

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

**California Independent System) Docket No. ER04-445-000
Operator Corporation)**

**MOTION FOR LEAVE TO FILE ANSWER AND ANSWER OF
THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION TO
MOTIONS TO INTERVENE, COMMENTS, LIMITED PROTESTS AND
PROTESTS**

I. INTRODUCTION

On February 9, 2004, the California Independent System Operator Corporation (“ISO”)¹, along with Participating Transmission Owners Pacific Gas and Electric Company (“PG&E”), San Diego Gas & Electric Company (“SDG&E”), and Southern California Edison Company (“SCE”) (collectively, “PTOs”), jointly filed their version of the Large Generator Interconnection Agreement (“LGIA”) and related filings in compliance with the Federal Energy Regulatory Commission’s (“Commission” or “FERC”) Order No. 2003² in the above captioned docket.

A number of parties have moved to intervene in the present proceeding with respect to this filing. Some of the motions to intervene include limited protests and protests concerning the compliance filing³. Pursuant to Rule 213 of

¹ Capitalized terms not otherwise defined herein shall have the meaning set forth in the Master Definitions Supplement, Appendix A to the ISO Tariff.

² FERC Stats. & Regs. Preambles ¶ 31,146 (2003).

³ Motions to intervene, comments, limited protests and protests were filed by the following entities: The California Electricity Oversight Board (“EOB”); The California Department of Water Resources and State Water Project (“CDWR” and “SWP”); Calpine Corporation (“Calpine”); The Northern California Power Agency (“NCPA”); The Cogeneration Association of California and the Energy Producers and Users Coalition (“CAC/EPUC”); Duke Energy North America and Duke Energy Trading and Marketing (“Duke”); Mirant Corporation (“Mirant”); Reliant Energy Services,

the Commission's Rules of Practice and Procedure, 18 C.F. R. § 385.213, the ISO now submits its Answer to the motions to intervene, limited protests and protests submitted in the above captioned docket⁴. The ISO does not oppose the intervention of parties that have sought to intervene in this proceeding. However, as explained below, the ISO believes that the joint ISO/PTO LGIA compliance filing should be accepted by the Commission in its entirety as just and reasonable. Three entities intervened, but raised no substantive issues with the ISO's filing.⁵

Several parties raised issues that relate primarily to the ISO's filing of its version of the Large Generator Interconnection Procedures ("LGIP") in compliance with Order No. 2003. Those issues have been addressed already by the ISO in its March 9, 2004 Motion for Leave to File Answer and Answer to Motions to Intervene, Comments, Limited Protests and Protests on the ISO's version of the LGIP ("LGIP Answer"). For example, CDWR and SWP offer various comments on the ISO's crediting policy for Network Upgrades. CAC/EPUC raises concerns related to QFs and the interconnection queue. Duke argues against multiple Interconnection Studies by multiple PTOs, and Mirant objects to the ISO's proposed economic test for the recovery of the costs

Inc. and Reliant Energy Power Generation, Inc. ("Reliant"); and The Transmission Agency of Northern California ("TANC").

⁴ Some of the parties that have submitted pleadings concerning the joint compliance filing with respect to the LGIA request affirmative relief in pleadings styled as protests. The ISO is not prohibited from responding to these pleadings. Florida Power & Light, 67 FERC ¶ 61,315 (1994). Additionally, to the extent that this answer is deemed an answer to protests, the ISO requests waiver of Rule 213 (18 C.F. R. § 385.213) to permit it to make this answer. Good cause for the waiver exists given the nature and complexity of this proceeding and the usefulness of this Answer in ensuring the development of a complete record. See, e.g., Enron Corp., 78 FERC ¶ 61,179 at 61,733, 61,741 (1997) El Paso Electric Co., 68 FERC ¶ 61,181 at 61,889 & n. 57 (1994).

⁵ The EOB, NCPA, and Reliant intervened, but raised no substantive issues with the ISO's filing. Interventions by these entities will not be discussed further in this Answer.

of Network Upgrades. With regard to these matters the ISO incorporates by reference its LGIP Answer and will not repeat its discussion of those matters in this pleading.

The ISO, of necessity, must base this Answer primarily on the joint ISO/PTO LGIA compliance filing and the protests to and comments on that filing, notwithstanding the Commission's recent issuance of Order No. 2003-A, its Order on Rehearing of Order No. 2003.⁶ The ISO has not had sufficient time to review fully Order No. 2003-A and to incorporate a thorough discussion of the relevant provisions of that order into this Answer. However, the ISO intends to coordinate with the PTOs to prepare a revised compliance filing of the joint ISO/PTO LGIA in accordance with the requirements of the Order on Rehearing.

