in such asset or property shall be considered to be part of its Electric System.

California Agreement means the IID - SDG&E California Transmission System Participation Agreement between IID and SDG&E providing for joint ownership of SWPL from the North Gila 500 kV substation outside Yuma, Arizona to the Imperial Valley Switchyard in Imperial Valley, California and the operation of SWPL from the Arizona/California border outside Yuma, Arizona to the Imperial Valley Switchyard.

Interconnected Control Area Operating Agreement ("APS ICAOA") means the agreement dated November 26, 1997 between APS and the ISO, as may be amended from time to time.

Reliability Management System ("RMS") means the contractual reliability management program implemented through the WECC Reliability Criteria Agreement, the WECC RMS Agreement, this Operations Agreement, and any similar contractual arrangement.

Settlement Agreement means the SWPL Settlement Agreement entered into on May 23, 2005 between SDG&E and the ISO to resolve the litigation and disputes referenced in Recital E to this Operations Agreement.

SDG3 means the ISO Scheduling Coordinator identification code assigned to SDG&E, or any successor identification code.

SDG&E SWPL Share means the percentage of joint ownership and attendant rights that SDG&E has in SWPL, as defined in the SWPL Agreements, which SDG&E has made subject to the ISO's Operational Control pursuant to the TCA.

SWPL means the Southwest Powerlink, a 500 kV transmission line and associated transmission facilities that run from the Palo Verde/Hassayampa Substation adjacent to the Palo Verde Nuclear Generation Station substations outside Phoenix, Arizona, to the Miguel Substation in San Diego County, California, including any future upgrades to this line or to its associated transmission facilities.

SWPL Agreements means collectively the Arizona Agreement and the California Agreement.

SWPL Participants means collectively SDG&E, APS and IID.

WECC RMS Agreement means the Reliability Management System Agreement between the WECC and the ISO requiring the ISO to comply with the reliability criteria contained in the WECC Reliability Criteria Agreement, as such may be amended from time to time.

2. TERM AND TERMINATION

2.1 Term. This Operations Agreement shall be effective as of the later of i) June 1, 2005, or ii) the date this Operations Agreement is accepted for filing and made effective by FERC and shall continue in effect until terminated.

2.2 Termination.

2.2.1 Termination by Default. Either Party (the terminating Party) may terminate this Operations Agreement by giving written notice in the event that the other Party (the defaulting Party) commits any default under this Operations Agreement and/or the ISO Tariff as it relates to this Operations Agreement which, if capable of being remedied, is not remedied within 30 days after the terminating Party has given the defaulting Party written notice of the default, unless excused by reason of Uncontrollable Forces under Article X of this Operations Agreement.

2.2.3 Termination for TCA. This Operations Agreement shall terminate if both APS and IID execute the TCA. If only one party executes the TCA then this Operations Agreement shall no longer be applicable to SWPL transactions involving that party, but will remain in effect for the party that has not executed the TCA.

2.2.4 Termination for Control Area Change. This Operations Agreement shall terminate if the portion of SWPL from Palo Verde/Hassayampa through the Imperial Valley substation facilities is no longer within the ISO Control Area. SDG&E shall provide no less than six months advance written notice to the ISO if the SWPL Participants elect to remove such portion of SWPL from the ISO Control Area. Such notice of termination may not occur until January 1, 2010 at the earliest.

2.2.5 Termination for D.C. Circuit Case. This Operations Agreement shall terminate if SDG&E prevails in SDG&E, et al. v. FERC, Case Nos. 02-1374, et al. (D.C. Cir.) with respect to FERC Opinion Nos. 458 and 458-A and is permitted to include in its Transmission Revenue Requirement all ISO charges applicable to

APS and IID SWPL transactions in excess of the compensation owed to SDG&E by APS and IID under the SWPL Agreements.

