

110 FERC ¶ 61,196
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

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

California Independent System Operator Corporation

Docket Nos. ER05-405-000
ER05-407-000
(Not Consolidated)

ORDER ON PROPOSED RATE SCHEDULES

(Issued February 28, 2005)

1. In this order, the Commission acts on two filings submitted pursuant to section 205 of the Federal Power Act (FPA)¹ by the California Independent System Operator Corporation (CAISO) on December 30, 2004. Docket No. ER05-405-000 is an Interim Operations Agreement (Turlock Interim Operations Agreement) between the CAISO and Turlock Irrigation District (Turlock) that governs the operational relationship between CAISO and Turlock with respect to Turlock's transmission of power over Turlock's transmission facilities that are in the CAISO Control Area but are not part of the CAISO-Controlled Grid. Docket No. ER05-407-000 is a nearly identical Operations Agreement (Modesto Operations Agreement) between the CAISO and Modesto Irrigation District (Modesto) that governs the operational relationship between CAISO and Modesto with respect to Modesto's transmission of power over Modesto's transmission facilities that are in the CAISO Control Area but are not part of the CAISO-Controlled Grid.

¹ 16 U.S.C. § 824d (2000).

2. The purpose of these agreements is to coordinate the use by Turlock and Modesto of their non-CAISO-Controlled Grid facilities with the planned change in Control Area boundaries resulting from the decision of Western Area Power Administration (Western) to join the Control Area of the Sacramento Municipal Utility District (SMUD) as of January 1, 2005. These agreements clarify the operational relationships between the CAISO and Turlock and the CAISO and Modesto.
3. The Commission accepts these agreements effective January 1, 2005, subject to modifications and clarifications described below. This order benefits customers by establishing clear operational protocols and relationships between the CAISO and non-members of the CAISO, thereby ensuring reliable service for all customers.

I. Background

4. The transmission facilities of Turlock and Modesto are interconnected with the transmission facilities of Pacific Gas & Electric Company (PG&E), and these facilities are operated under interconnection agreements with PG&E.² As a Participating Transmission Owner in the CAISO (Participating TO), PG&E has turned over operational control of its transmission facilities to the CAISO under a Transmission Control Agreement with the CAISO. The Turlock and Modesto transmission facilities are also interconnected with the transmission facilities of Western's Sierra Nevada Region. Neither Turlock nor Modesto has executed a TCA with the CAISO, nor is either a Participating TO.
5. Turlock and Modesto are preference power customers of Western and, along with Western, are also owners of the California-Oregon Transmission Project. The Commission's December 3 order in Docket No. ER04-688, *et al.*³ accepted a Transmission Exchange Agreement that provides for the exchange of transmission service between CAISO and Western. Among other things, the Transmission Exchange Agreement will enable Western to deliver power to its preference customers, including Turlock and Modesto. In a related proceeding, Docket No. ER05-155, *et al.*, the

² The respective rate schedules for these agreements are designated for Turlock as Commission Rate Schedule 213 (PG&E/Turlock IA) and for Modesto as Commission Rate Schedule 116 (PG&E/Modesto IA).

³ *Pacific Gas and Electric Company*, 109 FERC ¶ 61,255 (2004)(PG&E).

Commission's December 30 order accepted the Interim California-Oregon Transmission Project Operations Agreement⁴ between CAISO and the Transmission Agency of Northern California. This Interim Agreement establishes CAISO as the interim operator of the California-Oregon Transmission Project line, which delivers power to Turlock and Modesto. The Operations Agreements at issue in the instant proceeding are intended to enable the CAISO to redeliver power to Turlock and Modesto over the California-Oregon Transmission Project line.

6. As of January 1, 2005, Western is in the SMUD Control Area, while Turlock and Modesto remain within the CAISO Control Area. The CAISO and SMUD have executed an Interconnected Control Area Operating Agreement, which requires that the CAISO and SMUD coordinate and exchange information on schedules at points of interconnection.

