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10 UNITED STATES BANKRUPTCY COURT
11 NORTHERN DISTRICT OF CALIFORNIA
12 SAN FRANCISCO DIVISION

13 In re) Case No. 01-30923 DM
14)
15 PACIFIC GAS & ELECTRIC) Chapter 11
16 COMPANY, a California)
17 corporation,) RESPONSE BY CALIFORNIA
18 Debtor.) INDEPENDENT SYSTEM OPERATOR
19) CORPORATION TO OMNIBUS
20 Federal I.D. No. 94-0742640) OBJECTION TO ISO AND GENERATOR
21) CLAIMS FOR RELIABILITY MUST-RUN
22) SERVICE AGREEMENT CHARGES
23)
24) Date: August 28, 2002
25) Time: 9:30 a.m.
26) Place: 235 Pine St., 22nd Floor
27) San Francisco, CA
28)

29 TO THE HONORABLE DENNIS MONTALI, UNITED STATES BANKRUPTCY
30 JUDGE:

31 The California Independent System Operator Corporation
32 ("ISO") hereby submits its Response to the Omnibus Objection to
33 ISO and Generator Claims for Reliability Must-Run Service
34 Agreement Charges (the "Objection") filed by Pacific Gas and
35 Electric Company, Chapter 11 debtor and debtor in possession

1 herein (the "Debtor"). The Objection asks the Court to disallow
2 those claims asserted by the ISO and certain generators that
3 seek amounts attributable to reliability must-run ("RMR")
4 service charges otherwise payable under contracts between the
5 ISO and certain generators (the "RMR Contracts"). As
6 acknowledged by the Debtor in its Objection, the RMR Contracts
7 provide that, when called upon by the ISO, certain generators
8 ("RMR Units") will make energy available in order to maintain
9 reliability in the ISO Control Area, including but not limited
10 to acceptable voltage and transmission line loads. Pursuant to
11 the ISO tariff approved by the Federal Energy Regulatory
12 Commission, the ISO is entitled to invoice the Debtor for RMR
13 charges; the Debtor pays the ISO, and the ISO distributes the
14 funds to the applicable RMR Units. This settlement is separate
15 from the settlement associated with the ISO markets for Energy
16 and Ancillary Services. See Objection, pp. 3-4.

17 Included among the claims covered by the Objection is the
18 proof of claim filed by the ISO (the "ISO Claim"). See
19 Objection, Exhibit "A." The Objection identifies four (4)
20 specific grounds as the basis for the objection to the ISO Claim
21 (as described in the Objection). Set forth below is the ISO's
22 response to each of the grounds identified by the Debtor:

23 (1) \$4.4 Million Alleged Discrepancy. The Debtor
24 states that there is a "significant and unexplained discrepancy"
25 between the amount of RMR charges and interest identified in the
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1 summary sheet for the ISO Claim (\$45,853,469.73) (the "ISO RMR
2 Claim"), and the amount reflected on the supporting
3 documentation attached to the ISO Claim behind Tab 8.
4 Objection, p. 4. As the Debtor is aware, balances payable to
5 the ISO are constantly subject to updating and revision as
6 market re-runs and adjustments are undertaken by the ISO. With
7 respect to the ISO RMR Claim, the information contained in the
8 summary sheet was more recent than the information contained
9 behind Tab 8 and more accurately reflects the ISO RMR Claim as
10 of the date the ISO Claim was filed. Since the date the ISO
11 Claim was filed, other balances may have changed or been subject
12 to adjustment.¹ It is the ISO's intention to file an amended
13 claim to reflect these updates; however, since the amounts are
14 subject to further revision, there will likely continue to be a
15 discrepancy between the amount of any formal ISO Claim in the
16 bankruptcy case (which, by necessity, is fixed as of a specific
17 point in time) and the actual amount of the ISO Claim (which is
18 fluid and subject to ongoing adjustment). For purposes of the
19 Objection, however, the summary of the ISO RMR Claim is the more
20 accurate reflection of such claim as of the date the claim was
21 filed.
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25 (2) \$2.1 Million Alleged Miscalculation. The Debtor
26 next argues that the ISO has "miscalculated" the amount of RMR