- 2.2.6 Termination of the SWPL Agreements.** This Operations Agreement shall terminate if the California Agreement and the Arizona Agreement terminate. If only one agreement terminates then this Operations Agreement shall no longer be applicable for that party but will remain in effect for SWPL transactions involving the party that has not terminated its agreement.
- 2.2.7 Other Termination:** This Operations Agreement may be terminated upon 120 days advance written notice from either Party. Such notice of termination may not occur until January 1, 2010 at the earliest.
- 2.2.9 Filing.** With respect to any notice of termination given pursuant to this Section, the ISO must file a timely notice of termination with FERC or must otherwise comply with the requirements of FERC Order No. 2001 and related FERC orders. The filing of the notice of termination by the ISO will be considered timely if (1) the filing of the notice of termination is made after the preconditions for termination as set forth in this Operations Agreement have been met, and (2) the ISO files the notice of termination within sixty (60) days after issuance of the notice of default. This Operations Agreement shall terminate upon acceptance by FERC of such a notice of termination, if filed with FERC, or thirty (30) days after the date of the ISO's notice of default, if terminated in accordance with the requirements of FERC Order No. 2001 and related FERC orders.
- 3. OPERATING REQUIREMENTS.** This Operations Agreement shall be implemented in accordance with the applicable provisions of the ISO Tariff, the TCA, and the SWPL Agreements.
- 3.1 Outages.** SDG&E shall coordinate planned and the restoration of forced Outages on SWPL, including removal from, and restoration to, any facilities within the ISO Control Area, with the ISO in accordance with the ISO Tariff.
- 3.2 Removal From and Restoration To Service.** SDG&E acting in coordination with the ISO, which acts in accordance with the Outage Coordination Protocol of the ISO Tariff, may remove from service, and following an outage shall restore to service, all or parts of the SWPL facilities in California.
- 3.3 Emergency Response.** The ISO shall initiate requests for, or implement as appropriate, emergency response procedures to isolate inoperable components of SWPL and to restore the available SWPL facilities to service without undue delay.

3.4 Voltage Control and Reactive Support. SDG&E shall make available the necessary status and telemetry information to the ISO and shall operate under the direction of the ISO the associated voltage control and reactive facilities on the portion of the SWPL within California to meet voltage control standards under Applicable Requirements and the ISO Tariff. For the portion of SWPL in Arizona, APS shall operate such voltage control and reactive facilities in accordance with the APS ICAOA.

4. RELIABILITY MANAGEMENT SYSTEM

4.1 Purpose. In order to maintain the reliable operation of the transmission grid, the WECC Reliability Criteria Agreement sets forth reliability criteria adopted by the WECC to which the ISO shall be required to comply.

4.2 Compliance. Section III.K to Annex A of the WECC Reliability Criteria Agreement provides for Qualified Path Unscheduled Flow Relief and SWPL is part of a qualified path for Unscheduled Flow. If the ISO is sanctioned on behalf of SWPL Participants, pursuant to the WECC Reliability Criteria Agreement, SDG&E on behalf of the SWPL Participants agrees to reimburse the ISO for their proportionate share of such sanction.

4.3 Publication. SDG&E hereby consents to the release by the WECC of information related to compliance with this Operations Agreement only in accordance with the WECC Reliability Criteria Agreement, including release of information as necessary to the North American Electric Reliability Council.

4.4 Reserved Rights. Nothing in the RMS or the WECC Reliability Criteria Agreement shall affect the right of the ISO, subject to any necessary regulatory approval, to take such other measures to maintain reliability, which the ISO may otherwise be entitled to take.

5. TRANSMISSION LOSSES

5.1 Calculation of Losses. The ISO shall calculate Transmission Losses for the APS/IID SWPL Transactions to be assessed to SDG&E (or to any successor Scheduling Coordinator for such transactions) based on a fixed percentage in accordance with Schedule 1. The Scheduling Coordinator for the APS/IID SWPL Transactions may self-supply or procure from the ISO the Transmission Losses so calculated. SDG&E shall calculate Transmission Losses for the APS/IID SWPL Transactions to be assessed to APS and IID pursuant to the SWPL Agreements.

5.2 SWPL Agreements Losses. Nothing in this Operations Agreement is intended to confer any rights on the ISO with respect to losses supplied to SDG&E by

APS and IID under the SWPL Agreements. Similarly, nothing in this Operations Agreement is intended to modify the rights and obligations of the SWPL Participants with respect to losses supplied to SDG&E by APS and IID under the SWPL Agreements.

- 5.3 SDG&E's Losses Not Affected.** The SDG&E SWPL Share is an ISO Controlled Grid facility in accordance with the TCA. The ISO shall calculate the losses for all transactions using the SDG&E SWPL Share in accordance with the ISO Tariff. Nothing in this Operations Agreement is intended to affect the loss calculation for transmission service customers of the ISO for use of the ISO Controlled Grid.