7. Turlock and Modesto desire to use their transmission facilities to transmit power over the California-Oregon Transmission Project and Western facilities from or to the SMUD Control Area. The Turlock and Modesto Operations Agreements establish the operational and settlement requirements under which the parties will coordinate and exchange information on schedules for Turlock's and Modesto's transactions with the SMUD Control Area that do not utilize the CAISO Controlled Grid.

8. The Turlock and Modesto Operations Agreements bar them from scheduling transactions over the CAISO Controlled Grid; so all Turlock and Modesto transactions that use the CAISO Controlled Grid are done so in accordance with the CAISO Tariff. For the energy that Turlock and Modesto exchange with the SMUD Control Area without using the CAISO Controlled Grid, the Operations Agreements address such issues as operating requests, maintenance, outages, emergency response, studies, schedules, emergencies, voltage control, reactive support, and removal from and restoration to service.⁵

⁴ FERC Docket No. ER05-155-000, which was accepted on December 30, 2004 in *California Independent System Operator Corp.*, 109 FERC ¶ 61,391 (2004), *reh'g pending*.

⁵ The Operations Agreement also enables the parties to meet the requirements of two other agreements, already approved by the Commission, to facilitate the transfer of Western's facilities into the SMUD Control Area: (1) the SMUD-CAISO Interconnected Control Area Operating Agreement Incorporating Amendment No. 2 (Docket No. ER05-149-000), which requires that all energy scheduled to or from the CAISO Control Area over any facilities within the CAISO Control Area be submitted via the CAISO

(continued)

9. Under the proposed Operations Agreements, the CAISO charges Turlock and Modesto for the transmission of power over non-CAISO-Controlled Grid Facilities that are in the CAISO Control Area. Specifically, CAISO will bill Turlock and Modesto for its Grid Management Charge plus charges for ancillary services, imbalance energy, and losses to the extent these are not self-procured or self-provided. CAISO will not assess any other charges to Turlock and Modesto, including charges for Startup, Emissions, and Minimum Load Cost Compensation, “contrary to the ISO tariff and Commission orders which require that these charges be assessed to Control Area Gross Load and exports to other control areas within California.”⁶ This exception, CAISO states, was agreed to as part of the overall settlement of issues raised by Western’s joining the SMUD control area. It also says that the exception would be minor and interim in nature. The parties also agree to abide by the Western Electricity Coordinating Council Reliability Criteria Agreement for Generators and Qualified Path Unscheduled Flow Relief.

II. Protests and Requests for Clarification

A. Procedural Matters

10. The Commission’s January 6 notice of CAISO’s filings in both dockets was published in the *Federal Register*,⁷ which set a date of January 21 for the submission of interventions and protests in both dockets. Timely motions to intervene raising no substantive issues were filed in both dockets by Northern California Power Agency (NCPA). PG&E and Southern California Edison Company (SCE) intervened with protests in both dockets. Turlock and Modesto intervened with comments in support of CAISO’s filings, although Modesto seeks certain clarifications of its Operations Agreement, which are discussed below. The CAISO filed an answer to the protests in both dockets. Finally, the Public Utilities Commission of the State of California (CPUC) filed a motion to intervene out-of-time in both dockets.

scheduling system; and, (2) the Pacific Intertie/California-Oregon Transmission Project Owners-CAISO Owners Coordinated Operation Agreement (Docket No. ER04-693-001), which requires each owner to make arrangements with CAISO, because it is the Control Area Operator of the Intertie/California-Oregon Transmission Project system.

⁶ Turlock Motion to Intervene and Modesto Motion to Intervene at 5.

⁷ 70 Fed. Reg. 3014 (January 19, 2005).

