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 — Docket Nos. ER05-1025-000, ER05-1025-001

ORDER CONDITIONALLY ACCEPTING AMENDMENT NO. 70

(Issued September 23, 2005)

1. In this order, pursuant to Federal Power Act (FPA) section 205,[1] we accept proposed revisions, with modifications, that the California Independent System Operator Corporation (CAISO), filed as Amendment No. 70 to its open access transmission tariff (Tariff). In its filing, the CAISO proposes to add new language concerning the relationship between the CAISO and Small Utility Distribution Companies (SUDCs), and a *pro forma* SUDC Operating Agreement to its Tariff.

## I. Background

2. The Trinity Public Utilities District (Trinity PUD) is a public utility district, organized and existing under the California Public Utility District Law, which operates distribution systems in Trinity County that are connected to grid facilities which are owned by Pacific Gas and Electric Company (PG&E), but controlled by the CAISO. Trinity PUD encompasses approximately 2,200 square miles, serves approximately 16,000 people, and has a peak load of approximately 17 MW. Trinity PUD is a first preference customer of the Western Area Power Administration (Western), from which it receives all of its power requirements.

3. Under the terms of a 1967 power integration / wheeling agreement, commonly known as Contract 2948A, Western delivered power to Trinity PUD over certain transmission facilities owned by Western and certain transmission facilities owned by PG&E, but currently controlled and operated by the CAISO. On March 31, 2004, PG&E

[1] 16 U.S.C. § 824d (2000).

provided notice of cancellation of Contract 2948A, which was scheduled to expire on January 1, 2005. The pending termination of Contract 2948A prompted the CAISO to commence contract negotiations with Trinity PUD in the summer of 2004 to allow Trinity PUD to receive service from the CAISO effective January 1, 2005.

4. The CAISO argued that, under the terms of its Tariff, a Utility Distribution Company ("UDC") Operating Agreement was necessary and prudent to receive service from the CAISO, and insisted that Trinity PUD execute a UDC Operating Agreement.[2] Trinity PUD objected to many of the provisions of the proposed UDC Operating Agreement, asserting that this agreement was drafted to address issues and operations of large utilities, not a small utility such as Trinity PUD. When the parties could not reach an agreement, the CAISO unilaterally filed, in Docket No. ER05-150-000, a UDC Operating Agreement with Trinity PUD on November 1, 2004, which Trinity PUD protested.

5. On December 30, 2004, the Commission issued an order in that docket conditionally accepting the UDC Operating Agreement between the CAISO and Trinity PUD, suspending it for a nominal period, to become effective on January 1, 2005, subject to refund, and setting the matter for hearing and settlement judge procedures.[3]

6. On May 19, 2005, the CAISO and Trinity PUD filed an Offer of Settlement and Settlement Agreement (Settlement), which includes a SUDC Operating Agreement between the CAISO and Trinity PUD.[4] Section 5 of the Settlement provides that the CAISO will separately file, pursuant to section 205 of the FPA, seeking Commission acceptance of new CAISO tariff language concerning the relationship between the CAISO and SUDCs, and a *pro forma* SUDC Operating Agreement to be included in the CAISO's Tariff.

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[2] A UDC Operating Agreement establishes the rights and obligations of the UDC and the CAISO with respect to the UDC's interconnection with the CAISO-controlled grid and the UDC's cooperation and coordination with the CAISO to aid in the reliability and the operational control of the CAISO control area and the UDC's distribution system.

[3] *California Indep. Sys. Oper. Corp.*, 109 FERC ¶ 61,391 at P. 75-76, Ordering Paragraphs (D)-(H) (2004).

[4] The Commission is issuing an order on the Settlement contemporaneously with this order.

