

**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

<b>California Independent System</b>	)	<b>Docket Nos. ER98-1057-000,</b>
<b>Operator Corporation</b>	)	<b>ER98-1058-000,</b>
	)	<b>ER98-2199-000,</b>
	)	<b>ER98-4106-000,</b>
	)	<b>ER98-4107-000,</b>
	)	<b>ER99-189-000, and</b>
	)	<b>ER99-294-000</b>

**EXPLANATORY STATEMENT**

**Introduction**

On December 12, 1997, the ISO filed two separate Responsible Participating Transmission Owner Agreements (“RPTO Agreements”), one between the ISO and Pacific Gas and Electric Company (“PG&E”) and the other between the ISO and Southern California Edison Company (“SoCal Edison”). The RPTO Agreements allow for the ISO to meet the Commission’s requirement that it preserve the rights of Existing Rightholders, as defined in the RPTO Agreement, while still enabling the ISO to implement the overall market structure outlined in the ISO Tariff.<sup>1</sup> The RPTO Agreement with PG&E was designated as Docket No. ER98-1057-000. The RPTO Agreement with SoCal Edison was designated as Docket No. ER98-1058-000. The Commission noticed the filings on January 8, 1998 with interventions and protests due by January 22, 1998.

Numerous parties filed motions to intervene, including: the Public Utilities Commission of the State of California; the Western Area Power Administration;

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<sup>1</sup> Capitalized terms not otherwise defined herein are defined in the Master Definitions Supplement, ISO Tariff Appendix A.

the Los Angeles Department of Water and Power; the Modesto Irrigation District; Duke Energy Trading and Marketing, LLC; the Lassen Municipal District; the Transmission Agency of Northern California; the California Department of Water Resources; the California Manufacturers Association and the California Large Energy Consumers Association; SoCal Edison; PG&E; the City and County of San Francisco; the Metropolitan Water District of Southern California; Cities of Redding and Santa Clara, California, and the M-S-R Public Power Agency; the Northern California Power Agency; Turlock Irrigation District; San Diego Gas & Electric Company; the Independent Energy Producers Association; the Sacramento Municipal Utility District; and the Cities of Anaheim, Azusa, Banning, Colton and Riverside, California.

On February 25, 1998 the Commission issued an order granting all the motions to intervene pending at that time and conditionally accepting the two RPTO Agreements for filing to be effective commensurate with the start of ISO operations. California Independent System Operator Corporation, 82 FERC ¶ 61,174. The Commission required that the ISO modify the RPTO Agreements consistent with its order of December 17, 1997 in Pacific Gas & Electric Company, et al., 81 FERC ¶ 61,320. The Commission also established a hearing to determine the reasonableness of the proposed RPTO Agreements.

Prehearing conferences were held in these proceedings on March 17, 1998 and on April 15, 1998. On June 1, 1998, the ISO submitted its compliance filing incorporating the modifications to the RPTO Agreements required by the Commission's December 17, 1997 and February 25, 1998, and March 30, 1998 orders.

The ISO has also submitted several amendments to Appendix A of the PG&E and SoCal Edison RPTO Agreements. On March 11, 1998, the ISO filed an Amendment to Appendix A of the RPTO Agreement with PG&E. This filing,

designated as Docket No. ER98-2199-000, was accepted by the Commission and consolidated with the original filings in an Order dated March 30, 1998. On August 3, 1998, the ISO filed both a first amendment to Appendix A of the SoCal Edison RPTO Agreement and a second amendment to Appendix A of the PG&E RPTO Agreement. By Order dated September 29, 1998, the Commission accepted the filings in Docket Nos. ER98-4106-000 (SoCal Edison) and ER98-4107-000 (PG&E) and consolidated the proceedings with those for Docket Nos. ER98-1057-000 and ER98-1058-000.

