

an amendment to the Interconnected Control Area Operating Agreement ("ICAOA") between the ISO and Sierra Pacific to the extent that the proposed interconnection with Oxbow causes there to be an interconnection between Sierra Pacific's control area and the ISO control area. Preliminary Brief at 5-6.

Sierra Pacific's position on various issues that have been raised through the negotiations in this proceeding are presented in a section of the Preliminary Brief discussing "Unresolved Issues." The ISO's Response addresses these issues and certain related matters. Consistent with the format established by the November 26 Order for the final briefs to be filed with the Commission, the ISO's Response is organized issue by issue in the same order as the Preliminary Brief. The following Executive Summary provides an overview of the ISO's position on these issues, as set forth in this Response.

I. Executive Summary

In the November 26 Order, the Commission determined that Sierra Pacific's proposed interconnection with Oxbow satisfies the requirements of Section 210 of the Federal Power Act ("FPA") and directed the parties in this proceeding to negotiate the terms and conditions associated with the interconnection, including the apportionment and compensation for costs. The ISO did not oppose the interconnection and has been an active participant in these negotiations, willing to work with Sierra Pacific and the parties in this proceeding to resolve all issues related to the proposed interconnection. Those issues, however, have been complicated by three facts. First, the proposed interconnection results in the interaction between two systems (the ISO control area and that of Sierra Pacific), changing the existing situation where one line connects one Qualifying Facility, Oxbow, to the ISO Controlled Grid.¹ Second,

¹ The ISO uses the term "ISO Controlled Grid" and certain other capitalized terms in this Response as those terms are defined in the Master Definitions Supplement, Appendix A to the ISO Tariff.

the interconnection creates at least one new inter-control area boundary. Finally, the negotiations have occurred without the benefit of any technical studies of the potential impacts of the interconnection. Accordingly, it is impossible to anticipate at this time all the issues that will ultimately have to be resolved with regards to the interconnection, nor to address them all in full.

The fact that the proposed interconnection between Sierra Pacific and Oxbow creates a new point of interconnection between the ISO control area and Sierra Pacific's control area leads to a fundamental question of where the new boundary between control areas is to be located. The ISO believes that the control area boundary should be located so as to maintain the status quo of the ISO's and SCE's operational relationship to Oxbow. Oxbow should remain within the ISO control area so that the ISO will continue to be able to honor the existing contract between SCE and Oxbow. In addition, the ISO believes that it is necessary for Oxbow to be on the ISO side of the control area boundary in order to ensure that there is always an adequate opportunity for neighboring systems, including the ISO, to have input before the Western Systems Coordinating Council ("WSCC") concerning any future impacts of the proposed interconnection. Sierra Pacific has proposed alternative locations for the control area boundary that would move Oxbow to the Sierra Pacific control area. As discussed below, the ISO does not believe that Sierra Pacific has presented a valid justification for such a change in the status quo.

In addition, in light of the formation of a new inter-control area boundary, other issues relating to the boundary must be addressed, irrespective of where it is established, including the installation of inter-control area level metering and telemetry, the amendment of the existing ICAOA between Sierra Pacific and the ISO, and the development of detailed operating procedures.

The ICAOA between the ISO and Sierra Pacific sets forth general operating parameters concerning the interconnections between their respective control areas and also establishes the boundaries between the two control areas. Sierra Pacific has committed to enter into an amendment to the ICAOA once necessary studies have been completed and the operating procedures have been developed. That amendment will also need to reflect the new control area boundary between the ISO and Sierra Pacific.