**Amendment No. 70**

7. On May 25, 2005, the CAISO filed Amendment No. 70 to its Tariff which defines a new type of entity – a SUDC, proposes provisions concerning the relationship between the CAISO and SUDCs, and proposes a *pro forma* SUDC Operating Agreement. Specifically, Amendment No. 70 would modify the Master Definitions Supplement to include the new term SUDC, defined as:

> An entity that owns a Distribution System that is capable of transmitting or delivery of Energy to and/or from the ISO Controlled Grid that provides retail electric service to End-Use Customers, and has the following characteristics: (1) Annual Peak Demand is 25 MW or less; (2) the Distribution System is not in a local reliability area defined by the ISO; and (3) Good Utility Practice was used in designing all substation facilities that are owned or operated by the entity and interconnected to the ISO Controlled Grid, and none of those substations have transmission circuit breakers.

8. The CAISO states that the proposed SUDC provisions, contained in a new article 31 to its Tariff, mirror existing provisions in article 4 of the Tariff concerning the relationship between the CAISO and UDCs, except that the SUDC provisions reflect the differences between SUDCs and UDCs. The CAISO asserts that these differences include: (1) a UDC is required to have a control center that can communicate with the CAISO 24 hours a day, seven days a week, whereas a SUDC must provide the CAISO with a single point of contact that can be reached 24 hours a day, seven days a week; (2) a SUDC cannot shed load absent physically disconnecting each individual substation whereas a UDC has remote systems and relays to disconnect substations automatically to shed load; and (3) a SUDC will be directed to reduce load on a voluntary basis when the CAISO reaches a Stage One System Emergency but shall not be called separately to manually shed load during a Stage Three Emergency. However, a UDC is required to shed load when the CAISO reaches a Stage Three System Emergency.[5] The CAISO

[5] According to the CAISO's White Paper concerning *Alerts, Warnings, and Emergencies,* as posted on the CAISO's website, a Stage One Emergency may be declared at any time it is clear that an Operating Reserve shortfall is unavoidable, or is forecast to occur in the next two hours, and indicates that the Operating Reserve is forecast to be below minimum criteria, but not so far below as to require interruption of service to customers. A Stage Three Emergency may be declared at any time it is clear that the Spinning Reserve portion of Operating Reserve has depleted below the required level, or is forecast to occur within the next two hours. Stage Three indicates that, without significant CAISO intervention, the electric system is in danger of imminent collapse and involuntary curtailment of service to consumers is required.

requests waiver of notice to allow Amendment No. 70 to become effective on May 26, 2005, one day after filing.

9. On July 27, 2005, the CAISO filed supplemental information in response to a Commission staff data request.

## II. Notice and Comment

10. Notice of the CAISO's May 25, 2005 filing was published in the *Federal Register*, 70 Fed. Reg. 33,142 (2005), with interventions and protests due on or before June 15, 2005. Western, the California Department of Water Resources State Water Project, the Modesto Irrigation District, the Cities of Redding and Santa Clara, California, and the M-S-R Public Power Agency filed motions to intervene. Trinity PUD filed a motion to intervene and comments in support of the filing. PG&E filed a motion to intervene and protest. Southern California Edison Company (SoCal Edison) filed a motion to intervene out-of-time. The California Electricity Oversight Board (CEOB) filed a motion to intervene out-of-time and protest, but later filed to withdraw its protest. The CAISO filed a motion for leave to file answer and answer to protests, and answer to motions to intervene, motion to consolidate, and consolidate.

11. Notice of the CAISO's July 27, 2005 filing was published in the *Federal Register*, 70 Fed. Reg. 46,164 (2005), with interventions and protests due on or before August 17, 2005. PG&E filed comments.

## III. Discussion

### A. Procedural Matters

12. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2005), the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding. We will allow the late interventions of SoCal Edison and CEOB because allowing the interventions will not interfere with the proceedings.

13. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2005) prohibits answers to protests unless authorized by the Commission. Because the answer provides information that aids us in our decision-making, we will accept the CAISO's answer.

### B. Request for Consolidation

14. PG&E states that because terms and conditions of the only actual SUDC Operating Agreement (with Trinity PUD) are being litigated in Docket No. ER05-150-000, the two dockets should be consolidated.

