

February 26, 2009

Via Overnight Delivery

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: California Independent System Operator Corporation
Compliance Filing
Docket No. ER08-654-_____

Dear Secretary Bose:

The California Independent System Operator Corporation (“CAISO”) and San Diego Gas & Electric Company (“SDG&E”) hereby submit an original and five copies of the instant filing in compliance with the Commission’s “Order Granting Clarification, in part, Denying Rehearing, and Conditionally Accepting Compliance Filing,” 126 FERC ¶ 61,078, issued in the captioned proceeding on January 29, 2009 (“January 29 Order”).

I. SUMMARY OF FILING

As described in more detail in Section IV below, the revisions to comply with the January 29 Order are incorporated in Appendices A, B, and C of the attached Large Generator Interconnection Agreement (“LGIA”) among the CAISO, SDG&E, and the Nevada Hydro Company, Inc. (“Nevada Hydro”). In particular, revisions have been made to the milestone dates in Appendix B to ensure that they are not backdated, in direct compliance with the January 29 Order. In addition, revisions have been made to Table A.1 of Appendix A, to each of the tables in Appendix B, and to Appendix C to modify the description of responsibility for construction of those facilities and the cost estimates and milestone schedules for those facilities. These revisions have been made primarily to reflect that Nevada Hydro has announced its exercise of its option to self-build Interconnection Facilities and Stand Alone Network Upgrades pursuant to LGIA Article 5.1.3.¹ The possibility that Nevada Hydro might exercise this option was recognized by the Commission in the January 29 Order.

¹ Capitalized terms not otherwise defined herein have the meanings set forth in the Master Definitions Supplement, Appendix A to the CAISO Tariff or in the LGIA.

However, additional revisions have been made to provide clarification of the different milestone dates that apply to each phase of Nevada Hydro's proposed two-phase generation and transmission project and to reflect Nevada Hydro's announcement of a delay in its construction milestone dates in conjunction with this compliance filing. As explained in more detail in Section IV below, SDG&E cannot currently support the January 4, 2011 In-Service Date proposed by Nevada Hydro as a workable and realistic target for SDG&E's completion of construction of non-Stand Alone Network Upgrades.

In addition, the CAISO wishes to alert the Commission that it considers it necessary at this point to undertake additional studies pursuant to Section 4.4 of the CAISO's Large Generator Interconnection Procedures ("LGIP") to determine whether Nevada Hydro's extension of its construction milestone dates in conjunction with this compliance filing may constitute a "Material Modification" of Nevada Hydro's proposed project that might result in an adverse impact on lower-queued interconnection customers. The CAISO describes this issue in more detail in Section IV below.

Finally, SDG&E describes in Section IV below that its evaluation of Nevada Hydro's proposed two-phase project did not examine whether the Network Upgrades identified in this LGIA are sufficient to safely and reliably support Nevada Hydro's proposed transmission facility as presently proposed as a stand-alone transmission facility. SDG&E and the CAISO point out that evaluation of this transmission facility would have to be completed by the CAISO pursuant to the Commission-approved transmission planning process specified in Section 24 of the CAISO Tariff if Nevada Hydro intends it to operate other than as a means to interconnect the proposed generating facility.

II. BACKGROUND

On April 26, 2005, Nevada Hydro applied to the CAISO pursuant to Section 25.1 of the CAISO Tariff to interconnect the Lake Elsinore Advanced Pumped Storage ("LEAPS") facility to the CAISO Controlled Grid. The LEAPS project is proposed to be located in Lake Elsinore, California. It will interconnect to the portion of the CAISO Controlled Grid owned by SDG&E at a new Case Springs 230 kV substation. The scope of the complete interconnection includes looping the Serrano-Valley 500 kV line into the 500 kV bus at the Lee Lake substation and looping the Talega-Escondido line into the 230 kV bus at the Camp Pendleton Case Springs substation (the "TE/VS Interconnect").² The

² The LEAPS project thus will also interconnect to the CAISO Controlled Grid at Southern California Edison Company's ("SCE") Serrano and Valley substations, which will in all likelihood involve similarly extensive Interconnection Facilities and Network Upgrades with respect to SCE. To complete the interconnection, however, it is also necessary for Nevada Hydro to construct a 500 kV transmission line pursuant to Section 24 of the CAISO Tariff.

SDG&E portion of the Interconnection Facilities and Network Upgrades are covered by the LGIA filed in this docket.