B. SCE's Protests

11. SCE argues that the Turlock and Modesto Operations Agreements are unjust and unreasonable because they waive various charges in the CAISO Tariff that are supposed to be imposed on all users of the CAISO Controlled Grid.⁸ As a result of these waivers, SCE argues that costs will be unfairly shifted to other users of Grid. SCE asserts that the CAISO has not justified the waiver of the startup, emissions, and minimum load cost compensation charges, nor has it demonstrated that these costs are minor or interim in nature. SCE also alleges that CAISO compounds the difficulty of assessing the effect of the waivers by “filing piecemeal agreements in separate dockets without amending its Tariff” ... rendering it “impossible for SCE, and other users of the CAISO Grid, to evaluate what the actual cost shifts will be.”⁹ SCE challenges CAISO’s justification for waiving the charges as being “somehow a part of the settlement in Docket No. ER04-688, *et al.*”¹⁰

12. SCE challenges CAISO’s justification for waiving the startup, emissions, and minimum load cost compensation charges as being “somehow a part of the settlement in Docket No. ER04-688, *et al.*”¹¹ It asserts that the settlement in question, to which it was a signatory and which involved the Owners Coordinated Operation Agreement, did not contemplate waiver of Commission-approved startup, emissions, and minimum load cost compensation charges. SCE states that if it had, SCE would not have agreed to such a provision and would likely have contested that portion of the settlement.¹²

13. SCE alleges that the termination provisions of both Operations Agreements make it uncertain as to the interim nature of the resulting cost shifts. Each agreement states that it “may” be terminated under certain circumstances. For example, Turlock’s Operations Agreement may terminate when it begins operations as its own Control

⁸ SCE Turlock Protest at 3; SCE Modesto Protest at 3.

⁹ *Id.* at 4, *citing* CAISO filings in Docket Nos. ER05-155 and ER05-405.

¹⁰ *Id.* at 6.

¹¹ *Id.* at 6.

¹² *Id.*

Area.¹³ Modesto's Operations Agreement may terminate when Modesto's Electric System "is resident in a Control Area other than the [CA]ISO's ..."¹⁴ Because these events may not happen, SCE asserts that there is no guarantee that the waivers will be interim in nature.

14. Finally, with respect to the Turlock Operations Agreement only, SCE raises concerns about section 6.3, seeking clarification as to how the CAISO will assess a Grid Management Charge on Turlock once the settlement in Docket No. ER04-115-000, *et al.* is approved. Specifically, SCE requests that the Commission direct the CAISO to amend section 6.3 to conform to the language in the Modesto Operations Agreement and to make it clear that the settlement in the Grid Management Charge proceeding will apply once the Commission has approved it.

C. PG&E's Protests

15. PG&E protests portions of the Operations Agreements that it believes are either unclear or are unjust and unreasonable. It requests that the Commission provide clarification, make the Operations Agreements subject to refund, and set them for hearing. PG&E states that it has not agreed to any actions or obligations that appear to be imposed on it by the Operations Agreements. Specifically, PG&E requests that the Commission make clear that PG&E will not act as Scheduling Coordinator for either Turlock or Modesto under the respective Operations Agreements. The Commission should also make clear that the party responsible for any such ancillary service, imbalance energy, losses, and Grid Management Charge under the Operations Agreements is either Turlock, Modesto or a Scheduling Coordinator that has agreed to act on behalf of Turlock or Modesto.

16. PG&E also identifies several specific provisions of the Turlock and Modesto Operations Agreements that it believes warrant clarification. According to PG&E, both of the agreements need changes or clarification. First, section 4.4 of the Modesto Operations Agreement and section 4.5 of the Turlock Operations Agreement seem to suggest that PG&E will coordinate with Turlock and Modesto and provide information to CAISO regarding removing from service, and following an outage, restoring to service Turlock's and Modesto's facilities. PG&E asserts that it should have no obligation for outage coordination of Turlock's or Modesto's facilities that are not part

¹³ SCE's Turlock protest at 5.

¹⁴ SCE's Modesto protest at 5.

of the CAISO-Controlled Grid. Moreover, the Operations Agreement should specify that it is Turlock's and Modesto's responsibility to coordinate directly with CAISO regarding their operational status. In any event, PG&E asserts that it should not have to communicate with the CAISO regarding Turlock's and Modesto's operational status.

17. PG&E also argues that section 6.3 of the Operations Agreements is unclear regarding how the ancillary service, imbalance energy, and loss requirements imposed by the Operations Agreements correlate with the separate agreements between PG&E and Turlock or Modesto. Thus, PG&E wants to make it clear that it is not the Scheduling Coordinator for Turlock or Modesto and that no charges can be imposed on PG&E for actions by Turlock or Modesto.