In addition, the ISO anticipates that detailed operating proceedings regarding the interconnection will have to be developed. As noted above, the parties to the negotiations have not had the benefit of technical and operational information about the potential interaction, as a result of the interconnection, between the transmission systems operated by the ISO and Sierra Pacific. Such technical and operational information will need to be developed through studies that Sierra Pacific has agreed to undertake as part of a WSCC review process as well as any additional studies that the ISO may reasonably undertake to assess the impact of the proposed interconnection. Accordingly, the development of detailed operating procedures at this time would be premature. However, the ISO believes that energization of the interconnection must be conditioned upon Commission acceptance of an amendment to the ICAOA that includes the necessary details relating to the new inter-control area boundary, its location and general operating parameters, as well as the development of detailed operating procedures between Sierra Pacific and the ISO.

Sierra Pacific has agreed not to energize the proposed interconnection until a WSCC review process is completed and the WSCC has authorized energization. The ISO supports such an approach but also believes that Sierra Pacific should obtain a path rating for the interconnection prior to energization. Because the proposed interconnection will create a new point of interconnection

between systems, in addition to a new inter-control area boundary, the potential for impacts on neighboring systems is significant.

Moreover, as noted earlier, Sierra Pacific has not conducted any technical studies related to the interconnection that examines its impacts. As a result, there is little information about such impacts at this time, or about the technical capability of the proposed interconnection for any use, including the emergency use proposed by Sierra Pacific. The ISO believes that, in light of all the factors listed above, and in order to give neighboring systems the assurance they need that the interconnection will be operated reliability, Sierra Pacific should, as a responsible WSCC member, obtain a WSCC path rating before energization.

The ISO is willing to make certain commitments to address Sierra Pacific's concern that the WSCC path rating process might be misused to create unnecessary delay in the energization of the interconnection, but is unwilling to sign Sierra Pacific's proposed "Agreement Related to Interconnection," which includes unduly broad restrictions on the ISO's ability to assert its legal rights in a variety of forums. To the extent Sierra Pacific is unwilling to commit to obtain a WSCC path rating prior to energization of the interconnection, the ISO believes the Commission should make obtaining such a path rating a condition to energization of the interconnection, since there is insufficient information at this time about the potential impacts of the interconnection on neighboring systems, and hence inadequate assurances that such impacts will be adequately addressed.

Sierra Pacific has agreed to pay Oxbow and SCE all costs reasonably incurred by those entities in connection with the proposed interconnection. The ISO notes that it may also incur costs as a result of the interconnection and believes that Sierra Pacific should be required to reimburse the ISO for any costs reasonably incurred as a result of the interconnection.

II. Sierra Pacific's Unresolved Issues

A. Interconnection Agreement

6. Energization of Interconnection

The ISO will address this portion of the Preliminary Brief in its response to Issue C.1 below. As explained in that response, the ISO believes that Sierra Pacific should obtain a WSCC path rating for the interconnection prior to energization of the interconnection with Oxbow.

8. Payment for Moving Oxbow's Facilities Into Sierra Pacific's Control Area

In the Preliminary Brief, Sierra Pacific commits to reimburse Oxbow for any costs incurred by Oxbow as a result of moving Oxbow into Sierra Pacific's control area, depending on where the control area boundary between the ISO control area and Sierra Pacific's control area would be once the proposed interconnection with Oxbow is placed in service. Preliminary Brief at 18. As discussed more fully below, Sierra Pacific has not come to agreement with other parties in this proceeding as to the proper location of this boundary. A number of statements Sierra Pacific makes in this portion of the Preliminary Brief are relevant to that issue. First, Sierra Pacific acknowledges that Oxbow is not currently in its control area. *Id.* Second, Sierra Pacific recognizes that the possibility of moving Oxbow into Sierra Pacific's control area will alter Oxbow's current relationship with the ISO with respect to scheduling and Imbalance Energy and Ancillary Services obligations. *Id.* Lastly, Sierra Pacific states that "the fact that Oxbow [might be] located in Sierra Pacific's control area does not provide any additional value to Sierra Pacific." *Id.*

B. Sierra Pacific/SoCal Edison Agreement

1. Location of Boundary Between Control Areas

As noted above, Sierra Pacific's interconnection with Oxbow, a facility which is currently interconnected only to the ISO Controlled Grid, creates a new point of interconnection between Sierra Pacific's control area and the ISO control area. Sierra Pacific's Final Offer made the control area boundary subject to further negotiations, with a proposal that the ISO Control Area terminate at the Control Substation near Bishop, California. In the Preliminary Brief, Sierra Pacific proposes to revise its Final Offer such that the control area boundary would be set forth in the proposed Agreement between Sierra Pacific and SCE. Preliminary Brief at 19-20. Sierra Pacific now proposes that the control area boundary be set at the California/Nevada border.

