

AMERICAN ARBITRATION ASSOCIATION

DEMAND FOR ARBITRATION

To institute proceedings, please send three copies of this demand and the arbitration agreement, with the filing fee as provided in the rules, to the AAA. Send the original demand to the Respondent(s).

Date: December 7, 2000

Dispute arises out of the Independent System Operator (ISO) Tariff

Name of Claimant: City of Anaheim, California  
Address Anaheim Public Utilities Department  
201 South Anaheim Blvd., CHW – 11<sup>th</sup> Floor  
City and State Anaheim, CA Zip Code 92805  
Telephone (714) 765-5173 Fax (714) 765-4138 email \_\_\_\_\_

Name of Representative Bonnie S. Blair  
Name of Firm (if applicable) Thompson Coburn LLP  
Representative's Address 1909 K Street, N.W., Suite 600  
City and State Washington, D.C. Zip Code 20006-1167  
Telephone (202) 585-6905 Fax (202) 585-6969 email bblair@thompsoncoburn.com

Name of Claimant: City of Azusa, California  
Address Azusa Light & Water, Electric Division  
729 N. Azusa Avenue  
City and State Azusa, CA Zip Code 91702  
Telephone (626) 812-5219 Fax (626) 334-3163 email \_\_\_\_\_

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**Name of Claimant:** City of Banning, California  
Address Public Works Department  
127 East Lincoln  
City and State Banning, CA Zip Code 92220  
Telephone (909) 922-3140 Fax (909) 922-3141 email \_\_\_\_\_

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**Name of Claimant:** City of Colton, California  
Address Colton Electric Department  
650 North La Cadena Drive  
City and State Colton, CA Zip Code 92324  
Telephone (909) 370-5105 Fax (909) 370-6104 email \_\_\_\_\_

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**Name of Claimant:** City of Riverside, California  
Address Riverside Public Utilities Department  
3900 Main Street  
City and State Riverside, CA Zip Code 92522  
Telephone (909) 826-5506 Fax (909) 369-0548 email \_\_\_\_\_

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**Party on whom the Demand is Made:** California Independent System Operator Corporation

Address 151 Blue Ravine Road

City and State Folsom, CA Zip Code 95630

Telephone (916) 351-2334 Fax (916) 351-2350 email \_\_\_\_\_

Name of Representative Charles F. Robinson

Vice President, General Counsel and Corporate Secretary

Name of Firm (if applicable) California Independent System Operator Corporation

Address 151 Blue Ravine Road

City and State Folsom, CA Zip Code 95630

Telephone (916) 351-2334 Fax (916) 351-2350 email \_\_\_\_\_

The named Claimant, pursuant to arbitration provisions set forth in the California Independent System Operator Tariff providing for arbitration under the **Commercial Arbitration Rules** of the American Arbitration Association, hereby demands arbitration thereunder.

STATEMENT OF CLAIM(S):

In accordance with §13.2.5 of the ISO Tariff, the Cities of Anaheim, Azusa, Banning, Colton, and Riverside, California ("Southern Cities") hereby seek recovery from the California Independent System Operator Corporation ("ISO") of charges imposed by the ISO for trading days during February and March of 2000. The ISO improperly billed the Southern Cities for charges totaling \$1,552,882.57 for trading days during February and March of 2000.

RELIEF SOUGHT (including the proposed award if applicable):

Reimbursement to the Southern Cities of the \$1,552,882.57 in improper charges, plus interest, and any other relief deemed just and reasonable.

FOUNDATIONS FOR RELIEF:

The Southern Cities seek recovery from the ISO of \$1,552,882.57 in charges imposed by the ISO for trading days in February and March of 2000. The ISO characterized the disputed charges as Intra-Zonal Congestion costs. The Southern Cities do not believe that the ISO's classification of the disputed charges as Intra-Zonal Congestion costs is valid under the ISO Tariff or that the ISO applied the proper mechanism for recovery of such costs. Furthermore, even if the ISO's classification of these costs is valid, the application of charges for Intra-Zonal Congestion to transactions scheduled under the terms of Existing Transmission Contracts is improper. The Southern Cities seek reimbursement of the \$1,552,882.57 in invalid charges imposed by the ISO, plus interest from the dates such charges were paid by the Cities, plus such other relief as may be appropriate.

The disputed charges were the result of the ISO's dispatch of generation to replace Reliability Must-Run ("RMR") units that were not available in the February-March period. The ISO initially treated the dispatch as Out-of-Market ("OOM"), paid the generators that were dispatched on the basis of the OOM pricing mechanism, and billed the costs to the Southern California Edison Company ("SCE") as the Responsible Participating Transmission Owner ("PTO"). The Federal Energy Regulatory Commission ("FERC") later ruled, however, that because the generators that were dispatched (or some of them) had submitted bids, use of the OOM pricing mechanism was inappropriate, and the ISO was required to pay the generators the bid price. The ISO then re-labeled the dispatch as Intra-Zonal Congestion and spread the costs to all Scheduling Coordinators ("SCs") in SCE's service area. The total of the surcharges to the five Cities for the one-month period is approximately \$1,552,882.57.

The ISO has stated that the dispatch orders that gave rise to the surcharges were necessary to provide voltage support services in replacement for service that would have been provided by RMR units if they had been available. The ISO acknowledges that SCE would have been billed the costs to meet the requirements if the service had been provided by the RMR units or if the service had been provided by OOM purchases. The ISO's characterization of the costs as Intra-Zonal Congestion charges is invalid and inconsistent with the cost recovery methods applicable to costs incurred to meet local reliability needs.

Even if the ISO's characterization of the costs as Intra-Zonal Congestion were valid, it is improper for the ISO to impose costs for congestion management on the Cities, because deliveries of energy to the Cities primarily occur under Existing Transmission Contracts ("ETCs"), and transactions under ETCs are not subject to congestion management charges. The FERC has stated that "the ETCs do not contemplate congestion charges of any kind" except in circumstances not pertinent to the charges disputed here. *California Independent System Operator Corporation*, 89 FERC ¶61,229 (1999).

Hearing Locale Requested: Washington, D.C.  
(City and State)

The Party or Parties on whom the Demand is made are hereby notified that copies of our arbitration agreement and this demand are being filed with the American Arbitration Association at its Dallas, TX office, with a request that it commence administration of the arbitration. Under the rules, you may file an answering statement within ten days after notice from the administrator.

Claimant's Signature Bonnie S. Blain Title Counsel For Claimants  
(May Be Signed by a Representative)