18. A third provision PG&E identifies as requiring modification is section 7.1 of both Operating Agreements. With respect to Modesto's Operating Agreement, PG&E argues that, because of portions that were redacted, it is impossible to determine if the proposed scheduling procedures are just and reasonable. Particularly, section 7.1 does not specify the scheduling procedures (which are redacted in schedule 2 of the Modesto Operations Agreement), so PG&E cannot tell whether these procedures differ from the scheduling protocols contained in the PG&E interconnection agreement with Modesto. Moreover, with respect to both Operating Agreements, PG&E states that, if the scheduling procedures differ (*e.g.*, half-hourly, not hourly scheduling), Turlock and Modesto should be required to explain how they propose to reconcile these differences.

19. With respect to Turlock's Operations Agreement only, PG&E expresses concern with the assertion in section 4.4 that PG&E provides voltage control and reactive support under the PG&E-Turlock Interconnection Agreement. PG&E states that this is not the case. This provision should be removed because PG&E has not agreed to provide any such voltage control and reactive support to Turlock in connection with the Operations Agreement.

D. Modesto's Comments in ER05-407-000

20. Modesto requests that the Commission accept its Operations Agreement without prejudice to CAISO and Modesto proposing several clarifying amendments discussed below. Modesto also requests that the Commission state that its acceptance of the Modesto Operations Agreement will not serve as a precedent for other Commission orders.¹⁵

¹⁵ Modesto Motion to Intervene in Docket No. ER05-407-000 at 9-10.

E. CAISO's Answer

21. The CAISO states that SCE misunderstands how the Turlock and Modesto Operations Agreements allocate costs, and that the Commission has already rejected identical arguments on cost allocation.¹⁶ Regarding how the Grid Management Charge will be assessed if the settlement in Docket No. ER04-115-000, *et al.* is approved, the CAISO states that it will clarify the Turlock Operations Agreement so that it is consistent with the Modesto Operations Agreement. That is to say, the Grid Management Charge settlement will govern Turlock's obligations for as long as that settlement is in effect. The CAISO agrees to make a compliance filing to revise section 6.3 of the Turlock Operations Agreement accordingly.¹⁷

22. The CAISO argues that the issues of PG&E's obligations and how they relate to PG&E's other agreements and tariffs is outside the scope of this proceeding.¹⁸ The CAISO agrees that the Turlock and Modesto Agreements do not impose any obligations or requirements on PG&E beyond those that PG&E has already assumed in its relationships with Turlock and Modesto or with the CAISO. The CAISO states that PG&E's contractual relationship to Turlock or Modesto is mentioned only to describe the manner in which Turlock or Modesto will fulfill their obligations under their respective Operations Agreements. Regarding PG&E's request that the Commission make clear that PG&E will not act as Scheduling Coordinator for Turlock or Modesto and that Turlock, Modesto or a designated qualified third party under each respective Operations Agreement has agreed to act in that capacity, the CAISO argues that those obligations are what they are, and cannot be altered by an agreement to which PG&E is not a party.

¹⁶ *See supra* note 4.

¹⁷ CAISO's Turlock Answer at 6.

¹⁸ *Id.* at 8-9 and CAISO' Modesto Answer at 7-8.

23. With respect to Modesto's request for certain clarifying amendments, the CAISO states that it has met with Modesto since filing the Modesto Operating Agreement to discuss Modesto's comments. As a result, CAISO and Modesto now propose two changes to the Operating Agreement. First, CAISO proposes to insert at Original Sheet No. 2, at the end of paragraph "(2)," the following phrase: "hereinafter, sometimes referred to collectively as 'Parties' and individually as a 'Party.'" Second, the CAISO proposes to insert on Original Sheet No. 8, after the word "behalf," on line four in section 4.4, the following phrase: "consistent with PG&E's obligations under the Responsible Participating Transmission Owner Agreement executed between the [CA]ISO and PG&E." The CAISO states that it believes these two changes would be appropriate for a compliance filing in this proceeding.¹⁹

III. Commission Determination

24. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure,²⁰ the timely, unopposed motions to intervene serve to make the entities that filed them parties to the proceedings in which they moved to intervene. The Commission will grant CPUC's untimely motion to intervene, given its interests, the early stage of the proceedings, and the absence of undue prejudice or delay. Finally, Rule 213(a)(2) of the Commission's Rules of Practice and Procedure²¹ prohibits an answer to a protest unless otherwise ordered by the decisional authority. We will accept the CAISO's answers because they have provided information that assisted the Commission in its decision-making process.

