

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

California Independent System) Docket Nos. ER06-615-002
Operator Corporation)

**QUARTERLY SEAMS REPORT FOR THE
FOURTH QUARTER OF 2006**

In partial compliance with the Commission’s September 21, 2006, order directing “the CAISO and neighboring control areas to meet as needed to resolve seams between them” and to “*jointly* report on the progress of these efforts in quarterly status reports filed with the Commission within 30 days of the end of each calendar quarter”,¹ the California Independent System Operator Corporation (“CAISO”) hereby submits a joint quarterly report with WestConnect on its activities for the fourth quarter of 2006. The CAISO hereby also submits a status report on efforts to develop joint reports of its meetings with other control areas in the fourth quarter. In this report, the CAISO also reports on additional seams-related activities with the WECC in the fourth quarter of 2006.

I. INTRODUCTION

The primary seams-related activity which occurred in the fourth quarter of 2006 was the December 14-15, 2006, seams technical conference in Phoenix, Arizona organized by the Commission. This technical conference was widely attended and has been addressed at length in the post-technical conference comments filed by the CAISO and many other parties. Because the Commission already has an extensive record

¹ *California Independent System Operator Corp.* 116 FERC ¶ 61,274 at P 490 (emphasis in original) (“September 21 Order”).

discussing the conference, the CAISO believes no further discussion of the technical conference in this report is needed.

CAISO operations staff met with the operations staff of the following control areas to discuss seams issues in the fourth quarter of 2006: PacifiCorp, Bonneville Power Administration, and the Imperial Irrigation District. The CAISO is working with these control areas to finalize summaries of these meetings and intends to file these reports jointly with the parties upon the completion of that process. To the extent necessary, the CAISO requests an extension of time to allow for completion of this process.

A number of seams meetings with other control areas originally scheduled for the end of 2006 were postponed to allow parties to focus resources on the December 14-15 technical conference. Many of these meetings have now been re-scheduled. The following is a schedule of seams meetings with other control areas that either have occurred or are scheduled to occur in the first quarter of 2007:

- Western Area Power Administration – January 22nd
- Sacramento Municipal Utility District (“SMUD”) – January 26th
- Arizona Public Service (“APS”) – January 29th
- Turlock Irrigation District (TID) – February 7th

These meetings will be described in detail in the joint quarterly report on seams discussions for the first quarter of 2007.

In the fourth quarter of 2006, representatives of the CAISO also met with representatives of other control areas in the Western Interconnection under the auspices of committees of the Western Electricity Coordinating Council (“WECC”). The purpose of these meetings was to explore any issues that might exist today or might arise with the

inception of MRTU that could affect the operation of interconnected control areas as well as to discuss general seams issues in the Western Interconnection. A summary of those meetings is provided in Section IV of this report.

II. JOINT QUARTERLY REPORT PROCESS

As described further in this document, since the Commission's September 21 Order requiring the CAISO to meet with neighboring Control Areas to resolve seams issues, the CAISO has been diligently seeking to meet with its neighboring control areas to identify and resolve any seams issues. The CAISO is approaching this in a two-pronged fashion: (1) one-on-one meetings with neighboring control areas, and (2) participation in WECC committee activities on regional issues.

In fulfillment of the requirement for a joint reporting process on the meetings with neighboring control areas, the CAISO has developed an administratively simple process to ensure that the parties are in mutual agreement on the reports filed with the Commission. This process consists of the following.

The CAISO explains to its counterparties the need for a joint report filing with the Commission. The CAISO prepares the first draft of the meeting summaries and shares this with the parties that participated to the meeting. Through any required iterations of modifications, the CAISO waits to receive confirmation that the summaries may be filed as a joint report. The CAISO then includes such summaries in the next quarterly report to the Commission or any supplement to such quarterly report. The CAISO will continue to work with neighboring control areas to refine and implement this process.

With respect to the WECC process, the CAISO commits to work with the chairs of the relevant committees to develop a mutually-agreeable description of WECC activities to be filed with this quarterly status report.

III. JOINT REPORT OF THE CAISO AND OTHER CONTROL AREAS

WestConnect

At the request of WestConnect, the CAISO invited the WestConnect members to Folsom, California, to participate in a meeting with CAISO on November 15, 2006. The purpose of this meeting was to begin discussions on concerns raised by WestConnect members regarding the pending implementation of MRTU and western area seams issues. At the request of several WestConnect members, the scope and participation was expanded. Due to the duplicative nature of the expanded meeting relative to the upcoming FERC Technical Conference on Seams Issues, the CAISO declined to participate and suggested re-scheduling the CAISO - WestConnect meeting at a later date. The remaining participants, including WestConnect members, proceeded to meet in Sacramento on November 15th to discuss seams issues and prepare for the FERC Seams Conference. To proceed with their discussions, the CAISO and the WestConnect participants have rescheduled a meeting to be held in Folsom on February 2, 2007.

IV. WECC SEAMS ACTIVITY

The following summary of seams efforts of WECC committees and sub-committees for the fourth quarter of 2006 was presented to Jerry Smith, Chair of the WECC Seams Issues Subcommittee (“SIS”). Although this summary has not been formally adopted by the SIS, Mr. Smith authorized the CAISO to state that he has reviewed this summary and personally agrees with it.