The CAISO, in coordination with SDG&E, performed or caused to be performed the studies required by the LGIP, which identified the system modifications or additions necessary to interconnect the LEAPS project to SDG&E's portion of the CAISO Controlled Grid and estimated the cost of the Interconnection Facilities and the required Network Upgrades. As requested by Nevada Hydro and presented in the approved Interconnection Facilities Study report referenced in the LGIA, the Reliability Network Upgrades and Delivery Network Upgrades for SDG&E's system were determined in order to accommodate the interconnection of the proposed LEAPS project. The results are for certain specific assumptions for power flow consisting of up to 500 MW import into SDG&E's system when generating or 600 MW exported from SDG&E's system when pumping. Following the submittal of the Interconnection Facilities Study to Nevada Hydro, the CAISO and SDG&E tendered a draft LGIA, with appendices, to Nevada Hydro.

The parties subsequently entered into negotiations regarding the LGIA. While the parties were able to resolve most issues after approximately one year of protracted negotiations, they could not reach agreement on a number of key issues. On January 31, 2008, Nevada Hydro requested that the CAISO and SDG&E file an unexecuted LGIA.

On March 11, 2008, SDG&E and the CAISO filed in the above-referenced proceeding an unexecuted LGIA, in which they identified a number of issues that had not been resolved with Nevada Hydro. Nevada Hydro filed a protest dated April 1, 2008.

On May 9, 2008, the Commission issued an order conditionally accepting the unexecuted LGIA (the "May 9 Order").³ The Commission agreed with Nevada Hydro that its Interconnection Request presents unique circumstances such that it was appropriate for the Commission to approve a non-conforming "in-service date" that reflects the start date of the TE/VS Interconnect rather than the LEAPS project. The Commission noted that, unlike other projects subject to interconnection agreements, Nevada Hydro's project is really two separate projects: a transmission line that will offer third-party access and a pumped hydro facility that will offer generating capacity. It also noted that the TE/VS Interconnect can be made operational before the LEAPS project. It noted specifically, however, that its findings could not be construed as an opinion on the relative merits of the TE/VS Interconnect or competing transmission projects. The Commission noted that those decisions rest with the California Public Utilities Commission ("CPUC") and the CAISO.

³ *California Independent System Operator Corporation*, 123 FERC ¶ 61,140 (2008).

The Commission further concluded that the LGIA provides Nevada Hydro the right to propose relevant milestones for completion of the project and, if these milestones are not acceptable to SDG&E, the option to build.⁴ In addition, it found no harm in allowing Nevada Hydro's cost estimates to be included in Appendix A to the LGIA. Finally, the Commission noted that the disagreement about milestones and sequencing had been resolved because the CAISO and SDG&E were willing to revise Appendix B to the LGIA as requested.

The Commission directed the CAISO file a revised and non-conforming LGIA to reflect the in-service date of the TE/VS Interconnect. It also directed inclusion of a restatement of the milestone dates for advancement of costs, as well as Nevada Hydro's cost estimates.

On June 9, 2008, SDG&E and the CAISO submitted a compliance filing of a revised LGIA in the above-referenced proceeding. The revised LGIA included only one change to the body of the LGIA, a revised, non-conforming definition of In-Service Date to provide that the In-Service Date will be the earlier of the date that Nevada Hydro reasonably expects it will be ready to obtain back feed power or the date it reasonably expects it will be ready to use some of its Interconnection Facilities.

The remaining changes directed by the Commission were included in Appendices A and B to the LGIA. Table A.1 of Appendix A was revised to include the cost estimates provided by Nevada Hydro. The presence of conflicting costs estimates, however, could cause confusion regarding the required security payments. Accordingly, consistent with the LGIA, Table A.1 included a footnote indicating that SDG&E estimates will be used for security purposes and that Nevada Hydro's costs estimates will not be used for the provision of security and are provided for informational purposes only. The compliance filing also corrected certain typographical and technical errors in the LGIA.

A revised Table B.1 incorporated Nevada Hydro's proposed in-service date as directed by the Commission and modified subsequent milestones accordingly. Table B.3 and B.4 were revised to reflect a modified time schedule according to the revised in-service date. The timelines that SDG&E believed were necessary for construction of the required Network Upgrades consistent with meeting Nevada Hydro's In-Service Date resulted in establishing some milestones, including several milestones associated with required payments of financial security and other matters, at dates that had already passed. The

⁴ The LGIA affords the Interconnection Customer the option to assume responsibility for the design, procurement, and construction of the Participating TO's Interconnection Facilities and Stand-Alone Network Upgrades if the milestones are unacceptable to the Participating TO. See Article 5 of the LGIA.

