UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

Pacific Gas & Electric Company Docket No. ER04-700-000

ORDER ACCEPTING COORDINATED OPERATIONS AND INTERCONNECTION AGREEMENT

(Issued June 30, 2004)

1. On April 1, 2004, Pacific Gas & Electric Company (PG&E) filed a Coordinated Operations and Interconnection Agreement (COIA) among PG&E, Trans-Elect NTD Path 15 LLC (Trans-Elect) and Western Area Power Administration (Western) (collectively, Path 15 Participants). We will accept the COIA for filing, to become effective July 1, 2004. This order benefits customers by encouraging the continued development of the Path 15 upgrades.

## I. <u>Background</u>

2. Path 15 is two high voltage transmission lines that extend from Southern California to Northern California. It is often constrained because of the need for significant north-south transmission to accommodate the movement of hydro power from the Pacific Northwest to Southern California and also from generators in Southern California wheeling power to Northern California.

3. In 2002, the Path 15 Participants filed a letter agreement with the Commission that set forth the rate principles to be followed for the recovery of costs of constructing a third high voltage line and associated transmission upgrades along Path 15. The Commission accepted the filing,[1] but noted several issues raised by intervenors that needed to be addressed in the future. PG&E states that this filing addresses some of those issues.[2]

[1] Western Area Power Administration, 99 FERC ¶ 61,306 (2002) (June 12 Order).

[2] In the 2002 filing, the Path 15 Participants stated that they intended to sign a Participation Agreement that would provide more detail on the governance, the ownership percentages and the nature of ownership rights and responsibilities, including (continued...)

## II. Description of Filing

4. The COIA provides for the interconnection and coordinated operation of the Path 15 upgrade project with PG&E's existing transmission system in an orderly and reliable manner. Specifically, PG&E states that the COIA is necessary to establish the terms and conditions for: (1) the interconnection of the new 500 kV transmission line, which will be owned by Western, with the existing Path 15 transmission system, consisting of the Los Banos-Gates 500 Kv line, the Los Banos-Midway 500 kV line, the Gates-Panoche #1 230 kV line and the substation facilities at Gates and Los Banos (collectively, Existing Transmission System) and (2) the coordinated operation of the combined new transmission line and the Existing Transmission System.

5. PG&E states that the COIA establishes each party's responsibility with respect to the facilities that each party owns and controls. PG&E, as the owner of the Gates and Los Banos substation facilities, is responsible (in coordination with the CAISO, the control area operator) for conducting facility switching and operating Remedial Action Schemes (RAS).[3] Additionally, PG&E and Western each bear the operation, maintenance and replacement costs and responsibilities for their respective facilities.

6. The parties to the COIA have initially allocated the scheduling capability on the new transmission line as follows: 72 percent to Trans-Elect, 18 percent to PG&E, and 10 percent to Western. The final allocation will be based on the ratio of the contribution made by a participant to the project, either in terms of funding or actual work performed. However, PG&E states that Western's share of the scheduling capability of the new transmission line will not be less than 10 percent.

7. The COIA also addresses pre-existing rights of Existing Transmission Customers (ETCs) with regard to the existing Path 15 transmission facilities. Section 15.3 of the COIA sets forth the Path 15 Participants' intent that the existing transmission system available scheduling capability (ASC) will be no less than the megawatt amount of what the existing transmission system ASC share would have been without the construction of the Path 15 upgrade project under comparable pre-construction operating conditions.

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payment for project costs, coordination with the California Independent System Operator Corporation (CAISO) and the mitigation of harm caused by subsequent system modifications. The Path 15 Participants have renamed the Participation Agreement as the Coordinated Construction Agreement. PG&E states that Agreement is non-jurisdictional and it is being filed along with the COIA only for informational purposes.

[3] Section 4.43 of the COIA defines Remedial Action Schemes as the facilities and associated automated procedures that are designed in accordance with Good Utility Practice to maintain reliable operation of the Control Area after a disturbance.