15. The CAISO opposes consolidation, arguing that the two proceedings should be kept on separate tracks. The CAISO states that both the Settlement and Amendment No. 70 are pending before the Commission and that there is no need for consolidation.

16. We will deny PG&E's motion to consolidate Docket Nos. ER05-150-000 and ER05-1025-000. The Commission generally consolidates cases for purposes of hearing and decision. Since we are not suspending and setting this matter for hearing, consolidation is not warranted.[6]

### C. Need for a *Pro Forma* SUDC Operating Agreement

17. PG&E argues that since it is unclear whether there are any entities other than Trinity PUD that would fit the definition of a SUDC, it appears improper for the CAISO to have a *pro forma* SUDC Operating Agreement.

18. The CAISO responds that even if there are no other entities that fit the definition of a SUDC, as PG&E suggests, the language and *pro forma* SUDC Operating Agreement will merely be included in its Tariff but not be widely used. The CAISO states that if, on the other hand, there are other SUDCs, the new tariff language and *pro forma* agreement will be in place.

19. The Commission requires that applicable tariffs include a standard form of service agreement approved by the Commission for each category of applicable service offered under the tariff.[7] Although Trinity PUD is the only entity currently identified as eligible for the SUDC Operating Agreement, additional entities may be eligible in the future. Furthermore, a *pro forma* service agreement is included in a tariff for a category or type of service, and there is no minimum number of eligible entities required. Therefore, we find that CAISO may amend its Tariff to include its proposed *pro forma* SUDC Operating Agreement.

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[6] *See, e.g., City of Holland, Michigan v. Midwest Indep Transmission Sys. Oper., Inc.*, 111 FERC ¶ 61,076 at P 18, n.22 (2005).

[7] *See California Indep. Sys. Oper. Corp.*, 110 FERC ¶ 61,124 at P 5 (2005).

### D. Differing Treatment for SUDCs

20. PG&E argues that the proposed *pro forma* SUDC Operating Agreement is unjust and unreasonable because it allows SUDCs to follow only select CAISO Tariff requirements, while UDCs like PG&E must follow all applicable tariff provisions. PG&E asserts that the SUDC Operating Agreement appears to allow a SUDC to avoid certain responsibilities which will then become the interconnected Participating Transmission Owner's (PTO) responsibility and may potentially create liability for the PTO.

21. The CAISO contends that, due to the small size and limited operating capacity of SUDCs, it is not unreasonable to allow SUDCs greater operational flexibility than would normally be appropriate for large UDCs. Trinity PUD argues that the SUDC Operating Agreement reflects a fair balance of the benefits and burdens for a SUDC being interconnected to the CAISO-controlled grid, while still requiring the SUDC to meet the CAISO's reliability requirements. Trinity PUD states that the Settlement pending in Docket No. ER05-150-000 is dependent upon the approval of Amendment No. 70, and requests that the Commission accept it without condition or modification.

22. We find that, as a result of the large disparity in the peak load, and the number of customers and employees that a SUDC has compared with a PTO such as PG&E, these entities are not similarly situated. Subjecting such a small entity to all of the same requirements that are required of large utilities under the UDC Operating Agreement would be unnecessary and burdensome. Therefore, we find that the differing treatment for SUDCs is just and reasonable.

### E. Provisions that Differ from the *Pro Forma* UDC Operating Agreement

23. PG&E specifies several provisions of the proposed SUDC Operating Agreement that differ from the CAISO's Commission-accepted *pro forma* UDC Operating Agreement in ways which PG&E argues make the SUDC Operating Agreement potentially inadequate.

#### 1. Section 4.7

24. PG&E protests the removal of section 4.7 in the UDC Operating Agreement, Critical Protective Systems, which it states would protect the interconnected PTO in cases where modification of SUDC facilities could compromise Critical Protective Systems, leading to an improper tripping with consequent load interruption and possible damage to the PTO's facilities.

