137 FERC ¶ 61,194
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;
Philip D. Moeller, John R. Norris,
and Cheryl A. LaFleur.

California Independent System Operator Corporation Docket No. ER12-84-000

ORDER ACCEPTING TRANSITION AGREEMENT

(Issued December 14, 2011)

1. On October 14, 2011, the California Independent System Operator Corporation (CAISO) filed a transition agreement (Transition Agreement) with Valley Electric Association, Inc. (Valley Electric). CAISO states that the Transition Agreement sets forth the terms and conditions under which Valley Electric will make the transition from the Nevada Power Company balancing authority area to the CAISO balancing authority area. This integration of Valley Electric is part of the process to allow Valley Electric to become a participating transmission owner in CAISO. In this order, the Commission accepts the Transition Agreement, effective December 15, 2011.

I. **Background**

2. Valley Electric is a member-owned electric cooperative based in Pahrump, Nevada, with a service territory that borders California and extends into a small portion of that state. CAISO adds that Valley Electric owns and operates approximately 288 miles of 230 kV and 138 kV transmission facilities and that Valley Electric's service territory contains approximately 120 MW of load, which Valley Electric currently serves through imports into its system at the Mead point of interconnection.[1] Valley Electric currently is part of the NV Energy balancing authority area.

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[1] Valley Electric has submitted a transmission interconnection request to Southern California Edison Company (SoCal Edison) for a 230 kV interconnection between the Valley Electric system and SoCal Edison-owned facilities at or near the Eldorado substation. Valley Electric and SoCal Edison anticipate completion of this interconnection to the CAISO-controlled grid in 2015.

3. According to CAISO, with Valley Electric as part of its balancing authority area, CAISO will be able to achieve efficiencies in providing renewable resources in the Valley Electric service area to California and enhance the regional transmission grid.[2] CAISO states that Valley Electric will become the first CAISO participating transmission owner, utility distribution company, and load-serving entity located primarily outside of California.[3] CAISO adds that its operational control of Valley Electric's transmission facilities will also provide CAISO market participants with greater access to the Nevada Power Company and Western Area Power Administration, Desert Southwest Region systems.[4]

4. CAISO explains that the transition process will commence as soon as is practicable in order to complete all of the activities necessary to transition Valley Electric to the CAISO balancing authority area effective January 1, 2013, which is the targeted transition date.[5] To achieve this date, CAISO states that the process set forth in the Transition Agreement must commence during the first quarter of 2012.[6]

II. Key Terms and Conditions of the Transition Agreement

5. CAISO explains that the integration of Valley Electric requires the merger of the CAISO and Valley Electric generator interconnection queues, coordination of the CAISO and Valley Electric transmission planning processes, Valley Electric's satisfaction of its resource adequacy requirements, and issuance of congestion revenue rights for Valley Electric to hedge congestion costs to serve its load.[7]

6. CAISO states that Valley Electric's interconnection queue currently includes approximately 2,490 MW of renewable generation, and that two of Valley Electric's interconnection customers, accounting for a total of about 1,620 MW, have also applied to the most recent CAISO generator interconnection cluster, i.e., cluster 4.[8] However, the

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[2] CAISO Filing at 1.

[3] *Id.*

[4] *Id.*

[5] *Id.* at 1-2.

[6] *Id.* at 2.

[7] *Id.* at 4.

[8] *Id.*

remaining customers, who account for 870 MW of generation capacity, have not submitted interconnection requests to CAISO.[9] CAISO states that, absent the Transition Agreement, these remaining customers would have to apply to CAISO to interconnect directly to the CAISO-controlled grid through construction of a generator tie-line and would have to meet all the financial posting and other requirements associated with delivery network upgrades on the CAISO system.[10] However, CAISO states that the schedule of its interconnection process does not offer an opportunity for these customers' to be studied for deliverability upgrades until it studies queue cluster 5 at the end of March 2012. CAISO believes this delay would adversely impact those customers by placing them behind all the projects in cluster 4.