II. ANSWER

A. The Joint ISO/PTO LGIA Appropriately Defines a “Participating TO’s Reliability Network Upgrades”

Mirant argues that the proposed definition in the joint ISO/PTO LGIA of a “Participating TO’s Reliability Network Upgrades” is overly broad because it includes “facilities necessary to mitigate any adverse impact the Large Generating Facility’s interconnection may have on a path’s Applicable Reliability Council rating.” Mirant at 5-6. Mirant argues that this language shifts the focus of the upgrade from resolving a reliability issue to an economic issue. *Id.*

The ISO disagrees. A Participating TO’s Reliability Network Upgrades must at least maintain the rating on transmission paths. If not, and a de-rating

⁶ 106 FERC ¶ 61,220 (2004).

occurs due to a new Generating Facility and the absence of an associated Network Upgrade, the reliability of that path and, by extension, the entire ISO Controlled Grid, is reduced by some measurable extent. It is true that the potential for Congestion on that de-rated path would certainly be increased, and the management of that Congestion would raise more issues and require more decisions related to the optimal economic use of the transmission grid. However, the ISO believes that reductions in transfer capability, particularly on certain key north-south paths that form the backbone of the ISO Controlled Grid, would also raise serious reliability concerns.

Moreover, the language that Mirant disputes is the same language that the ISO included in the definition of “Reliability Upgrade” in its Amendment No. 39 filing proposing the addition of new generation interconnection procedures to the ISO Tariff. Amendment No. 39 to the ISO Tariff, Docket No. EL00-95-023 (April 2, 2001). As the ISO explained in that proceeding, a New Generating Facility should not be permitted to adversely impact a Western Electricity Coordinating Council (“WECC”) path rating. Answer of the California Independent System Operator Corporation to Motions to Intervene, Comments, Protests, and Other Filings, Docket No. EL00-95-023 (May 8, 2001) at 21. Therefore, it is entirely appropriate that the definition of “Participating TO’s Reliability Network Upgrades” include “facilities necessary to mitigate any adverse impact the Large Generating Facility’s interconnection may have on a path’s Applicable Reliability Council rating.”

B. The ISO Will Manage Transmission Service on the ISO Controlled Grid

Mirant argues that Article 4.1 of the joint ISO/PTO LGIA should be amended so that Interconnection Customers that do not pay for Network Upgrades will not receive transmission service ahead of Generators with existing Generating Units. Mirant at 9-11. Duke contends that Article 4 should reintroduce delivery service language from the Commission's pro forma LGIA so that it is clear that no further studies or Network Upgrades are necessary for delivery at the studied level. Duke 4-5.

The ISO reiterates the distinction made repeatedly throughout Order No. 2003, see, e.g., Order No. 2003 at P. 767, and reflected within the joint ISO/PTO LGIA, that Interconnection Service does not convey transmission service.⁷ The ISO believes that the Interconnection Studies, including the addition of a Deliverability Assessment as part of the ISO's LGIP, provide valuable information as to the potential availability of transmission service for a particular Generating Facility. In addition, the ISO is advocating in the California Public Utilities Commission's ("CPUC") resource procurement proceeding that the CPUC should use this Deliverability Assessment for qualifying resources in the CPUC's resource adequacy framework. However, this Deliverability Assessment does not guarantee transmission service.

The ISO does not agree that a general priority should be established for existing Generating Units, or that transmission service should be limited below the capacity of new Generating Units for which certain Network Upgrades are not

⁷ This distinction is reiterated in Order 2003-A. Order No. 2003-A, PP. 515-516.

built. The ISO will manage potential Congestion on transmission lines in accordance with existing ISO Tariff provisions, and the ISO will continue to develop a market redesign with the active involvement of stakeholders that will institute effective methods for allocating limited transmission capacity, i.e., Congestion Management. The ISO generally does not intend to manage Congestion through the LGIA or the interconnection process, even though relevant information on the potential for Congestion is developed as part of the interconnection process – and may even be incorporated into an individual LGIA as a requirement of LGIA Appendix C, as provided for in LGIA Article 9.4. As the Commission made clear in Order No. 2003, the generic Interconnection Service offered under the joint ISO/PTO LGIA does not ensure transmission service for any new or existing Generating Facility, and ISO's offering of a single generic Interconnection Service is fully consistent with Order No. 2003. See Order No. 2003 at P. 767.

C. The PTOs' Interconnection Handbooks Should Be Posted on Their Websites or Otherwise Be Made Available to the Public

Mirant argues that the PTOs should be required to post and maintain on their websites a complete and up-to-date version of their Interconnection Handbooks and that the PTOs should file with the Commission any change to their Interconnection Handbooks that would impact the rates, terms and conditions of service under the joint ISO/PTO LGIA. Mirant at 7. TANC asserts that because the PTOs' Interconnection Handbooks have not been filed with the

Commission it is not possible for Interconnection Customers to determine how the PTO's requirements under the Interconnection Handbook impact them.

TANC at 6.