25. The CAISO states that the *pro forma* SUDC Operating Agreement contains provisions to address actions or events that could affect reliability, including ones that

could compromise Critical Protection Systems. The CAISO cites to section 3.1 which obligates a SUDC to operate and maintain its facilities in a manner as to avoid any material adverse impact on the reliability of the CAISO-controlled grid, and section 4.1 which requires a SUDC to coordinate maintenance facility outages with the PTO with which it is interconnected and to notify the CAISO.

26. We find that the CAISO's removal of section 4.7, Critical Protective Systems, from the SUDC Operating Agreement is not reasonable. We do not agree that the requirements of section 4.7 of the UDC Operating Agreement are covered in sections 3.1 or 4.1 of the SUDC Operating Agreement. Section 3.1 of the SUDC Operating Agreement is only a general requirement of the SUDC to operate and maintain its facilities in a manner as to avoid creating an adverse impact, while section 4.7 of the UDC Operating Agreement specifically requires the SUDC to immediately notify the CAISO of any condition that it becomes aware of that may compromise the CAISO-controlled grid Critical Protection Systems. Moreover, section 4.1 of the SUDC Operating Agreement relates strictly to maintenance-related outages, not any condition that may compromise the CAISO-controlled grid Critical Protective Systems. Therefore, we will require section 4.7 to be included in the *pro forma* SUDC Operating Agreement to ensure protection of the CAISO facilities. The CAISO should therefore make a filing with the Commission within thirty days to include section 4.7 in the *pro forma* SUDC Operating Agreement.

### 2. Impact on Reliability

27. PG&E objects to the inclusion of a "whereas" recital clause not found in the UDC Agreement which states that any single SUDC's system "has little or no ability to materially, adversely affect reliability of the ISO Controlled Grid or the ISO Control Area…" PG&E argues that a SUDC such as Trinity PUD could adversely affect reliability and could otherwise adversely affect a PTO's system and the CAISO-controlled grid. PG&E also argues that section 4.1 of the *pro forma* SUDC Operating Agreement[8] appears to contradict this clause, and that such internal inconsistencies make the proposed *pro forma* SUDC Operating Agreement unworkable.

[8] Section 4.1 requires, among other things, that: "The SUDC will provide the ISO with [a] copy of any written information regarding Outages of the SUDC Facilities that could cause a material adverse impact on the reliability of the ISO Controlled Grid. To the extent the SUDC schedules maintenance of the SUDC Facilities that has a reasonable potential to cause a material adverse impact to reliability on the ISO Controlled Grid, the SUDC shall notify the ISO of such maintenance when it becomes known, and that information will be updated quarterly or as changes occur to the proposed schedule."

28. The CAISO argues that a SUDC with an annual peak demand of 25 MW or less is unlikely to cause a material adverse impact on the CAISO-controlled grid, and if it were to do so, the CAISO would have recourse pursuant to the *pro forma* SUDC Operating Agreement.[9] The CAISO states that, as the entity responsible for the safe and reliable operation of the CAISO-controlled grid, it would not have submitted Amendment No. 70 if it believed that SUDCs would compromise its ability to perform those responsibilities.

29. We find that the clause in the *pro forma* SUDC Operating Agreement which states that SUDC's system "has little or no ability to materially, adversely affect reliability of the ISO Controlled Grid or the ISO Control Area" does not absolve the SUDC of any harm to interconnected systems on the CAISO-controlled grid. The clause does not relate to absolving a SUDC from liability for its actions, but instead states that there is little chance that a SUDC will affect grid reliability. Furthermore, section 4.1 is included in the SUDC Operating Agreement given the small chance that a SUDC, with its very small size, could take an action that could potentially affect grid reliability. Therefore, we find the proposed *pro forma* SUDC Operating Agreement includes protections for grid reliability and is therefore just and reasonable.