As an initial matter, the ISO states that it must be a party to any agreement that establishes a control area boundary between the ISO control area and Sierra Pacific's control area. Indeed, the ISO notes that the ICAOA between the ISO and Sierra Pacific establishes the existing boundaries between those two control areas.² Sierra Pacific has already committed to amend the ICAOA as necessary to reflect the new interconnection between the control areas, and that amendment will establish the new control area boundary.³ Any agreements between Sierra Pacific and SCE concerning the control area boundary must also include the ISO and must be consistent with the amendments to the ICAOA to be developed.

² See, e.g., *California Independent System Operator Corp.*, 87 FERC ¶ 61,231 (1999).

The ISO has carefully considered the alternatives as to where the control area boundary should be located and agrees with SCE that the proper location of the control area boundary is the Sand Springs Substation. Specifically, the ISO believes that the control area boundary should be at the existing Oxbow 230 kV line side of the Sand Springs phase shifter such that the ISO would operate the ring bus on that side of the phase shifter.

Establishing the control area boundary at Sand Springs simply maintains the current status quo of SCE's and the ISO's electrical interaction with Oxbow. For example, emergency procedures and scheduling requirements would remain the same, as would requirements related to Ancillary Services and Imbalance Energy. Sierra Pacific is incorrect when it states that the current boundary of the ISO control area is at the interconnection between Oxbow and SCE at the Control Substation. Preliminary Brief at 19. It is true that Oxbow's facilities are not part of the ISO Controlled Grid, *i.e.*, not part of the system of transmission lines and associated facilities that have been placed directly under the ISO's operational control. The ISO, however, has control area responsibilities for facilities that, while not a part of the ISO Controlled Grid, are interconnected to the ISO Controlled Grid. The ISO has such responsibilities for Oxbow's facilities, which are currently connected only to the ISO Controlled Grid; Thus, electrically, Oxbow is at this time in the ISO's control area.

If the control area boundaries were redrawn such that Oxbow were no longer electrically within the ISO control area, the ISO's ability to call upon

³ As explained below, the ISO believes energization of the interconnection with Oxbow should be conditioned upon the Commission's acceptance of an amendment to the ICAOA.

Oxbow in the event of a reliability emergency could be impaired. For example, during negotiations, the role of Oxbow in the event of one important set of emergency procedures, the North to South separation scheme, was discussed. While Sierra Pacific has expressed flexibility in addressing this concern, maintaining Oxbow with the ISO's control area, as it is now, minimizes the need to make adjustments to maintain the status quo related to emergencies.⁴

In addition, moving Oxbow to Sierra Pacific's control area would alter current scheduling responsibilities for deliveries from Oxbow to SCE. Currently, generation from Oxbow is scheduled by SCE as Regulatory Must-Take generation in the California Power Exchange ("PX") energy markets. If Oxbow were moved to Sierra Pacific's control area, scheduling would have to change as Oxbow would have to be scheduled through Sierra Pacific as an import to the ISO control area.

Finally, by moving Oxbow into a separate control area, requirements for Ancillary Services related to Oxbow would change. First, any limitations related to resources providing Ancillary Services to the ISO from different control areas would apply to Oxbow. For example, the ISO Tariff currently includes restrictions on the imports of Regulation from outside the ISO control area.⁵ Moreover, the reserve and related requirements that would apply to Oxbow would be those of Sierra Pacific.