CAISO, SDG&E, and Nevada Hydro (with whom SDG&E and the CAISO spoke regarding this particular issue) acknowledged that Nevada Hydro and SDG&E could not comply and could not have complied with such past milestones, and they further agreed that neither SDG&E nor Nevada Hydro would be prejudiced regarding the passage of such milestones. Further, Nevada Hydro would not be prejudiced relative to its position in the CAISO interconnection queue because of non-compliance with any milestone in the revised LGIA which is stated at a date prior to the date of this compliance filing. SDG&E and the CAISO expected, similarly, that they would not be prejudiced relative to the passage of a milestone or in any other way due to the imposition of the June 30, 2009 in-service date that Nevada Hydro proposed and the Commission adopted.

SDG&E further observed, as did the May 9 Order at footnote 3, that various matters related to the TE/VS Interconnect and LEAPS project are pending with Government Authorities and are not reflected in the schedule.⁵ For these reasons, maintaining even an estimated time schedule culminating in a June 30, 2010 in-service date would have been a significant challenge if not impossible. SDG&E contemplated that these milestone dates necessarily would slip day for day as applicable to an affected party until necessary regulatory approvals were obtained for such party's portion of the project until the revised in-service date set forth in this compliance filing was accomplished, consistent with Article 5.6.1 of the LGIA.

Further, SDG&E contemplated providing to Nevada Hydro very shortly following the prior compliance filing a notice pursuant to Article 5.1.1, which provides, among other things, that SDG&E, as Participating TO, will provide written notice to Nevada Hydro as Interconnection Customer because SDG&E "reasonably expects that it will not be able to complete the Participating TO's Interconnection Facilities, Network Upgrades, and Distribution Upgrades by the specified dates." SDG&E recognized that Nevada Hydro may elect, under Article 5.1.3, to self-build the Interconnection Facilities and "assume responsibility for the design, procurement and construction of the Participating TO's Interconnection Facilities and Stand Alone Network Upgrades."

On June 20, 2008, SDG&E notified Nevada Hydro that, under LGIA Article 5.1.1, SDG&E "reasonably expects that it will not be able to complete the facilities that Nevada Hydro requested be built by the June 30, 2010 In-service Date specified by FERC in its May 9, 2008 Order regarding the subject LGIA."

In a protest dated June 30, 2008, Nevada Hydro requested that the Commission order (1) the adoption of Nevada Hydro's milestones for construction of the required network upgrades and (2) the use of Nevada Hydro's

⁵ See Article 5.6.1 of the LGIA (establishing regulatory approval for any facilities as a condition precedent to the Participating TO's obligation to commence construction of the Participating TO's Interconnection Facilities).

estimated project costs, rather than SDG&E's, as the basis for calculating security due under the LGIA.

On July 21, 2008, Nevada Hydro notified SDG&E that it would "exercise [Nevada Hydro's] option to accept responsibility for the design, procurement, and construction of subject facilities." On July 29, 2008, SDG&E notified Nevada Hydro that it SDG&E understood Nevada Hydro's notice as exercising its option under LGIA Article 5.1.3 to self-build its proposed Stand Alone Network Upgrades and Interconnection Facilities and not to design or construct Network Upgrades for which SDG&E would continue to remain fully responsible.

III. JANUARY 29 ORDER

In the January 29 Order, the Commission conditionally accepted the compliance filing of the revised LGIA. The Commission noted that certain milestones in the previously filed LGIA were unreasonable because they include milestones and associated dates that had already passed and are therefore infeasible. The Commission also found any associated requirements for backdated payments in the LGIA associated with backdated milestones to be unreasonable. The Commission ordered that the LGIA must be resubmitted with milestones proposed by Nevada Hydro, including any milestones proposed in conjunction with exercise by Nevada Hydro of the option to self-build Participating TO's Interconnection Facilities and Stand Alone Network Upgrades. However, the Commission expressly recognized that the option to self-build does not extend to Network Upgrades other than Stand Alone Network Upgrades and thus that the limitation in the LGIA on the ability of SDG&E to propose its own milestones does not hold true for these other Network Upgrades.⁶ The Commission also continued to recognize the possibility that delays in the proceedings on Nevada Hydro's application for a Certificate of Public Convenience and Necessity before the California Public Utilities Commission might render Nevada Hydro incapable of meeting its own milestones, but noted that the LGIA allows for this possibility and provides an Interconnection Customer with flexibility to adjust its milestone dates.⁷

With regard to the matter of the use of cost estimates in determining the amount of security that must be provided during the construction process, the Commission clarified that the parties should use SDG&E's cost estimates for determining the amount of security to be provided by Nevada Hydro. The Commission also denied as beyond the scope of this proceeding Nevada Hydro's request for clarification that the LGIA allow the substitution of reliable advanced transmission technology.

