

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;
Nora Mead Brownell, and Suedeen G. Kelly.

California Independent System Operator
Corporation

Docket Nos. ER05-1522-000 and
ER05-1533-000

ORDER ACCEPTING AMENDMENTS TO OPERATING AGREEMENT
AND OPERATING AGREEMENT

(Issued November 30, 2005)

1. In this order, the Commission accepts: (1) the California-Oregon Intertie Control Area Operating Agreement (Intertie Agreement) between the California Independent System Operator Corporation (CAISO) and the Sacramento Municipal Utility District (SMUD); and (2) Amendment No. 4 to the Interconnected Control Area Operating Agreement (Interconnected Agreement) between those parties. The Intertie Agreement and Amendment No. 4 to the Interconnected Agreement are intended, among other things, to facilitate the transfer of certain electric transmission facilities from the CAISO control area to the SMUD control area.¹

Background

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2. On September 30, 2005, CAISO filed the Intertie Agreement between CAISO and SMUD. According to CAISO, the Intertie Agreement will help: (1) facilitate the transfer

¹ A control area is the entity that is responsible for integrating resources ahead of time, maintaining load-interchange-generation balance, maintaining adequate frequency and voltage in real time, gathering data for analysis, and performing settlements. The CAISO control area consists of the former control areas of the three investor-owned utilities (Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company) and the service areas of some of the municipal utility districts. However, it does not include SMUD's and Los Angeles Department of Water & Power's control areas.

of the California-Oregon Transmission Project² transmission line from the CAISO control area to the SMUD control area; and (2) provide for the continued reliable, coordinated operation of the Pacific Alternating Current Intertie and the California-Oregon Transmission Project with the Pacific Northwest Path Operator³ after the California-Oregon Transmission Project's transfer to the SMUD control area. CAISO requests an effective date of December 1, 2005 for the Intertie Agreement.⁴

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3. On September 30, 2005, CAISO also filed its proposed Amendment No. 4 to the Interconnected Agreement, which amends that agreement to reflect the transfer of Modesto Irrigation District's (Modesto) electric system and the 500 kV California-Oregon Transmission Project transmission line from CAISO's control area to SMUD's.⁵ Amendment No. 4 also requires the implementation of a pilot program authorizing the implementation of a pseudo tie of a generating unit currently in the SMUD control area to the CAISO control area.⁶ These transfers and the pseudo tie pilot program are among several planned modifications to the current CAISO control area that are scheduled to

² The California-Oregon Transmission Project is a 342-mile, 500-kV transmission project that interconnects the Pacific Northwest to central California by way of an alternating current intertie. The California-Oregon Transmission Project serves as a parallel third-circuit to the two existing 500 kV lines of the Pacific Alternating Current Intertie; the three 500 kV lines in combination are referred to as the California-Oregon Intertie.

³ The Pacific Northwest Path Operator is the entity (currently Bonneville Power Administration) that is responsible for operating the electric transmission path and managing the transfer capability north of the California-Oregon border.

⁴ See *infra* note 7 and accompanying text.

⁵ On September 29, 2005, CAISO submitted Amendment No. 3 to the Interconnected Agreement. That amendment was accepted by delegated letter order, which, *inter alia*, provided for a pilot program that authorizes a pseudo tie of a resource currently in the CAISO control area to the SMUD control area. See *California Independent System Operator Corp.*, Docket No. ER05-1520-000 (Nov. 14, 2005) (unpublished letter order).

⁶ A pseudo tie is a telemetered reading or value that is updated in real time and used as a tie-line flow in an area control error equation and allows a generator in one control area to appear to be in another control area electrically.

occur on December 1, 2005;⁷ therefore, CAISO requests that Amendment No. 4 be made effective on that date.

Notice of Filings and Responsive Pleadings

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4. Notice of CAISO's filing of the Intertie Agreement was published in the *Federal Register*, 70 Fed. Reg. 59,334 (2005), with interventions and protests due on or before October 21, 2005. SMUD, Transmission Agency of Northern California (TANC), the Cities of Redding and Santa Clara, California, and the M-S-R Public Power Agency, Modesto, the Northern California Power Agency, Southern California Edison Company, and Western filed timely motions to intervene. The Public Utilities Commission of the State of California (CPUC) filed a notice of intervention.