7. As a remedy, CAISO proposes that these customers submit a "special" interconnection request within 30 days following the release of the cluster 4 phase I interconnection study results (by January 31, 2012, as currently anticipated) in order to be included in CAISO's cluster 4 phase II interconnection studies.[11] CAISO states that, once the cluster 4 phase II study process is complete, it will enter into an interconnection agreement with each interconnection customer that submitted a special interconnection request on the same basis as interconnection customers who participated in the cluster 4 phase I interconnection studies.[12] Interconnection customers submitting such a special request must comply with all study deposit and other requirements of CAISO's generator interconnection procedures as if the customer had submitted an interconnection request in the application cluster window for cluster 4 and participated in the cluster 4 phase I studies.

8. The Transition Agreement provides that the cluster 4 phase II study will identify the network upgrades needed for the entire cluster without distinguishing the needs of those customers that participated in phase I from those that did not.[13] CAISO explains that cost responsibilities that result from the phase II process will then be allocated to all interconnection customers in accordance with its tariff. However, CAISO notes that the exposure of interconnection customers to possible incremental costs associated with the addition of the special interconnection requests to the phase II process will be limited to

[9] *Id.* at 5.

[10] *Id.*

[11] *Id.* at 9-10.

[12] *Id.* at 10.

[13] *Id.* at 11.

the maximum cost responsibility that was established in the cluster 4 phase I study results.[14] In addition, CAISO states that Valley Electric will need to identify the network upgrades on its transmission system through a cluster study process that is comparable to and approximately contemporaneous with CAISO's upcoming phase II study process for clusters 3 and 4, so that interconnection customers in the Valley Electric queue will be informed in a timely manner of the network upgrade costs associated with the Valley Electric and CAISO systems.[15]

9. The Transition Agreement also provides for joint transmission planning by Valley Electric and CAISO. CAISO explains that its transmission planning process allows it to work with transmission owners outside its balancing authority area to coordinate planning efforts and to plan transmission development jointly, and that CAISO and Valley Electric will use this process to engage in joint transmission planning activities prior to Valley Electric becoming a participating transmission owner in CAISO.[16] CAISO states that during its 2012/2013 transmission planning cycle, it will confer and coordinate with Valley Electric to consider potential needs that may be identified for additions and upgrades to Valley Electric's system beyond interconnection-driven upgrades resulting from Valley Electric's upcoming cluster study and for certain other transmission projects.[17] CAISO also notes that longer-term transmission planning activities on the Valley Electric system that may commence during the transition process will be folded into CAISO's transmission planning process once Valley Electric becomes a participating transmission owner.[18] Next, CAISO explains that the Transition Agreement provides for the consideration of network upgrades on the Valley Electric

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[14] *Id.* at 11-12.

[15] *Id.* at 10.

[16] *Id.* at 13.

[17] *Id.* CAISO states that the transmission interconnection between Valley Electric and CAISO at the Eldorado substation and the 230 kV upgrade of the Valley Electric system that is currently under construction were not included in CAISO's transmission planning process; however, when these facilities are placed into service, CAISO will consider them new high voltage facilities under CAISO's tariff. CAISO states that such treatment is appropriate because the projects are essential to ensure that the Valley Electric system is reliable and that CAISO market participants are provided the full benefit of access to Valley Electric's system following the transition.

[18] CAISO Filing at 13.

system identified during the cluster study process under the transmission planning procedures of CAISO's tariff for the 2012/2013 planning cycle.[19]

10. CAISO states that once Valley Electric becomes a load-serving entity in the CAISO balancing authority area, it will be subject to the CAISO tariff's resource adequacy requirements. Valley Electric currently serves its load by imports into its system through Mead contract rights, and when Valley Electric becomes a participating transmission owner, CAISO will assume operational control of those contract rights and make them available under the open access provisions of CAISO's tariff.[20] CAISO will then assign Valley Electric an appropriate share of the import capacity for resource adequacy requirements in accordance with CAISO's tariff.[21]

