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July 27, 2005

The Honorable Magalie R. Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

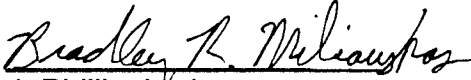
**Re: California Independent System Operator Corporation
Docket No. ER05-1025-___**

Dear Secretary Salas:

Enclosed please find the Response of the California Independent System Operator Corporation to the Commission's Letter Order, submitted in the captioned docket.

Feel free to contact the undersigned with any questions. Thank you for your attention to this matter.

Respectfully submitted,


J. Phillip Jordan
Bradley R. Miliauskas

Counsel for the California
Independent System Operator
Corporation

cc: Robert Petrocelli, Group Manager,
Division of Tariffs and Market Development – West
Service list

July 27, 2005

The Honorable Magalie R. Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

**Re: California Independent System Operator Corporation
Response to Commission Letter Order
Docket No. ER05-1025-___**

Dear Secretary Salas:

The California Independent System Operator Corporation ("ISO")¹ respectfully submits six copies of the present filing in response to the Commission's July 8, 2005 letter order ("Letter Order"), issued in the captioned docket. In the Letter Order, the Commission directed the ISO to provide additional information in order to assist Commission Staff in its analysis of Amendment No. 70 to the ISO Tariff ("Amendment No. 70"). The ISO's responses to the requests for information contained in the Letter Order are provided below.

Commission Request for Information: "It is unclear how many entities would be eligible for service under the pro forma SUDC [Small Utility Distribution Company] Operating Agreement. Please provide an estimate of how many entities would be eligible."

ISO Response: To the best of the ISO's knowledge, at present only the Trinity Public Utilities District ("Trinity PUD") would be eligible for service under the pro forma SUDC Operating Agreement. However, it may be that in the future other entities will become eligible and seek approval for such service.

¹ Capitalized terms not otherwise defined herein are defined in the Master Definitions Supplement, ISO Tariff Appendix A., as filed August 15, 1997, and subsequently revised.

Commission Request for Information: "Please explain why generic Tariff changes and a *pro forma* SUDC Operating Agreement are necessary as opposed to negotiating one, or an occasional, isolated non-conforming UDC Agreement tailored to the needs of a particular small utility."

ISO Response: As the ISO explained in Amendment No. 70, although the requirements under the *pro forma* SUDC Operating Agreement are mostly derived from the requirements of the *pro forma* UDC Operating Agreement, there are some fundamental differences between the two agreements that reflect the differences between SUDCs and UDCs.² Moreover, the Commission has explained that "Section 35.10a of the Commission's Regulations requires that a public utility include as part of its applicable tariff an unexecuted standard service agreement approved by the Commission for each category of generally applicable service offered by the public utility under its tariff."³ The service to be provided with regard to a SUDC is a "category of generally applicable service." Therefore, the provisions in the *pro forma* SUDC Operating Agreement, and the new ISO Tariff language concerning SUDCs, are for generally applicable service offered by the ISO under its Tariff.

Any new product or service that the ISO develops is generally implemented through a combination of new ISO Tariff language and *pro forma* service agreements or rate schedules. This implementation allows transparency for the Market Participants and ensures open and non-discriminatory access to the new product or service by similarly situated entities consistent with the Commission's directives.⁴ It is immaterial that, at present, only one entity (Trinity PUD) seeks to become a SUDC. The ISO Tariff contains a Commission-approved *pro forma* Responsible Participating Transmission Owner Agreement, despite the fact that only two entities (Pacific Gas and Electric Company and Southern California Edison Company) have signed such agreements. The ISO Tariff also contains a Commission-approved *pro forma* Participating Load Agreement, despite the fact that only six entities (Ancillary Services Coalition, NewEnergy California, New West Energy, the California Department of Water Resources, the California Power Authority, and Southern California Edison Company) have signed such agreements. The *pro forma* SUDC Operating Agreement is for generally applicable service just as those other agreements are.

² Transmittal Letter for Amendment No. 70 at 4-5.

³ *California Independent System Operator Corporation*, 110 FERC ¶ 61,124, at P 5 (2005).