On October 14, 1998, the ISO filed a second revision to Appendix A of the SoCal Edison RPTO Agreement. This was designated as Docket No. ER99-189-000. On October 23, 1998, the ISO filed a third revision to Appendix A of the PG&E RPTO Agreement. This filing was designated as Docket No. ER99-294-000. By Order dated December 11, 1998, the Commission accepted the filings in Docket Nos. ER99-189-000 and ER99-294-000 and consolidated them with the ongoing RPTO proceedings.

The intervenors in these proceedings have raised a variety of concerns with respect to the RPTO Agreements. As a result of extensive settlement discussions between the ISO, the Intervenors and the Commission Trial Staff, the participants in these proceedings have reached a mutually acceptable resolution of these concerns, which is embodied in the Offer of Settlement. If accepted by the Commission, the Offer of Settlement would resolve all the issues pertaining to the RPTO Agreements set for hearing in these matters.

### **Settlement Terms**

The following description of the major provisions of the Offer of Settlement is not intended to amend, modify, or limit any of the provisions of the Offer of Settlement in any respect. In the event of a conflict between this Explanatory Statement and the Offer of Settlement, the Offer of Settlement will prevail.

Article I of the Offer of Settlement provides that:

- the ISO, PG&E and SoCal Edison shall execute revised RPTO Agreements to be fully consistent with the revised pro forma Agreement in Attachment A to the Offer of Settlement;
- the revised pro forma Agreement set forth in Attachment A will be the basis for any future negotiations between the ISO and any Market Participant that is a Responsible Participating Transmission Owner and the terms thereof will be varied only to the extent necessary to preserve Existing Rights or to reflect specific or unique circumstances of the Market Participant involved;
- the ISO will, in any future filing of a RPTO Agreement incorporating terms that vary from the pro forma terms, identify in its transmittal letter the revisions and the specific or unique circumstances that necessitated a departure from the pro forma Agreement; and
- with respect to Existing Contracts not listed in Appendix A of the RPTO Agreement, PG&E and SoCal Edison agree not to amend such Existing Contracts in any way that may affect the ISO's reliable operation of the ISO Controlled Grid without first consulting the ISO and to use reasonable efforts to ensure that honoring such Existing Contracts does not adversely affect the safe and reliable operation of the ISO Controlled Grid.

Article II of the Offer of Settlement contains the general terms and conditions. It recognizes that the Offer of Settlement is a negotiated compromise and that Commission acceptance shall not constitute approval of, or precedent regarding, any principle or issue in this proceeding, and shall not relieve any party of the burden, under Section 205 or 206 of the Federal Power Act, to establish the justness and reasonableness of any superseding amendment. In

addition, Article II states that the Commission's acceptance of the Offer of Settlement and Section 2.7 of the RPTO Agreement will not affect the right of any Party or the Commission Trial Staff to argue in any other Commission proceeding that the shortfalls and surpluses referenced in RPTO Agreement Sections 3.3 and 4.1 should not be recovered through the Transmission Revenue Balancing Account Adjustment described in Section 5.5 of the Transmission Owner Tariffs.

Article II specifies that the Offer of Settlement does not affect any party's rights under Existing Contracts and that the Offer of Settlement and the revised RPTO Agreements do not constitute a waiver of the right of any party to challenge whether a RPTO Agreement, or any action or proceeding arising under or relating to a RPTO Agreement, is subject to the jurisdiction of the Commission.

Article II expresses the strong desire that the Offer of Settlement be accepted by the Commission in its entirety. If, however, modifications are ordered, each party has thirty days to raise an objection to the modifications. If such an objection to the modification is made, the Offer of Settlement shall be withdrawn.

Article II also notes that the discussions among the parties were conducted in accordance with Rule 602(e) of the Commission's Rules of Practice and Procedure and provides that the Offer of Settlement shall become effective when an order of the Commission accepting the Settlement, without modification, or with modifications that are agreed to by all parties, becomes final and nonappealable under the terms of the Federal Power Act.

**Conclusion**

The Offer of Settlement presents an acceptable resolution of the issues in these proceedings. Accordingly, the Commission should approve the Offer of Settlement, without modification or condition, as soon as possible.

Respectfully submitted,

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