⁶ January 29 Order at P 13 and fn. 24.

⁷ *Id.* at fn. 30.

IV. THE INSTANT COMPLIANCE FILING

The revised LGIA in compliance with the January 29 Order is included as Attachments A and C. The revisions to comply with the January 29 Order are incorporated in Appendices A, B, and C of the LGIA. As noted above, on July 21, 2008, Nevada Hydro indicated that it would exercise its self-build option under LGIA Article 5.1.3. During the February 10, 2009 conference call among Nevada Hydro, CAISO and SDG&E, SDG&E indicated that the revised In-Service date of January 4, 2011, provided by Nevada Hydro, and currently reflected in the accompanying Appendices, is “not acceptable” to SDG&E. SDG&E has sought confirmation, both during the conference call and in later communications with Nevada Hydro and CAISO, that Nevada Hydro is still planning to self-build its proposed Stand Alone Network Upgrades in light of SDG&E’s determination that Nevada Hydro’s newly provided dates are not acceptable. As of February 26, 2009, SDG&E is awaiting Nevada Hydro’s further confirmation in this regard. As was the case with Nevada Hydro’s proposed June 30, 2010 In-Service Date, SDG&E cannot currently support the January 4, 2011 date, as proposed by Nevada Hydro, as a workable and realistic target for SDG&E’s completion of construction of non-Stand Alone Network Upgrades.⁸

In addition to revisions to the milestone dates in Appendix B, which dates are not backdated, revisions also have been made to Table A.1 of Appendix A, to each of the tables in Appendix B, and to Appendix C to modify the description of responsibility for construction of those facilities and the cost estimates and milestone schedules for those facilities.

SDG&E and the CAISO have concluded that it is necessary to clarify the mixture of milestone dates for the TE/VS Interconnect and the LEAPS generating facility in Appendix B, recognizing that the Commission has directed that the In-Service Date associated with the TE/VS Interconnect is the appropriate date on which to base the construction schedule of the Interconnection Facilities and Network Upgrades in this particular special LGIA. Also, LGIA required milestones such as initial synchronization and trial operation, which are applicable to the interconnection of the LEAPS generation facility, don’t apply to the TE/VS Interconnect. Consequently, SDG&E and the CAISO have incorporated separate listings of the milestone dates for the TE/VS Interconnect and the LEAPS generating facility in Appendix B to provide a complete picture of the intended course of construction of Nevada Hydro’s two-phased, combined project.

Additionally, the milestones in Appendix B.4 for SDG&E’s construction of Network Upgrades other than Stand Alone Network Upgrades also have been

⁸ Some of the concerns in this regard were noted by the Commission in its January 29 Order, including the order’s references to related, pending regulatory proceedings.

revised to align them as closely as possible with the milestone dates provided by Nevada Hydro associated with the TE/VS Interconnect. SDG&E has committed to incorporate these milestones in the LGIA pursuant to SDG&E's right under the LGIA (particularly Articles 5.5 and 5.6) to propose and adhere to its own milestones for the construction process for its non-Stand Alone Network Upgrade facilities, subject to the requirement that SDG&E act "as soon as practicable" following the satisfaction of the conditions set forth in those Articles.

Also, in the course of discussions regarding this matter, Nevada Hydro has requested an extension of the milestone dates it had previously proposed in order to reflect a change in the overall schedule for its project. This extension has been reflected in the revised milestone dates in Appendix B. SDG&E and the CAISO wish to point out to the Commission that the extension of the milestone dates requested by Nevada Hydro and reflected in Appendix B move the projected Commercial Operation Date for the LEAPS generating facility more than three years beyond the Commercial Operation Date in Nevada Hydro's interconnection request and used in the interconnection studies performed for this project. Consequently, while the new milestone dates requested by Nevada Hydro have been incorporated in the version of the LGIA attached, the CAISO considers it necessary at this point to undertake additional studies pursuant to Section 4.4 of the LGIP to determine whether this extension may constitute a "Material Modification" of Nevada Hydro's proposed project that might result in an adverse impact on lower-queued interconnection customers.