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28 ¹ This is not to suggest that the ISO is including post-petition charges in
its claim. To the contrary, the market re-runs and adjustments all relate to

1 charges by \$2,153,232.94 by allegedly "erroneously"
2 miscategorizing certain amounts due to the Debtor as amounts due
3 from the Debtor. Objection, p. 4. The Debtor alleges that the
4 ISO issued credits in December 2000 for these charges. However,
5 the ISO RMR Claim already includes all credits issued for the
6 Debtor, which have been netted out for purposes of computing the
7 ISO RMR Claim. In order for the ISO to fully address this
8 aspect of the Objection, the Debtor must identify the specific
9 entries for RMR charges that it believes are erroneous. Absent
10 such detail, the ISO believes that the ISO RMR Claim
11 appropriately reflects all credits in favor of the Debtor.
12

13 (3) Alleged Double Counting of Interest. The Debtor
14 further alleges that the ISO RMR Claim "appears" to double-count
15 interest in the total amount of \$682,261.53. Objection, p. 5.
16 The Debtor seems to be suggesting that the "interest" column in
17 Exhibit 8 of the ISO Claim is unnecessary because the invoiced
18 amounts already included interest. However, the interest
19 reflected in the "interest" column of Exhibit 8 actually covers
20 a different time period than the invoices. The interest
21 reflected on the invoices accrued between the "estimated" final
22 invoice and the "adjusted" final invoice provided to the Debtor.
23 This interest component (on the invoices) constitutes interest
24 on the amount by which the "estimated" final invoice either
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28 the pre-petition period.

1 exceeded or was less than the "adjusted" final invoice during
2 the time between the two invoices. In contrast, the "interest"
3 column in Exhibit 8 of the ISO Claim reflects interest that has
4 accrued since the "adjusted" final invoice was generated (which,
5 subject to the limitations imposed by the Bankruptcy Code, will
6 continue to accrue until the balance is paid in accordance with
7 the terms and conditions of the applicable RMR Contracts). As
8 such, the interest component of the ISO RMR Claim is not
9 duplicative of any other portion of such claim.

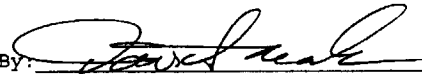
11 (4) Claim Duplicative of Generator Claims. Finally,
12 the Debtor alleges that the ISO RMR Claim is duplicative of
13 claims filed by Geysers Power Company, Mirant Delta LLC, Mirant
14 Potrero and the Northern California Power Agency (collectively,
15 the "Generator RMR Claims"). Since the ISO has not been
16 provided with copies of the Generator RMR Claims, it is
17 impossible for the ISO to respond to the Debtor's allegations in
18 that regard. Nevertheless, the ISO recognizes that, under
19 certain circumstances described in the RMR Contracts, individual
20 RMR Units have the right to enforce their respective claims
21 against the Debtor. The ISO is willing to withdraw duplicative
22 claims to the extent that, (1) PG&E demonstrates that the claims
23 are indeed duplicative, (2) the ISO is notified in writing that
24 the individual RMR Units opt to pursue their own claim rather
25 than have the ISO pursue them, and (3) PG&E agrees that it will
26 not object to the individual RMR Unit claims on the grounds that
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1 they are not the real party in interest. The ISO will seek to
2 resolve these issues in advance of the hearing scheduled for
3 August 28. Pending resolution of these issues, the ISO reserves
4 the right to contend that it is the proper party to pursue
5 collection of the ISO RMR Claim.

6
7 WHEREFORE, the ISO respectfully requests that the Court
8 enter an order (i) overruling the Objection with respect to the
9 ISO Claim; (ii) in the alternative, requiring the Debtor to
10 provide specific evidence to support the Objection to the ISO
11 RMR Claim and affording the ISO a reasonable opportunity to
12 respond to any specific objection raised by the Debtor; and
13 (iii) granting such other and further relief as is just and
14 proper under the circumstances.
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16 Dated: August 13, 2002

CALIFORNIA INDEPENDENT SYSTEM
OPERATOR CORPORATION

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18 By: 
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