### 3. Load Shedding

30. PG&E argues that permitting a SUDC to voluntarily shed load during Stage One of a System Emergency could unjustly shift load shedding responsibility to a PTO such as PG&E during a Stage Three emergency. PG&E also contends that the CAISO wrongly removed the requirement for underfrequency load shedding from the proposed SUDC Operating Agreement apparently because Trinity PUD, the model SUDC, has no circuit breakers on the transmission side. PG&E counters that all the substations where Trinity PUD interconnects to PG&E actually do have distribution circuit breakers which, while not used to make the interconnection at transmission voltage with PG&E, can be used for load tripping, such as for underfrequency load shedding. PG&E also argues that participation in underfrequency load shedding is a Western Electricity Coordinating Council (WECC) requirement.

31. The CAISO explains that the UDC Operating Agreement requires a UDC to perform two types of load shedding: underfrequency load shedding and manual load shedding. The CAISO explains that Trinity PUD's substations are not configured for underfrequency load shedding and that Trinity PUD, unlike PG&E, does not have other substations configured for underfrequency load shedding upon which to rely in order to meet the WECC requirement. The CAISO argues that to require Trinity PUD to

[9] The CAISO states that it will investigate adverse impacts in an effort to ascertain whether the adverse impact was caused by a failure of the SUDC to comply with this provision and respond accordingly.

configure its substations for underfrequency load shedding would be inequitable, both from an economic and a proportionate-share standpoint. As to manual load shedding, the CAISO states that Trinity PUD would need to send workers to geographically dispersed substations in order to shed load which, in most instances, would take much longer than the WECC requirement of 20 minutes. The CAISO explains that, for these reasons, the CAISO and Trinity PUD developed the solution of reducing load on a voluntary basis when a Stage One Emergency is declared. The CAISO argues that load shedding during Stage One can help avoid escalation of the System Emergency to a Stage Three and can also help to reduce the overall amount of firm load shedding that may be required in the event of a Stage Three Emergency. The CAISO also argues that a SUDC does not count directly against any UDC's *pro rata* share of load to be shed and contributes only an extremely small percentage increase to the total Control Area annual peak demand.

32. We find that it is reasonable to exempt SUDCs from firm load shedding obligations implemented during Stage Three of a System Emergency and instead require them to voluntarily shed load during Stage One of a System Emergency. The voluntary nature is a reasonable approach given the fact that SUDCs would have to shed load manually, or make significant investment in equipment in order to shed load automatically, which would be uneconomic relative to their overall potential impact on the grid.

### F. Waiver of Notice

33. The CAISO requests waiver of notice to allow Amendment No. 70 to become effective on May 26, 2005, one day after filing. The CAISO states that this effective date will allow the Settlement between the CAISO and Trinity PUD to become effective as soon as possible, explaining that numerous provisions of the SUDC Operating Agreement cannot become effective until the new Article 31 of the Tariff becomes effective.

34. Given the close relationship between the CAISO's Amendment 70 filing and the Settlement, we find good cause[10] to grant waiver of the our notice requirements pursuant to section 35.11 of the Commission's regulations, 18 C.F.R. § 35.11 (2005). We conditionally accept Amendment No. 70, effective May 26, 2005, as discussed in the body of this order.

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[10] *Central Hudson Gas & Electric Corp.*, 60 FERC ¶ 61,106, *reh'g denied*, 61 FERC ¶ 61,089 (1992) (*Central Hudson*), and *Prior Notice and Filing Requirements Under Part II of the Federal Power Act*, 64 FERC & 61,139, *clarified*, 65 FERC ¶ 61,081 (1993) (*Prior Notice*).

The Commission orders:

(A) Amendment No. 70 is hereby conditionally accepted, effective May 26, 2005, as discussed in the body of this order.

(B) The CAISO is hereby directed to submit a compliance filing within 30 days of the date of this order, as discussed in the body of this order.

By the Commission.

( S E A L )

Magalie R. Salas,
Secretary.