5. SMUD and TANC filed comments supporting the filing. CPUC filed comments stating that the Commission's acceptance of Amendment No. 4 would lessen the footprint of the CAISO control area and, therefore, could further balkanize the operation of the transmission grid in California. According to CPUC, that balkanization of the grid may adversely affect reliability and, in turn, the interests of the ratepayers of California's investor-owned and municipal utilities that will continue to have their transmission systems operated by CAISO. On November 7, 2005, CAISO filed an answer to CPUC's comments.

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6. Notice of CAISO's filing of Amendment No. 4 to the Interconnected Agreement was published in the *Federal Register*, 70 Fed. Reg. 61,438 (2005), with protests and interventions due on or before October 24, 2005. Calpine Construction Finance Corporation, the Cities of Redding and Santa Clara, California, and the M-S-R Public Power Agency, the City and County of San Francisco (San Francisco), Modesto, the Northern California Power Agency, Pacific Gas and Electric Company, Southern California Edison Company, the Western Area Power Administration, SMUD, and TANC filed timely motions to intervene. CPUC filed a notice of intervention.

⁷ For instance, Turlock Irrigation District proposes to become an independent control area on December 1, 2005. According to CAISO, to minimize the impact of those modifications on customers, CAISO has proposed to implement them in a single, new scheduling applications network model, which it has termed the "C1 network model."

7. SMUD and TANC filed comments supporting the filing. CPUC filed comments and, on November 7, 2005, CAISO filed an answer to those comments. CPUC's comments are virtually identical to those that it filed in Docket No. ER05-1522-000 and that are summarized above; therefore, we will not repeat them here.

8. In addition to its timely motion to intervene, San Francisco filed out-of-time comments on November 7, 2005, stating that it does not object, at this time, to the Commission's acceptance of Amendment No. 4. Nevertheless, San Francisco states that the shift of Modesto's transmission system into the SMUD control area should not result in "an unintended abrogation of [San Francisco's] rights and cost shifting to [it] as a result of the shift."⁸ Specifically, San Francisco notes that it delivers power to Modesto through transmission facilities, which are owned by San Francisco and are not part of the CAISO-controlled grid. As a result, San Francisco is concerned that the shift of Modesto's transmission system into SMUD's control area will cause changes in the scheduling of San Francisco's power deliveries to Modesto, and, therefore, those changes may result in an unauthorized and uncompensated use of its transmission facilities. San Francisco also asks that the Commission state that Amendment No. 4 to the Interconnected Agreement does not govern the use or operation of San Francisco's facilities. San Francisco notes that it is in the process of resolving those concerns with Modesto, SMUD, and CAISO.

9. On November 17, 2005, CAISO filed an answer (November 17 Answer) to San Francisco's comments. In order to address San Francisco's concerns, CAISO states that it filed unilaterally an Interim Operations Agreement (IOA) between CAISO and San Francisco.⁹ According to CAISO, that proposed agreement should resolve all the concerns that San Francisco has raised in this proceeding.

10. On November 22, 2005, San Francisco and SMUD submitted separate responses to CAISO's November 17 Answer. SMUD maintains that San Francisco's concerns are either resolved by the IOA or in the process of being resolved by the parties. San Francisco states that the IOA provides a forum for it to address the issues it has raised, with the exception of its concern regarding the allocation of certain charges between San Francisco and Modesto. Specifically, San Francisco states that there still is a potential that changes in the scheduling of San Francisco's power deliveries to Modesto may result in CAISO imposing additional charges on it. San Francisco notes that it is close to reaching an agreement with CAISO and Modesto about the treatment of those charges.

⁸ San Francisco Comments, Docket No. ER05-1533-000 at 3 (Nov. 7, 2005).

⁹ See Docket No. ER06-227-000 (Nov. 17, 2005) (proposing an agreement to govern the operational relationship between CAISO and San Francisco with respect to San Francisco's power transactions that are delivered to the SMUD control area).

Discussion

Procedural Matters

11. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2005), the notices of intervention and timely, unopposed motions to intervene serve to make the entities that filed them parties to these proceedings. We will grant San Francisco's motion to comment out of time in Docket No. ER05-1533-000 given its interest in this proceeding, the early stage of the proceeding, and the absence of any undue prejudice or delay. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2005), prohibits an answer to a comment or an answer unless otherwise ordered by the decisional authority. We are not persuaded to accept CAISO's answers that were filed on November 7 and will, therefore, reject them. However, we accept CAISO's November 17 Answer and the responses of SMUD and San Francisco thereto because they provide information that has assisted us in our decision-making process.