## III. Notice, Interventions, and Answers

8. Notice of the filing was published in the Federal Register, 69 Fed. Reg. 19,999 (2004), with protests or interventions due on or before April 15, 2004. California Department of Water Resources; Lassen Municipal Utility District; the Cities of Redding, Santa Clara and the M-S-R Public Power Agency; Northern, California Power Agency; Morgan Stanley Capitol Group, Inc.; and the California Independent System Operation Corporation (CAISO) filed motions to intervene. The Transmission Agency of Northern California, Modesto Irrigation District, Southern California Edison Company (SoCal Edison), Metropolitan Water District of Southern California (Metropolitan), Turlock Irrigation District (Turlock), Transmission Agency of Northern California (TANC) and Calpine Corporation (Calpine) filed motions to intervene and comments. California Department of Water Resources State Water Project (DWR) filed comments and requests conditions. PG&E, Western, Trans-Elect, So-Cal Edison, and DWR filed answers.

### A. General Comments

9. Calpine states that as pre-CAISO transmission agreements expire, they must be replaced by new transmission arrangements that recognize that CAISO has succeeded PG&E as the control area operator and that CAISO is required to allocate transmission capacity, as well as transmission costs, among all market participants in a fair and non-discriminatory fashion. Calpine states that it generally supports PG&E's filing. Calpine states that if PG&E is still negotiating with Western and other parties on the details of transitional issues, those negotiations should include other participants with a significant financial investment at stake.

10. SoCal Edison states that any arrangements among the Path 15 participants must fairly compensate the participants while not harming California ratepayers. It does not oppose allowing Trans-Elect to assume Western's costs in connection with the Path 15 upgrade, if this does not lead to overcharging ratepayers for the Path 15 upgrade.

11. SoCal Edison also states that Western indicated in a February 24, 2004 letter to the CAISO that it wished to turn over to the CAISO its ten percent share of the Path 15 project under the provisions of Amendment No. 48. Under Amendment No. 48, section 3.2.7.3 of the CAISO Tariff provides that a project sponsor whose investment adds capacity to the CAISO grid is entitled to receive the congestion revenues (*i.e.*, Firm Transmission Rights (FTRs) auction proceeds and congestion revenue) and wheeling revenues that the CAISO derives from the additional transmission capacity, but would have no TRR that it would recover in the CAISO's Transmission Access Charge. SoCal Edison asserts that Western and Trans-Elect seem to want the capital and operating and maintenance (O&M) costs associated with Western's 10 percent share of the Path 15 upgrade to largely be borne by Trans-Elect and presumably be reflected in the Transmission Revenue Requirement (TRR), to be recovered from CAISO transmission

ratepayers, while Western would receive the congestion and wheeling revenues associated with its 10 percent share.

12. Western states that it does not expect to over-collect revenues. Its reason for turning over its entitlements in Path 15 under Amendment No. 48 to the CAISO Tariff is to avoid filing a Participating Transmission Owner (PTO) Tariff. Western anticipates that any revenues it receives will offset any costs it incurs. However, if Western determines that there are over-recoveries, Western will work with the CAISO to handle that situation.

13. In its answer, SoCal Edison states that the Commission should independently review the compensation received by Western for Western's share of the Path 15 upgrade. SoCal Edison states that Trans-Elect has assumed responsibility for some or all of Western's capital and/or O&M costs. Therefore, SoCal Edison states that the Commission must ensure that the combination of any FTRs or TRR recovery that Western receives through the CAISO, whether in its TRR as a PTO or under the Amendment No. 48 methodology as an "investor" in the Path 15 upgrade, when combined with Trans-Elect's's TRR, does not result in overpayment by CAISO ratepayers for the Path 15 upgrades.

