

Upcoming Filing with the Federal Energy Regulatory Commission Regarding the Transition to Merchant CRR for Path 59 Upgrade by FPL Energy

Discussion Paper
September 24, 2008

Introduction

This paper discusses the upcoming filing with the Federal Energy Regulatory Commission (FERC or the Commission) regarding the Transition to Merchant CRRs for Path 59 Upgrade by FPL Energy, LLC (FPL Energy) as agreed to by the affected parties Southern California Edison Company (SCE) and FPL Energy, and the California Independent System Operator (CAISO) (collectively, the Parties).

The filing described below will provide for compensation mechanism under MRTU for an existing Project Sponsor, FPL Energy, for the existing Blythe-Eagle Mountain transmission line (which will be referred to herein as the Path 59 Upgrade).

Under the currently effective CAISO Tariff, FPL is entitled to (a) Congestion revenues, Wheeling revenues, and revenues from the auction of Firm Transmission Rights (FTRs). Under MRTU, Project Sponsors will be compensated for their investment through Merchant CRRs as described in Section 36.10 of the MRTU Tariff. This filing will enable to transition of this existing project to Merchant CRRs under MRTU consistent with the FERC's prior findings on the added capacity by this project.

Consistent with these prior findings by the FERC on the allocation of the increase in capacity rating on Path 59 attributable to FPL Energy's upgrade,¹ the CAISO will be seeking approval by the FERC for the allocation of the applicable Merchant CRRs to FPL Energy. As this is a transitioning project into MRTU, the provisions in Section 36.10 of the CAISO Tariff regarding the allocation of Merchant CRRs to Project Sponsors of new projects do not apply.²

Market Participants may submit comments on both this paper and the accompanying proposed tariff language to CRRComments@caiso.com by close of business on October 17, 2008.

The CAISO will hold a conference call to discuss this filing at 11:00 am on October 9, 2008. Although written comments may be submitted through October 17, the CAISO encourages comments prior to or during this October 9 conference call so they can be reviewed during this public discussion.

The CAISO anticipates submitting this tariff filing to FERC on or about October 30, 2008.

¹ *California Independent System Operator*, 115 FERC ¶ 61,329 (2006) ("Path 15 Letter Order")

² See Section 36.10 of the CAISO MRTU Tariff as filed on May 7, 2007 and conditionally accepted on July 6, 2007 in Docket ER07-869-000.

Background

In the January 13, 2002 transmittal letter to Amendment No. 48 of the CAISO Tariff, in which the CAISO requested tariff authority to provide Congestion revenues, Wheeling revenues, and revenues from the auction for FTRs, the CAISO explained that FPL Energy needed to be compensated for the Path 59 Upgrade. The Commission rejected the CAISO's originally filed tariff language, which required the Participating TO and Project Sponsor to negotiate the appropriate allocation of revenues associated with the upgraded facilities or submit to arbitration and ordered the CAISO to amend its tariff to provide that the Project Sponsor should receive FTR auction revenues, Wheeling revenues, and Congestion revenues associated with the full amount of capacity added to the system, with that amount of capacity to be determined through the regional reliability council process.³

The CAISO revised its tariff in accordance with this directive and also submitted a letter to the Western Electricity Coordinating Council (WECC) requesting that the WECC determine the amount of increased capacity associated with FPL Energy's Path 59 Upgrade. By letter dated August 26, 2005, the WECC responded stating that the WECC does not allocate path ratings among transmission path participants, and that the issue raised by the CAISO is a commercial issue that the owners of the transmission path should address themselves.

On February 27, 2006, the CAISO informed the Commission of WECC's response and also requested further guidance regarding any amendments that need to be made to the CAISO Tariff to address WECC's decline to serve the role directed in the Commission's order. In addition, the CAISO informed the Commission that the Parties had arrived at a resolution of the issue in which the Parties agreed to an allocation of revenues, and, together with FPL Energy's and SCE's support, the CAISO urged the Commission to allow the Parties to implement this arrangement as a one-time solution.