⁴ The role of Oxbow in the North to South separation scheme must certainly be addressed if there is a determination that the control area boundary should not be at Sand Springs.

⁵ The ISO has proposed the elimination of such restrictions as part of Amendment No. 25 to the ISO Tariff, however, even under that proposal, imports of Regulation from another control area would be subject to certain technical and contractual requirements.

The ISO does not object to Sierra Pacific's seeking an interconnection under which it can call on emergency support from interconnected systems of the WSCC, but the ISO does not believe that such an interconnection can or should be used to alter the status quo of the ISO's and SCE's electrical relationship with Oxbow. Sierra Pacific acknowledges that Section 210 of the FPA does not provide guidance on the issue of the control area boundary. Preliminary Brief at 20. In fact, there is no justification, in the November 26 Order or otherwise, for Sierra Pacific to alter the existing configuration among Oxbow, SCE and the ISO, particularly in the absence of a strong preference by Oxbow to change control areas. There are, however, a number of compelling reasons to retain the existing configuration.

The ISO is required to honor the existing contracts of its Participating Transmission Owners, including SCE.⁶ In addition, the Commission has mandated that the ISO's ICAOA's with other control areas "must clearly provide for the continuation of all existing contractual rights."⁷ SCE has provided Sierra Pacific with comments explaining how a change in the control area responsible for Oxbow would make it more difficult to maintain the existing contractual arrangements between SCE and Oxbow. While the ISO believes that SCE and Oxbow are the appropriate parties to address the impacts on their existing contract,⁸ the ISO would oppose a resolution of the control area boundary issue that might impair the ability of the ISO to honor the existing contract between

⁶ See, e.g., *Pacific Gas and Electric Co. et al.*, 81 FERC ¶ 61,122 at 61,470-71 (1997).

⁷ *Pacific Gas and Electric Co. et al.*, 81 FERC ¶ 61,320 at 62,472 (1997).

⁸ Pursuant to Section 2.4.4.4.1.1 of the ISO Tariff, the ISO has no role in interpreting Existing Contracts.

SCE and Oxbow. In order to comply with the Commission's orders, the amendment to the ICAOA with Sierra Pacific, including the addition of the new control area boundary, must also be consistent with the continuation of existing contractual rights.

In addition, the ISO believes that establishing the control area boundary at Sand Springs is consistent with the need for a public process to address any future impacts of Sierra Pacific's proposed interconnection with Oxbow on neighboring systems, including the system operated by the ISO. WSCC recommendations for obtaining a WSCC path rating are clearer in the context of an inter-control area boundary than for internal paths.

Even without the benefit of technical studies, the ISO believes that the properties of the interconnection could change significantly with fairly simple additional upgrades to Sierra Pacific's system. Moreover, even though Sierra Pacific currently intends to use the interconnection for emergency purposes only, the ISO believes that in the future, Sierra Pacific and/or other users may seek to use the interconnection to schedule transmission service. While there may be nothing intrinsically inappropriate about such changes in configuration and/or use, as a neighboring system, the ISO has a strong interest in assuring that impacts are properly studied and addressed.

If the control area boundary is at Sand Springs, the ISO has more confidence that any significant changes to the electrical properties of the interconnection will be subjected to full WSCC review. Conversely, if the interconnection between Oxbow and Sierra Pacific were wholly within Sierra

Pacific's control area, it is not clear that neighboring systems including the ISO would have the same opportunity to ensure that studies of the impacts are undertaken and that any impacts are addressed before the WSCC. This would not be consistent with the November 26 Order's statement that Sierra Pacific must "operate the interconnection so as not to adversely affect other systems."⁹ In order to ensure that there is always adequate opportunity for neighboring systems to have input before the WSCC of any future impacts of the interconnection, the control area boundary should be established at Sandy Springs.¹⁰