Commission's Determination

12. CPUC states that "the effect of the Commission's approval of [Amendment No. 4] will be to lessen the footprint of the CAISO control area and to further balkanize the operation of the transmission grid in California[,which is not] in the interests of maximizing the reliability of the transmission grid in California."¹⁰ We note that Amendment No. 4 does not pose the formation of an additional control area but instead involves a transfer of two electric systems from one existing control area to another control area. As such, the proposal does not, contrary to CPUC's assertions, further balkanize the grid.

13. Nevertheless, inasmuch as the transfer of the transmission systems in question from CAISO's control area to SMUD's may have reliability implications, we believe that concern is ameliorated by the fact that SMUD, like CAISO, is a Western Electricity Coordinating Council (WECC)-certified control area. As such, SMUD must adhere to all of the North American Electricity Reliability Council's (NERC) and WECC's reliability criteria, meet certain NERC and WECC reporting requirements, and pay any WECC sanctions for violating WECC-operating requirements when it performs control area functions (*e.g.*, balancing loads and resources, providing reserves, maintaining frequency control). Thus, the Commission has not been persuaded that the proposed transfers in Amendment No. 4 will detract from the transmission system reliability of the California grid. However, we note that CPUC is free to pursue, as it states in its comments it plans to do, its concerns regarding the reliability implications of smaller control areas in the

¹⁰ CPUC Comments, Docket No. ER05-1533-000 at 2 (Oct. 20, 2005).

Commission's inquiry into whether reforms are needed to the Order No. 888 pro forma open access transmission tariff (OATT)¹¹ and in proceedings addressing the Commission's expanded reliability authority.

14. CPUC appears to be concerned that the proposed transfer may result in a possible increase in the Grid Management Charge (GMC) for the entities that continue to have their transmission systems operated by CAISO and, in turn, that those charges will be passed onto to their ratepayers. However, we note that to the extent that there are fewer entities paying CAISO's GMC due to the loss of load from the proposed transfers and a resulting increase in the GMC for the remaining entities,¹² CAISO is entitled to full recovery of its prudently incurred costs from those entities.¹³ We also note that CAISO has committed, in other fora, to reducing its overall budget and GMC costs.¹⁴

15. With respect to San Francisco's request that the Commission address its concern that the shift of Modesto's transmission system into the SMUD control area may result in CAISO imposing additional charges on San Francisco for its power deliveries to Modesto, we note that CAISO has not proposed to assess San Francisco such additional charges, let alone impose such charges on it. Therefore, we find that issue to be purely speculative and not yet ripe for our consideration. As for San Francisco's other concerns, we agree with it that they would be better addressed in the IOA proceeding.¹⁵

16. In conclusion, we find that the Intertie Agreement and Amendment No. 4 to the Interconnected Agreement appear to be just and reasonable and, accordingly, accept them, effective December 1, 2005, as requested.

¹¹ Notice of Inquiry Concerning Preventing Undue Discrimination and Preference in Transmission Services, 112 FERC ¶ 61,299 (2005).

¹² CAISO bills out the GMC based on gross load, so the cost/kWh will increase to the extent that there are fewer kWhs on the grid.

¹³ *See, e.g., California Independent System Operator Corp.*, 105 FERC ¶ 61,406 (2003) (accepting and suspending the proposed revisions to CAISO's GMC).

¹⁴ *See, e.g., CAISO, News Releases: California ISO President and CEO Yakout Mansour Discusses Realignment & Reduction* (July 14, 2005) (targeting a 30 percent reduction in the GMC by 2010), available at <http://www.caiso.com/newsroom/releases/index.html> (last visited Nov. 18, 2002).

¹⁵ *See supra* note 9 and accompanying text.

The Commission orders:

(A) We hereby accept the Intertie Agreement between CAISO and SMUD, effective December 1, 2005, as discussed in the body of this order.

(B) We hereby accept Amendment No. 4 to the Interconnected Agreement between CAISO and SMUD, effective December 1, 2005, as discussed in the body of this order.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.