6. COSTS, CHARGES AND PAYMENT

- 6.1 Operating and Maintenance Costs.** SDG&E is responsible for all of the costs it incurs in connection with operating and maintaining its Electric System including its ownership interests in the SWPL.

- 6.2 Charges Not Generally Affected.** Nothing in this Operations Agreement is intended to affect the rates and charges paid by transmission service customers of the ISO for use of the ISO Controlled Grid including the SDG&E SWPL Share. Transmission service customers of the ISO using the ISO's markets or the ISO Controlled Grid shall pay rates and charges in accordance with the ISO Tariff.

- 6.3 Charges for Non-ISO Controlled Grid Facilities.** If the Scheduling Coordinator for APS/IID SWPL Transactions submits schedules using only the APS/IID SWPL Share, that Scheduling Coordinator shall be responsible for procuring or self-providing: (1) Ancillary Services consistent with the requirements of the Control Area in which the Load is served; (2) Imbalance Energy which occurs during the period after a curtailment has occurred and the associated Schedules are changed; and (3) Transmission Losses determined in accordance with Section 5 of this Operations Agreement. To the extent that the Scheduling Coordinator for the APS/IID SWPL Transactions does not self-provide the required amounts for the transactions scheduled under this Operations Agreement and procures all or a portion of the required amounts from the ISO, the ISO shall impose charges or credits for such amounts. In addition the ISO will charge the Line Operator Charge in accordance with Schedule 2. The ISO shall not charge nor credit the Scheduling Coordinator for the APS/IID SWPL Transactions for any other charge types outside of this Section 6.3, if such transactions do not use the ISO Controlled Grid.

- 6.4 Line Operator Charge Billing.** The ISO shall bill SDG&E after the fact for the Line Operator Charge incurred to provide services under this Operations

Agreement each month by the 15th day of the following month as specified in Schedule 2.

6.4.1 Payment. Payment of bills shall be made in full, either directly to the ISO (for undisputed amounts) via Fed wire or, at the election of SDG&E, to an escrow account via Fed wire in accordance with Section 6.5 (for disputed amounts). Payment of any bill must be received by the ISO or deposited into the escrow account no later than 20 calendar days after delivery (such date, for purposes of this Section 6.4, is the "Payment Due Date").

6.4.2 Full Payment. Payments shall not be subject to any reduction, whether by offset or otherwise. No Party shall take any action that would disable itself from meeting, or jeopardize its ability to meet, its obligations under this Operations Agreement including any obligation to pay money.

6.4.3 Late Payments. Bills that are not paid in full by the Payment Due Date shall accrue interest in accordance with Section 35.19a(a)(2) of FERC Regulations, 18 C.F.R. § 35.19a(a)(2), as they may be amended or superseded (for purposes of this Section 6.4, "Interest"). Interest shall accrue daily on the unpaid amount from the Payment Due Date until the date that full payment, including accrued Interest, is received by the Party owed (it may be a credit).

6.5 Disputed Line Operator Charge Bills.

6.5.1 Notice of Dispute: If a Party owing payment disputes all or a portion of a bill, it shall either pay the full amount of the bill directly to the Party owed or, at its election, pay the full undisputed amount, without offset or reduction, directly to the Party owed and, on or before the Payment Due Date (a) notify the Party owed in writing of the amount in dispute and the basis for the dispute and (b) pay the full disputed amount into an escrow account in accordance with Section 6.5.2. The Party owed and such owing Party shall endeavor to resolve informally any dispute prior to the Payment Due Date of the disputed bill. When the owing Party has paid to the Party owed amounts billed to it but contested at the time paid, any amount determined to be due and owing to the owing Party upon resolution of the dispute shall be refunded by the Party owed with Interest.

6.5.2 Escrow Account: The escrow account established pursuant to Section 6.5.1 shall be with an escrow agent selected by the paying owing Party and approved in advance by the Party owed in a form acceptable to the Party owed. The instructions given to the escrow agent shall include an express obligation on the escrow agent's part to release sufficient funds from the account, including Interest that has accrued on the account, to pay in full to the Party owed one of the following amounts (plus accumulated Interest on that amount), as applicable: (1) the amount originally billed; (2) an alternative amount agreed upon by the

disputing Parties; or (3) the amount determined by FERC or other tribunal of competent jurisdiction to be due to the Party owed but unpaid by the disputing Party. The disputing Party shall pay all costs and penalties that may be associated with withdrawing funds to pay the Party owed. Any funds remaining in the escrow account after payment to the Party owed, including accumulated Interest on those remaining funds, shall be returned to the owing Party.