The two arguments Sierra Pacific offers for an alternative control area boundary are unpersuasive. First, Sierra Pacific claims that the costs of putting into place the metering necessary for a Sand Springs boundary would be greater than the costs having the boundary at the California/Nevada Border and "objects to increasing the costs of the Interconnection in this fashion since Sierra Pacific would be responsible for the additional costs." Preliminary Brief at 20. This is not the case. The existing metering at the Control Substation is not intertie level metering. The ISO believes that intertie level metering and telemetry will need to be installed as a result of the proposed interconnection. The current metering was acceptable in light of the current simple electrical configuration of the system at SCE Control, whereby power flowed into the ISO Controlled Grid from a single

⁹ November 26 Order, 89 FERC ¶ 61,234, slip op. at 6.

¹⁰ If the control area boundary were not to be established at Sandy Springs, Sierra Pacific should, in the alternative, be required to submit any proposed modifications to the interconnection between Sierra Pacific and Oxbow, including any proposed changes to the path rating of the interconnection, to a WSCC process that permits for review and input from all affected entities, including the ISO.

facility, Oxbow. The interconnection results in a much more complex situation electrically, since there is to be a new point of interconnection between the control areas. Given these new circumstances, appropriate intertie metering becomes necessary. Thus, no matter where the control area boundary is located, additional metering will be required, and the cost impact on Sierra Pacific will be the same.

Sierra Pacific also raises objections to the prospect that the ISO would have control responsibility for facilities within the State of Nevada. Sierra Pacific claims that such a situation could require lengthy proceedings before the Nevada Public Utilities Commission. Preliminary Brief at 20-21. Sierra Pacific also contends that this situation could raise issues related to FERC Orders and California legislation concerning membership on the ISO's Board of Governors. Preliminary Brief at 21. These objections and arguments are based on a faulty premise, that the ISO is somehow in this proceeding seeking to obtain new control area responsibilities for facilities that are in Nevada. This is not the case.

The ISO is merely advocating an approach that maintains the status quo in light of the interconnection sought by Sierra Pacific. There is no dispute that Oxbow is currently interconnected only to the ISO Controlled Grid and not to Sierra Pacific, notwithstanding the fact that Oxbow is geographically in Nevada. From an electrical perspective, making the control area boundary at Sand Springs most closely maintains the current situation. To the extent maintaining the status quo would require proceedings before the Nevada Public Utilities Commission, that is purely a result of the interconnection that Sierra Pacific has

proposed. The ISO is willing to work with Sierra Pacific to explore whether any regulatory steps in Nevada are required, and if any are, to undertake them in a manner that maintains the status quo of the ISO with respect to the facilities of Oxbow and SCE. In addition, since the ISO proposes only to maintain the current status quo with respect to Oxbow, there would be no impacts on the ISO's governance structure.

Lastly, the ISO notes that Oxbow itself is considering seeking control area operator status. If Oxbow were to become a control area operator, a number of additional issues as to the appropriate control area boundaries and inter-control area boundary requirements would need to be addressed. It is impossible to prejudge what those issues might be in the absence of a concrete Oxbow proposal. In the meantime, until and unless Oxbow becomes a control area operator, the ISO believes it is necessary to address the issue of control area boundary in light of current circumstances, consistent with the discussion above.

2. Alterations to ISO and PX Treatment of Oxbow

In the Preliminary Brief, Sierra Pacific states that it reserves the right to request a ruling from FERC that the California ISO and PX not treat Oxbow's deliveries to SCE any differently than they are treated today if the control area boundary is established at the California/Nevada border. Preliminary Brief at 21. Sierra Pacific claims that, "from a physical standpoint, nothing about Oxbow's deliveries to SoCal Edison will have changed, and there does not appear to be any reason why additional costs should be incurred by Oxbow, SoCal Edison, the California ISO or the California PX with respect to deliveries by Oxbow to SoCal

Edison arising from the California ISO control area being deemed to end at the C/N Border." *Id.*

If the control area boundary between the ISO and Sierra Pacific is established at the proper location, the one that maintains the ISO's current operational relationship with Oxbow, then there is no need to address these issues because Oxbow's deliveries to SCE will be treated as they are today. As explained above, however, moving Oxbow to Sierra Pacific's control area would change the ISO's operational relationship to Oxbow, as Oxbow's deliveries to SCE would become imports into the ISO control area. The ISO notes that the California PX is not a party to this proceeding and that the ISO cannot anticipate what the PX's position on this issue would be. Accordingly, it is inappropriate for Sierra Pacific to request that the Commission address matters that would impact the PX in this proceeding.