11. Like other load-serving entities in the CAISO balancing authority area, Valley Electric will be entitled to an allocation of congestion revenue rights to hedge against the cost of transmission congestion.[22] CAISO allocates congestion revenue rights according to a load-serving entity's load metric, which is calculated based on historical load data for CAISO's annual congestion revenue rights allocation process, and on the entity's load forecast for the monthly allocation processes. CAISO explains that tier 1 of its annual congestion revenue rights allocation process is restricted to load-serving entities' nominations to renew congestion revenue rights that they were allocated the previous year. Because Valley Electric will not have been allocated congestion revenue rights for periods prior to its becoming a participating transmission owner, it would be ineligible under CAISO's tariff to participate in this process for its first calendar year as a CAISO load-serving entity, which may adversely affect its ability to acquire sufficient congestion revenue rights to hedge the congestion cost of serving its load.[23] In accordance with the Transition Agreement, CAISO will permit Valley Electric to participate in tier 1 as if Valley Electric held a portfolio of previously-allocated congestion revenue rights.[24] CAISO states that it and Valley Electric will develop a historic proxy portfolio of congestion revenue rights consistent with the quantity and source-sink combinations of

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[19] *Id.* at 14.

[20] *Id.* at 14-15.

[21] *Id.* at 15-16.

[22] *Id.* at 7.

[23] *Id.*

[24] *Id.* at 16-17.

congestion revenue rights that Valley Electric would be eligible for based on the historical analysis of Valley Electric's load.

III. Notice of Filings and Responsive Pleadings

12. Notice of CAISO's filing was published in the *Federal Register*, 76 Fed. Reg. 65,715 (2011), with interventions or protests due on or before November 4, 2011. Southern California Edison Company, Pacific Gas and Electric Company, Powerex Corp., and Six Cities[25] filed timely motions to intervene. Valley Electric, the California Department of Water Resources State Water Project (CDWR), and BrightSource Energy, Inc. (BrightSource) filed timely motions to intervene and comments.[26]

13. Valley Electric urges the Commission to accept the Transition Agreement because it is beneficial, not only to Valley Electric, but to market participants in CAISO and the entire region.[27] BrightSource also strongly supports the Transition Agreement and the plan for Valley Electric to become a participating transmission owner in CAISO's balancing authority area.[28] BrightSource asserts that the proposed integration of Valley Electric into the CAISO-controlled grid will also benefit Valley Electric's current members, as well as citizens of Nevada and California, and will provide a path for solar developers in Nevada to reach California markets.[29]

14. CDWR states that it is encouraged by CAISO's concern for its existing ratepayers and customers, and it supports concrete measure to ensure cost control, avoidance of reliability issues, and mitigation of market disruptions in integrating additional transmission into CAISO.[30] CDWR requests that when approving CAISO's Transition Agreement, the Commission take concrete steps, in concert with CAISO, to ensure that costs are contained and that projected benefits in fact result.[31] CDWR suggests that the

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[25] Six Cities are comprised of the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside.

[26] BrightSource filed an errata to its comments on November 10, 2011.

[27] Valley Electric Comments at 7-8.

[28] BrightSource Comments at 4.

[29] *Id.* at 4-5.

[30] CDWR Comments at 1-2.

[31] *Id.* at 2.

Commission and CAISO develop mechanisms to determine when transmission costs become too high or when the costs outweigh the benefits, and that such a determination should trigger action to protect ratepayers (e.g., by reallocating unreasonable costs to those responsible for costs overruns).[32]

IV. Discussion

A. Procedural Matters

15. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2011), the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

B. Substantive Matters

16. The Commission accepts the uncontested Transition Agreement, effective December 15, 2011. We conclude that the Transition Agreement provides a just and reasonable mechanism to integrate the Valley Electric transmission system into the larger CAISO balancing authority area. We further find that Valley Electric's integration into CAISO, once consummated, will provide benefits for Valley Electric and CAISO market participants. The Commission has explained the wide-ranging benefits that accrue to members of Independent System Operators (ISO) and Regional Transmission Organizations (RTO), including efficiency and reliability benefits, as well as access to a competitive and liquid marketplace.[33] Additionally, we have encouraged the participation of new transmission owners, including non-jurisdictional entities, in ISOs and RTOs.[34] Here, CAISO's footprint will expand beyond the state of California and into Nevada. We find that the larger CAISO footprint will provide benefits to CAISO's

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[32] *Id.* at 3.