On October 26, 2006, CAISO representatives provided a two-hour presentation on the MRTU project to the WECC Market Interface Committee (“MIC”) at the MIC meeting in Salt Lake City, Utah. The presentation addressed:

- The CAISO’s core functions of reliably operating the CAISO-controlled transmission system and providing non-discriminatory access to the grid for wholesale buyers and sellers of electricity;
- Details concerning the CAISO’s original market design and the flaws in that market design;
- The background of current CAISO market redesign efforts;
- The implications of the 2000-2001 Western Energy Crisis for the CAISO’s market design efforts;
- The scope of MRTU;
- The major design elements of MRTU;
- Additional detail on the following features of MRTU:
 - Congestion Revenue Rights (“CRRs”),
 - Integration of Market Power Mitigation and Reliability Must-Run dispatch in the Integrated Forward Market,
 - Honoring Existing Transmission Contract rights,
 - The Hour-Ahead Scheduling Process; and
- The status of MRTU development and next steps.

Participants at the October 26 MIC meeting engaged in a question and answer session on the MRTU design and the potential impact of MRTU implementation on the Western Interconnection.

On November 30, 2006, CAISO representatives participated in the meeting of the WECC Seams Issue Subcommittee in Phoenix, Arizona. Over a dozen representatives of Western control areas participated in this meeting. Issues discussed at this meeting included:

- *The FERC MRTU Seams Technical Conference held in Phoenix, Arizona on December 14-15, 2006.* Jerry Smith, the chair of the SIS, represented the Seams Issue Subcommittee at this technical conference. Subjects that would be

addressed by the SIS at the technical conference include the history of the SIS and the transition from the Seams Steering Group of the Western Interconnection (“SSG-WI”) to the WECC’s SIS, the role of the SIS as a subcommittee responsible for investigating all seams issues in the Western Interconnection and not just potential seams issues related to MRTU. Members agreed that any seams issue related to MRTU occur at three levels: the individual company level, the sub-regional level, and the regional (WECC) level. The SIS is responsible for investigating WECC-level seams and making recommendations for resolution. At the technical conference, the SIS would also report on the formation of the working groups described below. Some participants indicated that the work of the SSG-WI could be used as a starting point, and CAISO representatives agreed with this approach.

Participants discussed the desirability of better coordination of curtailments and the potential to use MRTU as a platform for solution. Participants also identified issues related to how marginal losses fit with contract provisions, and the treatment of Unaccounted For Energy (“UFE”) charges to outside control areas. Some participants noted that the CAISO has a compliance filing addressing Long-Term Transmission Rights (“LTTRs”) due in January and that a number of issues related to LTTRs need to be addressed, including the treatment of exports and whether loop flows need to be factored into LTTRs. Many participants agreed that seams issues exist in the Western Interconnection today and are not created by MRTU. The benefits of seams agreements between the CAISO and other control areas was also discussed. More general efforts of SIS to build reciprocal data and model sharing were discussed, as was the need to coordinate with other WECC committees.

- *Formation of Work Groups.* During the November 30 meeting, the following work groups were formed and directed to provide detail on seams issues and recommendations to the SIS as to the action required for resolution of such issues. The CAISO agreed to designate representatives to participate in each of the work groups:
 - Congestion Management. This work group will address issues related to transmission congestion and unscheduled flow (“USF”) procedures. This group will consider the development a WECC full network model to allocate curtailment priorities. This group will also address data requirements associated with inter-control area coordination on the management of congestion and USF.
 - Resource Adequacy Resources. This work group will address differing resource adequacy programs in the CAISO and other regions (*e.g.*, the Northwest), the treatment of Resource Adequacy Resources sold outside the CAISO control area, emergency cuts of Resource Adequacy capacity outside the CAISO control area, wheeling, and bilateral purchases outside the CAISO.

- Tagging Requirements. This work group will address market and scheduling timelines, consideration of loop flows, and data requirements.
- Congestion Revenue Requirements. This work group will address issue related to the CRR auction, treatment of existing contracts, the treatment of load-serving entities and others, and the potential impact on external systems.
- LMP Impact on Operations & Reliability. This work group will coordinate with the efforts of the WECC Operations Committee addressing these issues.
- Parallel Operations During Cutover. . This work group will address issues involving late stages of MRTU market simulation testing where MRTU systems operate in parallel with existing systems. This group will coordinate with the efforts of the WECC Operations Committee addressing these issues.
- Other issues that may need to be addressed include marginal losses, UFE, outage coordination and the interchange of ancillary services.

The SIS meeting on January 16-17, 2007 continued to focus on these areas. A detailed summary of the January meeting of the SIS will be included in the Joint Quarterly Report for the first quarter of 2007.

On December 6, 2006, CAISO representatives provided the WECC Board of Governors with a four-hour tutorial on MRTU at a technical session of the WECC Board. This presentation, which was provided at the invitation of the WECC Board, was designed to provide Board members with a more detailed background on the MRTU design.

V. CONCLUSION

Wherefore, the CAISO respectfully requests that the Commission accept this quarterly seams status report.

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 proceedings, 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 30th day of January, 2007 at Folsom in the State of California.

/s/ Charity Wilson_____

Charity Wilson