3. Sierra Pacific's Obligation to Pay Costs Incurred by SoCal Edison

In the Preliminary Brief, Sierra Pacific agrees that it is "obligated to pay all of SoCal Edison's costs incurred in connection with the Interconnection." Preliminary Brief at 22. Sierra Pacific does not make such a similar commitment with respect to costs incurred by the ISO in connection with the proposed interconnection. In fact, although Sierra Pacific "acknowledges that it has an obligation to reimburse other parties for costs incurred in connection with the Interconnection," Sierra Pacific claims that the only party other than Oxbow likely to be entitled to such reimbursement is SCE. Preliminary Brief at 14.

The November 26 Order directed Sierra Pacific to negotiate with *all* parties the terms and conditions for carrying out the order, including the "apportionment of and compensation for costs" as appropriate. November 26 Order, 89 FERC ¶ 61,234, slip op. at 8. Generally, SCE will be the entity with the responsibility to make any system upgrades to address any reliability impacts of the interconnection, and it is appropriate for Sierra Pacific to reimburse SCE for such costs. However, the ISO may also incur costs as a result of the interconnection in order to ensure that the reliability of the system is maintained. For example, there are voltage stability issues in the Bishop, California area that will likely be affected by the interconnection. It may become necessary as a result of the interconnection for the ISO to study and revise mechanisms currently in place to address the voltage problems. It is also possible that the ISO could identify additional measures necessary as a result of the proposed interconnection once the WSCC studies that Sierra Pacific has committed to undertake are completed. Since the need to address voltage stability issues or similar matters would arise as a result of the interconnection, Sierra Pacific should be required to reimburse the ISO for the reasonable costs associated with such measures.

C. Agreement Relating to Interconnection

1. WSCC Path Rating Prior to Energization¹¹

Sierra Pacific contends that it should be entitled to energize the interconnection with Oxbow prior to obtaining a WSCC path rating for the

¹¹ As noted above, the ISO's Response to this issue also addresses Sierra Pacific's Unresolved Issue A.6 ("Interconnection Agreement - Energization of Interconnection") and Sierra Pacific's discussion of this issue in the summary of its Final Offer. See Preliminary Brief at 4-5; 23-24.

interconnection. Preliminary Brief at 4, 17. Sierra Pacific does not suggest that it will not obtain a path rating for the interconnection, it simply states that it will not necessarily obtain the path rating until after the interconnection has been energized. Preliminary Brief at 4. As Sierra Pacific acknowledges, Oxbow and the California Utilities, including SCE, have taken the position that Sierra Pacific must obtain such a path rating before the interconnection with Oxbow can be energized. The Preliminary Brief does not reflect the fact, however, that the ISO also strongly believes that Sierra Pacific should obtain such a path rating prior to energization.

Sierra Pacific's discussion of the path rating issue ignores the fact that the interconnection with Oxbow will create a new point of interconnection between two complex systems, Sierra Pacific's control area and the ISO's control area. Moreover, there is little technical information at this time, so it is impossible for parties to seek detailed assurances that related to system operations that will maintain reliability.