- 6.6 Market Payments.** All payments for market charges to the ISO will be made in accordance with the Settlement and Billing Protocol and the ISO Tariff. Any payment that is late will incur interest in accordance with the ISO Tariff, and the payment may receive a credit for distribution of interest or penalties received from other Scheduling Coordinators in accordance with the ISO Tariff.

7. SCHEDULING AND UNUSED CAPACITY

- 7.1 Scheduling.** Except as provided herein, scheduling of all APS/IID SWPL Transactions shall be in accordance with the scheduling provisions of the ISO Tariff, the ISO scheduling protocols, operating procedures and time lines. SDG&E, or its designee, shall act as the Scheduling Coordinator for the APS/IID SWPL Transactions. The ISO shall provide SDG&E with a separate Scheduling Coordinator identification for these transactions to ensure proper scheduling and settlement in accordance with this Operations Agreement.

- 7.2 Unused Capacity.** If the Schedules submitted by the Scheduling Coordinator for APS/IID SWPL Transactions do not fully utilize the transmission capacity of the APS/IID SWPL Shares, the ISO shall have the right to use all or any portion of unused capacity on the SWPL in real-time in accordance with the SWPL Agreements. APS and IID have reciprocal rights to use unused transmission capacity on the SDG&E SWPL Share in accordance with the SWPL Agreements.

8. DISPUTE RESOLUTION

- 8.1 Dispute Resolution.** The Parties shall make reasonable efforts to settle all disputes arising out of or in connection with this Operations Agreement. In the event any dispute is not settled, the Parties shall adhere to the ISO ADR Procedures set forth in Section 13 of the ISO Tariff, which is incorporated by reference, except that any reference in Section 13 of the ISO Tariff to Market Participants shall be read as a reference to SDG&E as the Scheduling Coordinator for the APS/IID SWPL Transactions and references to the ISO Tariff shall be read as references to this Operations Agreement.

9. LIABILITY

9.1 Liability. The provisions of Section 14 of the ISO Tariff will apply to liability arising under this Operations Agreement, except that all references in Section 14 of the ISO Tariff to Market Participants shall be read as references to SDG&E as the Scheduling Coordinator for the APS/IID SWPL Transactions and references to the ISO Tariff shall be read as references to this Operations Agreement.

10. UNCONTROLLABLE FORCES

10.1 Uncontrollable Forces. Section 15 of the ISO Tariff shall be incorporated by reference into this Agreement except that all references in Section 15 of the ISO Tariff to Market Participants shall be read as references to SDG&E as the Scheduling Coordinator for the APS/IID SWPL Transactions and references to the ISO Tariff shall be read as references to this Agreement.

11. NO DEDICATION OF FACILITIES

11.1 No Dedication of Facilities. Any undertaking by a Party under any provision of this Operations Agreement is rendered strictly as an accommodation and shall not constitute the dedication of the SWPL or any portion thereof by the undertaking Party to the public, to any other Party or to any third party, and any such undertaking by a Party shall cease upon the termination of such Party's obligations under this Operations Agreement.

12. MISCELLANEOUS

12.1 Assignments. Any Party may assign or transfer any or all of its rights and/or obligations under this Operations Agreement with the other Party's prior written consent in accordance with Section 17 of the ISO Tariff. Such consent shall not be unreasonably withheld. Any such transfer or assignment shall be conditioned upon the successor in interest accepting the rights and/or obligations under this Operations Agreement as if said successor in interest was an original Party to this Operations Agreement.

12.2 Notices. Any notice, demand or request which may be given to or made upon any Party regarding this Operations Agreement shall be made in accordance with Section 20.1 of the ISO Tariff. A Party must update the information in Schedule 3 of this Operations Agreement as information changes. Such changes shall not constitute an amendment to this Operations Agreement.

12.3 Waivers. Any waivers at any time by any Party of its rights with respect to any default under this Operations Agreement, or with respect to any other matter arising in connection with this Operations Agreement, shall not constitute or be

deemed a waiver with respect to any subsequent default or other matter arising in connection with this Operations Agreement. Any delay, short of the statutory period of limitations, in asserting or enforcing any right under this Operations Agreement shall not constitute or be deemed a waiver of such right.