25. SCE protests the exemption of Modesto and Turlock from the charges for Startup, Emissions, and Minimum Load Cost Compensation, claiming among other things that these exemptions are contrary to the CAISO Tariff.²² Indeed, upon review of section 6.3 of the Agreements at issue here, the Commission finds that the Agreements do provide an exemption to Modesto and Turlock for charges related to for Startup, Emissions, and Minimum Load Cost Compensation.

¹⁹ CAISO Modesto Answer at 9-10.

²⁰ 18 C.F.R. § 385.214 (2004).

²¹ *Id.* at § 385.213(a)(2) (2004).

²² SCE Turlock Protest at 3; SCE Modesto Protest at 3.

26. CAISO answers SCE by arguing that the cost allocation of these charges has already been decided by the Commission in its acceptance of the Pacific AC Intertie-West Operating Agreement, the Owners Coordinated Operation Agreement, and the Interim Operations agreement in Docket Nos. ER04-688, *et al.*²³ and ER05-155,²⁴ respectively. CAISO states that these agreements exempted Western and its customers from these charges because this capacity is not under CAISO operational control and does not utilize the CAISO controlled grid. However, with respect to capacity of Modesto or Turlock that, in fact, does use the CAISO grid, all applicable CAISO tariff charges apply.

27. CAISO contends further that the Commission acceptance of the contested settlement in Docket No. ER04-688, *et al.*, including the various parallel Operating Agreements, was part of the negotiated terms that produced the resolution reflected in the Agreements at issue here. It says that these Agreements are consistent with parties' comments in those original filings. In particular, the Transmission Agency of Northern California (TANC) states that the agreement ensures that users will meet CAISO Control Area requirements for facilities that are within the CAISO Control Area but are not part of the CAISO Controlled Grid. Further, the Agreements ensure that users of the non-CAISO Controlled Grid facilities will not face costs that are not necessary.²⁵

28. SCE has argued the same issue of cost allocation twice before, most recently in the Interim California-Oregon Transmission Project Agreement in Docket No. ER05-155. There, SCE stated that a Scheduling Coordinator is not subject to the same charges (including Startup, Emissions, and Minimum Load Cost Compensation) to which a Scheduling Coordinator is subject under the CAISO tariff.

29. The Commission found in Docket No. ER04-688, *et al.* that the Agreements at issue in that proceeding eliminate the potential for rate pancaking.²⁶ The Commission again agreed in Docket No. ER05-155 that the overall package of agreements was

²³ See *PG&E*, *supra* note 3.

²⁴ See *CAISO*, *supra* note 4.

²⁵ TANC's comments were filed originally in Docket No. ER05-155-000 and were included as an attachment to the CAISO's Answer in both the Turlock and Modesto dockets.

²⁶ *PG&E* at P 50, 54.

designed not to include pancaked rates, such as reliability related costs.²⁷ The Commission stated that the Agreement is not for service under the CAISO tariff, and that the Interim California-Oregon Transmission Project Agreement provides for the reliable operation of the non-Participating TO portion of the Interim California-Oregon Transmission Project. In the instant proceedings, the Commission reiterates its finding that the overall package of agreements in all the referenced dockets will benefit customers by facilitating access to Pacific Northwest transmission capacity at non-pancaked rates.²⁸ The Commission agrees with CAISO that the Modesto and Turlock Operating Agreements have merely reflected the flowthrough of charges consistent with the approved agreements in both Docket Nos. ER04-688 and ER05-155. Therefore, the Commission rejects SCE's protest here and approves the instant Operation Agreements.