Even without the benefit of technical studies, the ISO is concerned about potential reliability impacts. For example, the interconnection will create a circuit that includes one very limited, and thus, vulnerable, link, the 115kV SCE line into which the Oxbow generation tie feeds. At the same time, the path created by the interconnection is parallel to a number of heavily loaded paths. Particularly in light of this electrical configuration, the ISO believes it is very important to have a clear understanding of the technical capability of the interconnection and the systems it puts into contact, prior to energization.¹² Under such circumstances, the ISO believes that a responsible control area operator would seek a WSCC

¹² The ISO does not wish to suggest that technical concerns cannot be addressed. Rather, these technical concerns support requiring Sierra Pacific to obtain a path rating from WSCC prior to energization, to ensure that the interconnection is operated reliability.

path rating for the interconnection prior to energization and that Sierra Pacific should do so in this case.

To the extent that Sierra Pacific is unwilling to enter into a binding commitment to seek a WSCC path rating for the interconnection prior to energization, the ISO believes that the Commission should condition energization of Sierra Pacific's interconnection with Oxbow upon Sierra Pacific's obtaining such a path rating.

Sierra Pacific asserts that the only reason it is unwilling to obtain a path rating prior to energization of the interconnection is the possibility that parties will use the WSCC path rating procedure to delay energization. Sierra Pacific therefore states that it would be willing to agree to condition energization upon receipt of a path rating only if all intervenors in this proceeding agree to be signatories to an alternative "Agreement Regarding Interconnection" circulated with, but not as a part of, Sierra Pacific's Final Offer on January 24. Preliminary Brief at 4-5, 24. The proposed Agreement would impose restrictions on the ability of intervenors to assert rights in numerous forums in addition to the WSCC regarding issues that extend beyond the question of the path rating. For example, Sierra Pacific's proposed alternative Agreement Regarding Interconnection would provide that:

Upon the issuance of the rating and Initial Operating Procedures by the WSCC for the Interconnection, the Intervenors shall not, for any reason or in any forum, seek (a) to prevent energization of the Interconnection by seeking preliminary or permanent injunctive relief, or a stay by protesting energization before the FERC, or any other federal, state or local governmental agency or any court, or by inducing any other party to take such action pending consideration of any claim that the Intervenors, or any such person induced by any Intervenor, brings before any court or agency.

The ISO believes the proposed alternative Agreement Regarding Interconnection, as currently drafted, contains unduly broad limits on the rights of the ISO, and contains language that in many cases is unduly lengthy and confusing. Particularly in light of the limited availability of technical information, and initial concerns about the system configuration that results from the interconnection, the ISO is not willing to broadly forego rights it might have, including the right to protest energization, as may be appropriate. The ISO would be willing to negotiate a more limited agreement to address Sierra Pacific's concern that the WSCC process not be used improperly to create unnecessary delay. The ISO believes that an appropriate agreement regarding this issue would express three points related to the WSCC process:

- Sierra Pacific will seek a path rating for the interconnection;
- the signatories to the agreement would acknowledge and abide by existing WSCC policy regarding the issues that may or may not be considered in the WSCC path rating process; and
- the signatories would not challenge a path rating duly determined through the WSCC process.

In the alternative, if Sierra Pacific were unwilling to commit to seeking a WSCC path rating for the interconnection but the Commission conditions energization upon receipt of such a path rating, the ISO would not oppose being subject to the above conditions in the WSCC process.

2. Resolution of Alturas Dispute

As Sierra Pacific notes in its Preliminary Brief, a number of intervenors in this proceeding (referred to collectively as "the California Utilities") have raised issues in this docket related to the issues currently pending in Docket Nos.

ER99-28-000 *et al.* concerning the justness and reasonableness of certain agreements for the operation of Sierra Pacific's Alturas Intertie and the impact of the Alturas Intertie. Preliminary Brief at 24-25. The ISO is an active party in the ongoing proceeding in Docket Nos. ER99-28-000 *et al.* and has addressed issues relating to the Alturas Intertie in that proceeding. While the ISO does not oppose the right of any party to pursue any claims or issues validly raised in any proceeding, the ISO notes that it has not raised any issues related to the Alturas Intertie in this docket and offers no response to the Preliminary Brief's discussion of such issues.