- 12.4 Governing Law and Forum.** This Operations Agreement shall be deemed to be a contract made under, and for all purposes shall be governed by and construed in accordance with, the laws of the State of California, except its conflict of law provisions. The Parties irrevocably consent that any legal action or proceeding arising under or relating to this Operations Agreement to which the ISO ADR Procedures do not apply, shall be brought in any of the following forums, as appropriate: any court of the State of California, any federal court of the United States of America located in the State of California, or, where subject to its jurisdiction, before the Federal Energy Regulatory Commission.
- 12.5 Consistency with Federal Laws and Regulations.** This Operations Agreement shall incorporate by reference Section 20.8 of the ISO Tariff as if the references to the ISO Tariff were referring to this Operations Agreement.
- 12.6 Merger.** This Operations Agreement constitutes the complete and final agreement of the Parties with respect to the subject matter hereto and supersedes all prior agreements, whether written or oral, with respect to such subject matter, except with respect to the Settlement Agreement.
- 12.7 Amendment.** This Operations Agreement and the Schedules attached hereto may be amended from time to time by the mutual agreement of the Parties in writing. Amendments that require FERC approval shall not take effect until FERC has accepted such amendments for filing and made them effective. If the amendment does not require FERC approval, the amendment will be filed with FERC for information. Nothing contained herein shall be construed as affecting in any way the right of a Party furnishing services in accordance with this Operations Agreement to unilaterally make application to FERC for a change in the rates, terms and conditions of this Operations Agreement under Section 205 of the Federal Power Act and pursuant to FERC's Rules and Regulations promulgated thereunder, nor shall it affect the right of any Party taking service under this Operations Agreement to file a complaint under Section 206 of the Federal Power Act.
- 12.8 Severability.** If any term, covenant, or condition of this Operations Agreement or the application or effect of any such term, covenant, or condition is held invalid as to any person, entity, or circumstance, or is determined to be unjust, unreasonable, unlawful, imprudent, or otherwise not in the public interest by any court or government agency of competent jurisdiction, and the Parties elect not to terminate this Operations Agreement, then such term, covenant, or condition

shall remain in force and effect to the maximum extent permitted by law, and all other terms, covenants, and conditions of this Operations Agreement and their application shall not be affected thereby, but shall remain in force and effect and the Parties shall be relieved of their obligations only to the extent necessary to eliminate such regulatory or other determination unless a court or governmental agency of competent jurisdiction holds that such provisions are not separable from all other provisions of this Operations Agreement. Nothing in this Section 12.8 shall limit the rights of any Party under Section 12.7.

12.9 Effect on SWPL Agreements. Nothing in this Operations Agreement shall affect the rights and obligations among the SWPL Participants under the SWPL Agreements and nothing contained herein shall assign any rates or charges to the APS/IID SWPL Shares under the SWPL Agreements except as provided under Section 6.3 of this Operations Agreement.

12.10 Counterparts. This Operations Agreement may be executed in one or more counterparts at different times, each of which shall be regarded as an original and all of which, taken together, shall constitute one and the same Agreement.

IN WITNESS WHEREOF, the Parties have caused this Operations Agreement to be executed by their respective authorized officials.

California Independent System Operator Corporation:

By: _____
Name: _____
Title: _____
Date: _____

San Diego Gas & Electric Company:

By: _____
Name: James P. Avery
Title: Sr. Vice President - Electric
Date: May 23, 2005

IN WITNESS WHEREOF, the Parties have caused this Operations Agreement to be executed by their respective authorized officials.