The ISO agrees that Interconnection Handbooks should be easily available so that Interconnection Customers can readily ascertain important technical details that could affect their Generating Facilities. The ISO believes that public posting of the Interconnection Handbook on each respective PTO's internet website would be the easiest and most transparent way to make this information available. In fact, the joint ISO/PTO LGIA definition of "Interconnection Handbook" specifies that PTOs' Handbooks will be posted on the PTOs' websites, or "otherwise made available."

The ISO believes that these Interconnection Handbooks should be used to clarify the proper operating and technical requirements to ensure a safe and reliable interconnection, but not for purposes of delaying or hindering the interconnection process, or to significantly impact the rates, terms and conditions of service. However, the ISO supports the public posting (or alternative provision for public availability) of each PTO's Interconnection Handbook and believes that the ability of all interested parties to monitor changes to the Interconnection Handbooks would enhance interconnection procedures and agreements.

D. The Metering Requirements in the Joint ISO/PTO LGIA Must Remain Consistent with the ISO Tariff

Mirant argues that Article 7.1 of the joint ISO/PTO LGIA should be clarified so that Interconnection Customers need only pay for one set of meters, either at the request of the PTO under the LGIA or the ISO under the ISO Tariff and Metering Protocol. Mirant at 11.

The ISO believes that Article 7.1 appropriately serves to reiterate to all parties that existing provisions of the ISO Tariff cover revenue metering, and that participation in the ISO's markets requires the installation of ISO-polled metering devices that allow the ISO to download meter data electronically. This data is essential for settlements for Imbalance Energy and for other participation in the ISO's markets. Moreover, ISO-polled revenue metering is required for all Participating Generators, including those that only schedule Generation with the ISO. Thus, Article 7.1 should not be amended to remove any requirements relating to metering by the ISO.

Article 7.1 also appropriately allows separate revenue metering to be installed by the PTOs where needed. While the PTOs have the option of obtaining authorization from Interconnection Customers to access the ISO-polled revenue meter data of those Interconnection Customers, the ISO understands that there may be good reasons for the PTOs to install their own separate metering devices. The ISO defers to the PTOs to elaborate on the potential need for such additional metering.

E. The ISO's Recommended Article 11.4 Should Be Adopted by the Commission

In the joint ISO/PTO LGIA, the ISO, PG&E, and SDG&E recommended the adoption of an Article 11.4 (Transmission Credits) under which an Interconnection Customer may elect to receive Firm Transmission Rights ("FTRs") instead of credits for the cost of Network Upgrades. Duke states that it favors the alternative provision proposed by SCE for Article 11.4, in which Interconnection Customers would receive only credits and not have the option to receive FTRs as reimbursement for economically viable investments in Network Upgrades. Duke at 9-10. However, Duke offers no justification or explanation why it favors this limitation of an Interconnection Customer's options.

The ISO explained in its LGIP Answer the reasons why FTRs should be offered as an option for reimbursement to the Interconnection Customer. To reiterate, in certain cases FTRs can provide measurable value for those entities that invest in the expansion of the transmission grid. The ISO believes that, in these instances, offering FTRs can provide an incentive for grid expansion and signal the locations on the transmission grid that offer the highest value for new Generating Facilities.

In addition, although the ability to measure the value of FTRs is limited currently to FTRs between Congestion Zones, the ISO believes that offering this FTR option in advance of ISO market redesign can help prepare Market Participants for the ISO's anticipated future policy, in which FTRs or other viable financial rights are expected to be proposed by the ISO as the only reimbursement for Interconnection Customers for the cost of their Network

Upgrades. Thus, offering the option for Interconnection Customers to choose FTRs or credits provides some public benefit now, by providing locational signals and incentives for grid expansion, and also envisions a future policy that compensates all Network Upgrades with financial rights.

F. An Interconnection Customer's Execution of the Reliability Management System Agreement Is Necessary

TANC asserts the requirement in joint ISO/PTO LGIA Article 9.1 for the Interconnection Customer to sign a Reliability Management System ("RMS") Agreement may create hurdles for Interconnection Customers. TANC at 5. The ISO notes that the WECC requires all generators within the Western Interconnection (including the ISO Control Area) to sign an RMS Agreement, and that the additional notice of this WECC requirement within the LGIA is meant merely as a reminder to all parties of this important reliability obligation. Execution of the RMS Agreement should not unnecessarily hinder the Interconnection Customer, and, in fact, inclusion of this requirement in the joint ISO/PTO LGIA should facilitate the interconnection process by informing Interconnection Customers of an obligation that they will need to meet regardless of whether it is referenced in the LGIA.

III. CONCLUSION

For the foregoing reasons, the ISO respectfully requests that the Commission accept the joint ISO/PTO LGIA as filed.

Respectfully submitted,

/s/ Michael Kunselman

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Dated: March 16, 2004

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing documents upon each person designated on the official service list compiled by the Secretary in this proceeding in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure, 18 C. F.R. §385.2010.

Dated at Folsom, CA on this 16th day of March, 2004

/s/ Gene Waas _____
Gene Waas