If the CAISO's studies determine the existence of an adverse impact on a lower-queued interconnection customer, then the CAISO expects to advise Nevada Hydro of the need to remedy this adverse impact so as not to disadvantage that other interconnection customer. While this determination would be subject to any claim by Nevada Hydro that it is entitled to an extension beyond three years on the basis that the Commission's proceedings on this matter have constituted a "Force Majeure" excusing Nevada Hydro from the obligation to avoid any adverse impact on lower-queued interconnection customers, the CAISO does not understand this circumstance to provide Nevada Hydro such an excuse, subject to any direction to the contrary from the Commission. If the extension is determined to result in an adverse impact on a lower-queued interconnection customer, and the remedy for this adverse impact were to involve the construction of additional Network Upgrades or the need for Nevada Hydro to fund the cost of construction of the Network Upgrades in advance of its own construction schedule in order to provide anticipated transmission capacity for the lower-queued interconnection customer, then the CAISO expects to propose an amendment to the LGIA to incorporate responsibility of Nevada Hydro for those additional Network Upgrades or the advanced funding of the Network Upgrades.

In conjunction with such an amendment to the LGIA, the CAISO will consider seeking a waiver from the Commission of any provisions of the CAISO's LGIP or the LGIA that might be deemed to require Nevada Hydro to withdraw and resubmit its interconnection request. However, in conjunction with any such amendment and request for waiver, the CAISO would seek Commission confirmation that the period for repayment of the amounts advanced by Nevada Hydro for the costs of the construction of Network Upgrades would not commence until the Commercial Operation Date for the LEAPS generating facility.

Finally, SDG&E and CAISO recognize that the Commission has directed that the In-Service Date associated with the TE/VS Interconnect is the appropriate date on which to base the construction schedule of the Interconnection Facilities and Network Upgrades in this particular LGIA. SDG&E must bring to the Commission's attention that inserting Nevada Hydro's proposed project dates into the Appendix B milestones and construction schedules in this LGIA does not solve the inherent issue that appears to be overlooked; the required Network Upgrades listed in the LGIA are the result of SDG&E's analysis to interconnect Nevada Hydro's proposed 500 MW LEAPS generation facility. This evaluation was solely focused on identifying Interconnection Facilities, Stand Alone Reliability Network Upgrades, and non-Stand Alone Reliability Network Upgrades required to reliably interconnect the LEAPS generation facility into SDG&E's transmission system utilizing the capability of the TE/VS Interconnect. This evaluation did not examine whether the Network Upgrades identified in this LGIA are sufficient to safely and reliably support the TE/VS Interconnect as presently proposed as a stand-alone transmission facility. SDG&E and the CAISO expect that evaluation of the TE/VS Interconnect would have to be completed by the CAISO pursuant to the process specified in Section 24 of the CAISO Tariff if Nevada Hydro intends the TE/VS Interconnect to operate other than as a means to interconnect the proposed LEAPS facility. The CAISO filed a motion for clarification of this matter on April 21, 2008 in Docket No. ER06-278-007. The Commission has yet to rule on the CAISO's motion. Pending a confirming ruling by the Commission, the CAISO intends to apply the provisions of the CAISO's Commission-approved transmission planning process set forth in CAISO Tariff Section 24 to the TE/VS Interconnect as a stand-alone transmission facility.

V. MATERIALS PROVIDED IN THE INSTANT COMPLIANCE FILING

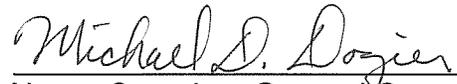
In addition to this transmittal letter, the instant compliance filing includes Attachments A, B, C, and D. Attachment A contains the revised LGIA as a CAISO service agreement. Attachment B shows the modifications to the LGIA described above in black-line format against the CAISO service agreement submitted in the June 9, 2008 compliance filing in this docket. Attachment C contains the revised LGIA as a SDG&E service agreement. Attachment D shows

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the modifications to the LGIA described above in black-line format against the SDG&E service agreement submitted in the June 9, 2008 compliance filing in this docket.

One additional copy of this filing is enclosed to be date-stamped and returned in the enclosed prepaid Federal Express envelope. If there are any questions concerning this filing, please contact the undersigned.

Respectfully submitted,



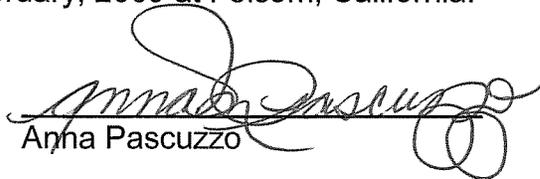
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Certificate of Service

I hereby certify that I have this day served a copy of this document upon all parties listed on the official service list compiled by the Secretary in the above-captioned 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 this 26th day of February, 2009 at Folsom, California.


Anna Pascuzzo