California Independent System Operator Corporation:

By Y. Mansour
Name: Yakout Mansour
Title: President and Chief Executive Officer
Date: May 23, 2005

San Diego Gas & Electric Company:

By: _____
Name: _____
Title: _____
Date: _____

**SCHEDULE 1
LOSS CALCULATION**

- 1) For calendar years 2005 through 2008, the ISO will apply a fixed percentage for Transmission Losses of 0.5% to all APS/IID SWPL Transactions.
- 2) The Parties will develop a procedure to implement the annual fixed loss calculation percentage. Beginning in calendar year 2009, the Parties shall determine an annual fixed loss percentage to be applied to all APS/IID SWPL Transactions, based on the following:
 - a) Actual Transmission Losses will be determined for a 12-month period from January 1 through December 31 of the previous year.
 - b) Transmission Losses shall be calculated using actual meter data at the ISO Control Area boundary for Palo Verde/Hassayampa, North Gila and Imperial Valley.
 - c) Transmission Losses shall be changed effective on March 1, of each year and reported to the ISO by January 15.
 - d) If SDG&E disputes the loss factor calculation, SDG&E shall invoke Section 8 of this Operations Agreement to resolve the dispute.
 - e) If the dispute is not resolved by January 15, the ISO may apply the fixed loss percentage for the previous year until the dispute is resolved.

SCHEDULE 2 Line Operator Charge

For the period from 2005 through 2010, the ISO shall charge SDG&E an annual Line Operator Charge ("LOC") of \$1,577,000 to compensate the ISO for its capital costs and operating expenses associated with the administration of the joint ownership of SWPL for the benefit of all ISO customers. The LOC will be assessed on a monthly basis at a rate of \$131,416.67 per month to the SDG&E Scheduling Coordinator identification "SDG3." The ISO will submit all invoices for such charges incurred in 2005 before the end of calendar year 2005.

Effective January 1, 2011, the amount of the Line Operator Charge will be evaluated and adjusted to reimburse the ISO for the forecasted costs associated with such joint ownership. The Line Operator Charge shall be determined as follows:

- a) The ISO shall forecast its annual capital costs and operating expenses attendant to administration of the joint ownership aspects of SWPL. The calculation shall be provided to SDG&E no later than July 1.
- b) If SDG&E disputes the Line Operator Charge calculation, SDG&E shall invoke Section 8 of this Agreement to resolve the dispute.
- c) If the dispute is not resolved by December 15, the ISO shall assess the Line Operator Charge it calculated under paragraph (a) until the dispute is resolved

The Parties may mutually agree to a multi-year calculation of the Line Operator Charge.

Any revenue received by the ISO for the Line Operator Charge addressed in this Agreement shall be considered Other Revenue and used to reduce the ISO's capital costs and operating expenses.

Billing:

- 1) The ISO will bill SDG&E by the 15th day of each month for the previous month's service. The bills shall be sent via electronic mail with a copy sent via first-class United States Mail.
- 2) SDG&E shall pay monthly 1/12th of the Line Operator Charge.
- 3) SDG&E shall provide the ISO the following billing information and notify the ISO of any changes to its information at least one billing cycle prior to the change:
Contact name
Billing address
Billing telephone number
Billing electronic mail address

**SCHEDULE 3
NOTICES**

SDG&E

Name of Primary Representative: Scott Peterson
Title: Director, Electric Grid Operations
Address: P.O. Box 129831, SD1160
City/State/Zip Code: San Diego, California 92112-9831
Email Address: speterson@semprautilities.com
Phone: 619-725-8639
Fax No: 619-683-3291

Name of Alternative Representative: S. Ali Yari
Title: Director, Electric Transmission & Distribution Engineering
Address: 8330 Century Park Court
City/State/Zip Code: San Diego, California 92123
Email Address: AYari@semprautilities.com
Phone: 858-654-8200
Fax No: 619-654-1692

ISO:

Name of Primary Representative: Thomas Doughty
Title: Director of Client Relations
Address: 151 Blue Ravine Road
City/State/Zip Code: Folsom, CA 95630
Email Address: tdoughty@caiso.com
Phone: (916) 608-7373
Fax No: (916) 351-2487

Name of Alternative Representative: Deborah Le Vine
Title: Director of Contracts
Address: 151 Blue Ravine Road
City/State/Zip Code: Folsom, CA 95630
Email Address: dlevine@caiso.com
Phone: (916) 351-2144
Fax No: (916) 351-2487

ATTACHMENT B

number excluding the last three digits in the docket number field to access the document. For assistance, please contact FERC Online Support at FERCOnlineSupport@ferc.gov or toll-free at (866)208-3676, or for TTY, contact (202)502-8659. Protests and interventions may be filed electronically via the Internet in lieu of paper; see 18 CFR 385.2001(a)(1)(iii) and the instructions on the Commission's web site under the "e-Filing" link. The Commission strongly encourages electronic filings.

Comment Date: _____