14. SoCal Edison also states that §12.2.1 of the COIA provides that "no party has any obligation to obtain any service from Control Area Operator." SoCal Edison states that such a disclaimer is not in accord with the parties' assurances to the Commission that they will turn over the operational control of the entire line unencumbered to the CAISO. Also, section 12.1 of the COIA provides that "each party agrees to make its unused ASC available to the CAISO." The phrase implies that each Path 15 party has a priority to use its share of ASC. SoCal Edison states that such a priority is inconsistent with the CAISO structure and cannot exist if the Path 15 upgrade has been turned over to the CAISO's operational control. Also, section 12.1 of the COIA includes provisions for loss determinations and power flow accounting. SoCal Edison states that there is no need for power flow accounting for facilities under the CAISO's operational control and that the parties cannot set up loss determination and power flow accounting methodologies that could interfere with the CAISO's loss determination procedures.

15. SoCal Edison states that the Commission should order the Path 15 participants to commit themselves to turn over to the CAISO's operational control the entire Path 15, without any encumbrances on the use of the line, so that all market participants are able to use the line on a nondiscriminatory basis.

### B. <u>Existing Path 15 Operating Instructions</u>

16. Metropolitan, TANC, and Turlock raise concerns regarding their rights on existing Path 15 facilities. They are concerned that the Path 15 upgrade project will undermine

existing rights set out in the Path 15 Operating Instructions.[4] In its answer, PG&E states that if the Path 15 upgrade necessitates a revision to the Path 15 Operating Instructions between PG&E and the CAISO, any such revisions will be done at that time in a separate proceeding dealing specifically with the Transmission Control Agreement and the Path 15 Operating Instructions.

### C. Remedial Action Schemes

17. Metropolitan and DWR state that they have concerns over possible modifications to existing RAS. PG&E states that it is not requesting that the COIA or the Path 15 upgrade project give PG&E any new rights to call upon DWR's generating units for RAS. With regard to Metropolitan's concerns about ensuring compliance with the Comprehensive Agreement, PG&E states that in calculating the path ratings and evaluating the Path 15 upgrade project, it assumed only the RAS entitlements it negotiated in the Comprehensive Agreement.

## IV. Discussion

18. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2003), the timely, unopposed motions to intervene serve to make the parties that filed them parties to this proceeding. We will also grant Calpine's and CAISO's untimely, unopposed motions to intervene, given their interests, the early stage of this proceeding, and the absence of any undue prejudice or delay.

19. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2003), prohibits an answer to a protest unless otherwise ordered by the decisional authority. We will accept PG&E's, Western's, Trans-Elect's, So-Cal Edison's, and DWR's answers because they have provided information that assisted us in our decision-making process.

20. Our review of the COIA indicates that it appears to be just and reasonable and that it has not been shown to be unjust, unreasonable, unduly discriminatory or preferential, or otherwise unlawful. Therefore, we will accept the COIA for filing, effective July 1, 2004, as requested.

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[4] The Path 15 Operating Instructions are intended to preserve each ETC party's contract rights for service over Path 15 and PG&E's use of that path. The operating instructions maintain the transmission rights and priorities of existing transmission customers. Under the operating instructions, PG&E serves as ETC facilitator to assist the CAISO and provide the necessary guidance to the CAISO in the administration of Path 15 ETC rights.

21. The intervenors' comments raise issues that are outside the scope of this proceeding. This filing only concerns the coordinated operations of PG&E's existing transmission system with the new Path 15 transmission upgrade. The rate issues discussed by the intervenors are premature and, accordingly, will not be addressed here.

22. With regard to intervenors' concerns regarding ETC rights, if any ETC holder believes the new Path 15 upgrade project will adversely affect its ETC rights, that party can file a complaint at that time.

23. Regarding intervenors' concerns regarding possible modifications to the RAS included in these parties' underlying agreements with PG&E, our acceptance of the COIA does not impose any additional obligations regarding RAS on non-parties to the COIA without the consent of those parties.

The Commission orders:

PG&E's COIA is hereby accepted for filing, to become effective July 1, 2004.

By the Commission.

( S E A L )

Magalie R. Salas,
Secretary.