In both versions of the "Agreement Related to Interconnection" that Sierra Pacific proposes be executed by all parties in this proceeding, Sierra Pacific has included language concerning the interrelationship between issues raised in this proceeding and those pending in Docket Nos. ER99-28-000 *et al.* The ISO certainly encourages Sierra Pacific to negotiate a resolution with the California Utilities concerning the Alturas Intertie issues that is acceptable to all parties. To the extent that all parties negotiate a mutually acceptable settlement of the outstanding issues in this proceeding that includes a resolution of the issues raised in this case related to the Alturas Intertie, the ISO would, of course, be willing to be a party to such an agreement. The ISO does not otherwise believe that it is necessary or appropriate, however, for a party such as the ISO that has not raised issues relating to the Alturas Intertie in this proceeding to be subject to Sierra Pacific's proposed conditions concerning the interrelationship between this docket and the issues pending in Docket Nos. ER99-28 *et al.* Moreover, as

noted above, the ISO also objects to the provisions of both versions of the proposed "Agreement Related to Interconnection" concerning Sierra Pacific's commitments with respect to the WSCC process. Thus, to the extent the "Agreement Related to interconnection" is not revised to reflect a mutually acceptable settlement among all parties in this proceeding, the ISO requests that its name be removed as a proposed signatory to that agreement.

III. Additional Issues

As noted above, Sierra Pacific has committed to enter into an amendment to the ICAOA between the ISO and Sierra Pacific to the extent that the proposed interconnection with Oxbow causes there to be an interconnection between Sierra Pacific's control area and the ISO control area. Preliminary Brief at 5-6. The ISO also is willing to negotiate the appropriate amendments to the ICAOA to reflect Sierra Pacific's proposed interconnection. As Sierra Pacific notes, the ICAOA incorporates operating parameters for the operation of interconnected facilities between the ISO and Sierra Pacific. *Id.* In addition, the control area boundary must be accurately reflected in the ICAOA.

In addition, however, it will be necessary to develop detailed operating procedures to address the impact of Sierra Pacific's proposed interconnection with Oxbow. However, these operating procedures should be developed based on significantly more technical information than what is currently available. The ISO anticipates that the appropriate procedures can be developed between the ISO and Sierra Pacific based on the studies undertaken in the context of the WSCC process and any studies performed by the ISO. Having the appropriate

operating procedures in place is crucial to ensuring that an interconnection between Sierra Pacific and Oxbow will not have an adverse impact on the reliability of the ISO Controlled Grid and those facilities for which the ISO has control area responsibilities.

Both Sierra Pacific and the ISO agree that it is necessary to amend the ICAOA and to develop detailed operating procedures. However, development of detailed operating procedures in particular is not possible within the time frame the Commission has provided for negotiating the terms and conditions of the interconnection. Under these circumstances, the ISO believes it is appropriate to condition energization of the proposed interconnection upon amendment of the ICAOA between the ISO and Sierra Pacific, to include an adequate description of the new control area boundary and general operating parameters, and development of appropriate detailed operating procedures. The ISO also notes that the amendment to the ICAOA should be submitted for Commission approval. The ISO believes that the approach of conditioning energization on the amendment of the ICAOA and development of appropriate detailed operating procedures would be consistent with the need to address reliability issues raised by the proposed interconnection and also with Sierra Pacific's commitment to enter into an amendment of the ICAOA.

IV. Conclusion

The ISO is willing to continue to negotiate with Sierra Pacific and all other parties in this proceeding to arrive at mutually acceptable resolutions of the issues discussed above and in Sierra Pacific's Preliminary Brief. If the parties are unable to reach agreement on some or all of these issues, the ISO will present these issues to the Commission for resolution pursuant to the schedule established by the November 26 Order, as modified by the Notice of Extension granted on January 10, 2000.

Respectfully submitted,

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