30. The Commission notes that this issue remains a matter before the Commission on rehearing in Docket No. ER05-155.²⁹ Thus, the Commission will accept this provision of the Operating Agreements in the instant proceedings, subject to the outcome of the rehearing request in Docket No. ER05-155.

31. SCE requests that the Commission require the CAISO to modify section 6.3 of the Turlock Agreement to clarify how the CAISO will charge Turlock for Grid Management Charge once the settlement in Docket No. ER04-115-000, *et al.* is approved. In response, the CAISO states that it will clarify that the provisions in the Grid Management Charge settlement shall govern Turlock's obligations for as long as that settlement is in effect. CAISO states that it will make a compliance filing to insert a condition to that effect in section 6.3 of the Turlock Operations Agreement. The Commission therefore directs the CAISO to submit a compliance filing, within thirty days of the date of this order, amending section 6.3 of the Turlock Operations Agreement to make this clarification.

32. Regarding PG&E's concerns with respect to it being responsible to provide voltage control and reactive support under section 4.4 of the Operations Agreement, the Commission's reading of the Operations Agreement indicates that Turlock is responsible for providing voltage control and reactive support, and that the reference to PG&E is only to the extent that such service is not already provided by PG&E in accordance with the

²⁷ CAISO at P 34, 43.

²⁸ PG&E at P1.

²⁹ No requests for rehearing addressing this issue were filed in PG&E.

PG&E Interconnection Agreement with Turlock. Thus, to the extent PG&E does not provide such service under the existing Interconnection Agreement, Turlock will be required to do so under the instant Operations Agreement. Also, PG&E has not argued that the instant Operations Agreement relieves it of any obligation under the Turlock Interconnection Agreement. Therefore, the Commission finds section 4.4 to be acceptable.

33. With respect to PG&E's concern regarding the possible designation by Turlock that PG&E would be the Scheduling Coordinator under the Turlock Operations Agreement, we note that the section 2 of the agreement specifically states that "... For reliable operation of the Control Area, the ISO requires a Scheduling Coordinator to provide schedules to the ISO. The District [Turlock] shall designate a Scheduling Coordinator for this function." Turlock has not indicated that it will attempt to designate PG&E as the Scheduling Coordinator under this agreement.³⁰ Therefore, we conclude that PG&E's concern regarding its possible designation as Scheduling Coordinator under the CAISO/Turlock Agreement is speculative.

34. With respect to PG&E's concerns regarding section 7.1, Scheduling, in both Operations Agreements, the Commission notes that the proposed scheduling timelines appear to be consistent with those of the CAISO Tariff. As such, the Commission finds the scheduling provisions reasonable.

35. With respect to PG&E's concerns on Coordination of Operations (section 4.4 of the Modesto Operations Agreement and section 4.5 of the Turlock Operations Agreement), the Commission agrees that PG&E should not be required to provide information to the CAISO regarding removing and restoring facilities to service, unless PG&E is required to do so under its Interconnection Agreements with Modesto and Turlock. Accordingly, the Commission directs the CAISO to remove these requirements from the Coordination of Operations sections of the instant Operations Agreements.

The Commission orders:

(A) CAISO's proposed Operations Agreements with Modesto and Turlock are hereby accepted for filing to become effective January 1, 2005, and subject to conditions as outlined in the body of this order.

³⁰ The Commission recognizes that, while PG&E has raised similar concerns regarding the possibility that it might be designated as the Scheduling Coordinator under the Modesto Operations Agreement, section 2 and section 6.3 state that Modesto will be Scheduling Coordinator under that agreement.

(B) The CAISO is directed to submit a compliance filing, within thirty days of the date of this order, amending section 6.3 of the Turlock Operations Agreement to clarify this provision as discussed in the body of this order.

(C) The CAISO is directed to submit a compliance filing, within thirty days of the date of this order, adopting the clarifying amendments to the Modesto Operating Agreement as discussed in the body of this order.

(D) The CAISO is directed to submit a compliance filing, within thirty days of the date of this order, amending section 4.4 of the Modesto Operations Agreement and section 4.5 of the Turlock Operations Agreement, as discussed in the body of this order.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.