⁴ See *PSI Energy, Inc. and Consumers Power Company*, 55 FERC ¶ 61,254, at 61,811 (1991) ("[I]f Consumers provides services under these agreements and denies similarly situated customers similar services, Michigan Municipals or others to the extent they are similarly situated may file a complaint under section 206 of the FPA"); *El Paso Natural Gas Co.*, 104 FERC ¶ 61,045, at P 115 (2003) ("Discrimination is undue when there is a difference in rates or services among similarly situated customers that is not justified by some legitimate factor").

Commission Request for Information: "Please provide more information concerning the voluntary load-shedding provisions of the *pro forma* SUDC Operating Agreement, and what effect the voluntary nature of the provisions could have on reliability. Specifically, if many other SUDCs were to execute SUDC Operating Agreements, could a high number of SUDCs, in aggregate, pose reliability concerns?"

ISO Response: The voluntary nature of load shedding under the *pro forma* SUDC Operating Agreement will not have an adverse impact on reliability, as illustrated by the load-shedding commitments that Trinity PUD has already made to the ISO. In a Stage 1 System Emergency, the ISO will request that Trinity PUD reduce its load, and Trinity PUD has committed to the ISO that it will immediately turn off all possible load, including but not limited to Trinity PUD's facilities, and will promptly canvass its retail and governmental customers in Weaverville (the largest community in the Trinity PUD service area) to request that the customers immediately reduce their use of electricity. As explained in the ISO's Answer in this proceeding (at 11) ("Answer"), a voluntary reduction at this stage would enhance reliability and may avoid a Stage 3 System Emergency and mandatory load shedding. The ISO believes that this mechanism is consistent with Good Utility Practice and would enable the ISO to maintain the reliability of the ISO Control Area.

It would be impractical and unduly burdensome to require Trinity PUD to perform the kinds of load shedding that are required of UDCs rather than voluntary load shedding. The *pro forma* UDC Operating Agreement obligates a UDC to perform underfrequency load shedding and manual load shedding.⁵ As discussed in the Answer (at 12), Trinity PUD does not have the necessary equipment for underfrequency load shedding on its distribution system and to procure and install such equipment in all Trinity PUD substations would be cost-prohibitive with no significant effect on system reliability. As to manual load shedding, Trinity PUD would need to send workers to geographically dispersed substations in order to shed load which would, in most instances, take much longer than the WECC requirement of 20 minutes.⁶ For these reasons, the ISO and Trinity PUD developed the solution of requiring Trinity PUD (or any other SUDC, which presumably would have similar difficulty in meeting the 20-minute requirement) to reduce load on a voluntary basis when a Stage 1 System Emergency is declared.

It is conceivable that, over time, there could be a high number of load-serving entities that meet the criteria of a SUDC, but the ISO believes that is

⁵ See *pro forma* UDC Operating Agreement, §§ 4.2.1, 4.2.3.

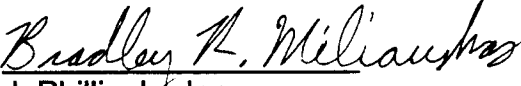
⁶ See WECC Operating Committee Handbook at III-123. This handbook is available on the WECC website at <http://www.wecc.biz/modules.php>.

unlikely. Moreover, it is unclear what the impact on reliability would be of a high number of SUDCs in the aggregate. As the entity responsible for ensuring the safe and reliable operation of all facilities that constitute the ISO Controlled Grid,⁷ the ISO would assess the impact on reliability prior to approving each new entity as a SUDC. Any effect of SUDCs on reliability would be ameliorated by the fact that, by definition, no SUDC's Distribution System can be in a local reliability area defined by the ISO.⁸ In the unlikely event that sometime in the future an aggregate of SUDCs could, in fact, adversely affect the reliability of the ISO Controlled Grid, the ISO would take appropriate action to maintain reliability.

As directed in the Letter Order, the ISO provides, in Attachment A to the present filing, a form of notice of this filing suitable for publication in the Federal Register (and provides a copy of the notice in electronic format). If there are questions concerning this filing, please contact the undersigned.

Respectfully submitted,

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⁷ See Transmission Control Agreement, §§ 5.1.2, 5.1.3.

⁸ See the proposed definition of a SUDC contained in Amendment No. 70 at Attachment A (Second Revised Sheet No. 350).

ATTACHMENT A