In its compliance filing, the CAISO provided the following statement to the Commission:

- A. Until the CAISO begins to fund the Congestion Revenue Rights ("CRR") balancing account revenues or costs, between FPL Energy or its affiliates and SoCal Edison over path 59:
 - 1. For the purpose of allocating historic, as well as future, congestion, wheeling and auction revenues or costs, between FPL Energy or its affiliates and SoCal Edison over Path 59:
 - i. The allocation in the import (east to west) direction of such revenues or costs will be as follows:
 - a. The SoCal Edison share shall be 42.9 percent (72/168)
 - b. The FPL Energy share shall be 57.1 percent (96/168)
 - ii. The allocation in the export direction (west to east) will be identical to the allocation in the import direction.
- B. After the CAISO begins to fund the MRTU CRR balancing account with day-ahead congestion revenue, the allocation of congestion revenues and CRR

³ *California Independent System Operator*, 102 FERC ¶ 61,278 (2003). Subsequently, in response to SCE motion for clarification, the Commission clarified that in the event that WECC declined to make such a determination, the CAISO must inform the Commission and seek further guidance from the Commission at such time. *Cal. Indep. Sys. Operator Corp.*, 110 FERC ¶ 61,271 at P 12 (2005).

rights will be determined by the Commission-approved mechanisms embedded in the CAISO Tariff.

In a letter order dated June 15, 2006, the Commission approved the CAISO compliance filing.⁴ Since such time, the CAISO has implemented the agreed upon allocation of the revenues.

On May 7, 2007, after having completed its stakeholder process to develop the Merchant CRRs, the CAISO filed its proposal describing the process for allocating Merchant CRRs to Project Sponsors that would replace the previously provisions filed under Amendment 48. The Commission accepted the CAISO's proposal on finding that the CAISO's proposal to allocate option CRRs to merchant transmission sponsors, commensurate with the incremental transmission capacity provided by a merchant transmission upgrade, is just and reasonable.⁵

Proposed Allocation of Merchant CRRs to FPL Energy under MRTU

Because the provisions of the tariff that pertain to the release of Merchant CRRs for Project Sponsors apply to new projects, it is not appropriate to apply them to the existing Path 59 rights for FPL Energy. Therefore, FPL Energy and SCE agree that in transitioning to MRTU rather than applying the provisions reflected in Section 36.10 of the CAISO Tariff, it is appropriate to continue to apply the same allocation of the Path 59 rights to FPL Energy as previously agreed upon, *i.e.*, the previously designated 57.1 percent of the total capacity (*i.e.*, 96 MWs out of the 168 MWs), which is FPL Energy, LLC's share of the total capacity as approved by FERC in the Letter Order issued by FERC on June 15, 2006 in Docket No. ER03-407 (115 FERC ¶ 61,329).

Moreover, because the facility is radial, this allocated share of the total capacity is the same capacity that would result from the application of the methodology in Section 36.10. This allocation will result in 96 MWs of Merchant CRRs (which are CRR Options) in each direction between the Blythe Scheduling Point (in WAPA Lower Colorado) and the 230 kV side of the 161 to 230 kV transformer at Eagle Mountain substation. These Merchant CRRs shall be in effect for thirty-years from the date on which the facility was energized.

The CAISO will file for approval of this allocation with the Commission as a revision to the Parties' prior resolution described in the February 27, 2006 filing referenced herein, which is located at:
<http://elibrary.ferc.gov/idmws/common/opennat.asp?fileID=10963435>

In addition, as the CAISO previously specified in its May 7, 2007 filing, the CAISO proposes that this is an appropriate exception to the application of its Section 36.10 of the CAISO Tariff because as an existing Project Sponsor for a merchant transmission project already in service, the CAISO's transition mechanism to CRRs should build upon the arrangements established at the time such transmission was put in place. The CAISO believes that the extension of the same allocation previously agreed upon by the Parties and approved by the Commission is consistent with such arrangements.

The proposed Tariff changes in support of this transitioning project are posted on the CAISO website separately from this discussion paper.

⁴ See Path 59 Letter Order.

⁵ *California Independent System Operator*, 120 FERC ¶ 61,023 (2007)