[33] *See, e.g.*, *Calpine Corp., et al. v. California Indep. Sys. Operator Corp.*, 128 FERC ¶ 61,271, at P 42 (2009) (discussing the benefits of participating in centralized and liquid wholesale electricity markets such as CAISO); *Regional Transmission Organizations*, Order No. 2000, FERC Stats. & Regs. ¶ 31,089, at 30,993 & n.3 (1999), *order on reh'g*, Order No. 2000-A, FERC Stats. & Regs. ¶ 31,092 (2000), *aff'd sub nom. Pub. Util. Dist. No. 1 of Snohomish County, Washington v. FERC*, 272 F.3d 607 (D.C. Cir. 2001).

[34] *See, e.g.*, Order No. 2000, FERC Stats. & Regs. ¶ 31,089 at 30,993, 31,200-01 (explaining that Order No. 2000's objective is for all transmission-owning entities, including non-public utility entities, to place their transmission facilities under the control

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market participants through access to additional generation sources, including renewable generation resources, and that the expanded geographic scope of CAISO will lead to a more efficient transmission grid and enhanced reliability for all of CAISO's members. Further, we believe the integration will benefit generators in Valley Electric that will be able to sell power from their generation facilities through a larger, centralized regional market.

17. We therefore find that the Transition Agreement's provisions addressing the integration of generators in Valley Electric's interconnection queue into CAISO's generator interconnection queue is a reasonable method that ensures these generator interconnection customers are treated comparably to generator interconnection customers that are currently in CAISO's queue. As CAISO acknowledges,[35] the procedures outlined in the Transition Agreement differ from the large generator interconnection procedures found in CAISO's tariff. Nonetheless, we conclude that it is reasonable that the Transition Agreement provisions will apply in the limited circumstances described therein to ensure comparable treatment of Valley Electric's generator interconnection customers as Valley Electric is integrated into CAISO's balancing authority area. We also find the implementation of a special interconnection process for those customers that have not submitted interconnection requests reasonable because it provides for cluster 4 participation and limits the incremental cost responsibility of such participation to the special interconnection customers. In addition, we find that the provisions addressing transmission planning issues, CAISO's resource adequacy requirements, and the allocation of congestion revenue rights are reasonable provisions that will assist in the transition.

18. Finally, with respect to the comments filed by CDWR, to the extent CDWR is requesting that the Commission take steps in this proceeding to implement CDWR's suggestions regarding the development of mechanisms to address cost overruns, we decline to do so. We find that this request is beyond the scope of the proceeding, which addresses the merits of the proposed Transition Agreement rather than the merits of cost containment issues in CAISO. CDWR is, of course, free to pursue measures such as those it suggests in its comments within CAISO's stakeholder process or it can file a complaint under section 206 of the Federal Power Act[36] if it believes that existing CAISO

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of RTOs in a timely manner); *Southwest Power Pool, Inc.*, 125 FERC ¶ 61,239, at P 15 (2008) ("We continue to believe that the successful development of regional transmission organizations must include public power . . .").

[35] CAISO Filing at 8-9.

[36] 16 U.S.C. § 824e (2006).

tariff provisions are unjust and unreasonable or unduly discriminatory or preferential in this regard.

The Commission orders:

CAISO's Transition Agreement is hereby accepted for filing, effective December 15, 2011, as discussed in the body of this order.

By the Commission. Commissioner Spitzer is not participating.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.