

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

<b>Pacific Gas and Electric Company</b>	) ) )	<b>Docket Nos. ER00-2360-000 ER00-2360-001</b>
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TO: Honorable Bruce L. Birchman  
Presiding Administrative Law Judge

**PRE-HEARING BRIEF OF THE  
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

Pursuant to the procedural schedule adopted by the Presiding Judge in the above-identified proceeding, the California Independent System Operator Corporation ("ISO") submits this Pre-hearing Brief.

**I. SUMMARY**

In this proceeding, Pacific Gas and Electric Company ("PG&E") has proposed to pass through to its transmission customers, including all wheeling customers whose Energy exits the ISO-Controlled Grid at a take-out point within PG&E's former Control Area, costs assessed by the ISO for local reliability services provided through the ISO's Must-Run Service Agreements ("MSRAs") and for out-of-market dispatches. The ISO explains that in order to send appropriate price signals, PG&E should assess these reliability costs only to those customers serving loads within PG&E's former Control Area. Also, the ISO states that it should not be responsible for billing PG&E's reliability charges, as it would require the ISO to undertake software modifications and add personnel resources, the costs of which would be unfairly spread to the entire market.

## **II. BACKGROUND**

This proceeding concerns the proposed tariffs and tariff amendments by which Pacific Gas and Electric Company (“PG&E”) proposes to pass through to its wholesale customers the costs assessed it by the ISO for local reliability services provided through the ISO’s MRSAs with Reliability Must-Run (“RMR”) Units and for the out-of-market dispatch of Generators in order to serve local reliability needs (“OOM calls”). The need for local reliability services arises when transmission constraints interfere with the ISO’s ability to provide reliable transmission service into a particular area. Under such circumstances, it may be necessary to dispatch particular Generating Units in order to compensate for the transmission constraints. See Prepared Direct Answering Testimony of Deborah A. Le Vine, Exhibit No. ISO-1, at 5:5-19.

Based on studies it performs, the ISO has identified local reliability areas in the ISO Control Area that would experience transmission constraints in the event of certain contingencies and has determined Generating Units that would, if operating, relieve those constraints. See *id.* In order to ensure that those Generating Units are available when necessary, and to limit the market power that the Owners of those Generating Units could exercise when the Generating Unit is the only Generating Unit, or one of the only Generating Units, that can relieve the constraint, the ISO has designated these Generating Units as RMR Units and entered into MRSAs with them. See *id.* at 5:14-19. Under Section 5.2.8 of the ISO Tariff, the ISO assesses the costs incurred under the MRSAs to

the Participating Transmission Owner within, or adjacent to, whose Service Area the RMR Unit is located. *See id.* at 7:6-9.

On occasion, a local reliability problem may arise that can not be resolved with an RMR Unit. In such cases, if the ISO does not have a bid available from a Generating Unit that can resolve the local reliability problem the ISO will dispatch such a Generating Unit out-of-market. *See id.* at 8:8-20, 9:1-8. Under Section 11.4.2 of the ISO Tariff, the ISO assesses the costs of such OOM calls to the Participating Transmission Owner in whose area the local reliability problem arose. *See id.* at 9:16-20, 10:1-4.

As a Participating Transmission Owner, PG&E incurs costs for RMR Units and OOM calls for local reliability problems. PG&E proposes to recover these costs from all its transmission customers, including all wheeling customers whose Energy exits the ISO-Controlled Grid at a take-out point within PG&E's former Control Area. *See Prepared Direct Testimony of Lanette L. Kozlowski, Exhibit PGE-1, at 8:13-17; Supplemental Direct Testimony of Lanette L. Kozlowski, Exhibit PGE-19, at 1:18-22, 2:1-19.*

### **III. ARGUMENT**

#### **A. Issue 5.J: Should TO Wholesale Customers Serving Loads Outside PG&E's Former Control Area Be Allocated a Portion of the RS Costs**

The Loads to which PG&E proposes to allocate its reliability costs under its Transmission Owner Tariff fall into one of two categories: those located within PG&E's former Control Area; and those that are remote from PG&E's former

Control Area. PG&E should assess its reliability costs only to the former. See Prepared Direct Answering Testimony of Deborah A. Le Vine, Exhibit No. ISO-1, at 14:1-14.

The Commission recently ruled on this very issue in *San Diego Gas & Electric Co.*, 93 FERC ¶ 61,333 (2000). In that case, San Diego Gas & Electric Company ("SDG&E") proposed to allocate the local reliability costs that the ISO assesses it solely to the retail and wholesale Load in SDG&E's historic Control Area. The California Public Utilities Commission protested that the costs should be also allocated to all customers wheeling through or out of SDG&E's former control area. The Commission rejected this protest, stating:

RMR costs are incurred because specific units in local areas must be operated to ensure the reliable operation of the transmission system where load is located, in this instance, the former SDG&E service territory. "Wheel-out" and "wheel-through" transactions ultimately serve loads in other areas and potentially would be subject to any RMR costs incurred for the operation of the local system associated with the load such transactions serve.

*Id.* at 62,133.

In addition, allocating reliability costs to customers remote from PG&E's former Control Area dilutes the price signals that the assessment of local reliability costs to customers of Participating Transmission Owners provides. See Prepared Direct Answering Testimony of Deborah A. Le Vine, Exhibit No. ISO-1, at 14:8-14. Section 5.2.8 of the ISO Tariff assesses local reliability costs to Participating Transmission Owners because those entities are best able to address the transmission deficiencies that give rise to the local reliability need. If the local reliability cost exceeds the cost of transmission improvements, the

Participating Transmission Owner will have an incentive to make the needed improvements. See *id.* at 10:10-18. This incentive is, of course, reduced by the ability of the Participating Transmission Owner to pass the costs through to its customers, although this now gives the consumers incentive to influence management positions on needed improvements.

It is, therefore, preferable that PG&E's allocation of local reliability costs preserve, to the greatest extent possible, the incentive to build transmission improvements when such improvements are the most cost-effective means for preserving local reliability. Assessing the costs to customers within PG&E's former Control Area accomplishes this in two manners.

First, because its retail and transmission rates are cost-based, PG&E's returns are proportional to the volume and type of its service. High Energy costs attributable to local reliability costs will discourage businesses from locating within PG&E's former Control Area. PG&E therefore has an incentive to minimize those costs. Allocating the costs to Loads outside PG&E's former Control Area will dilute that incentive. See *id.* at 13:17-20.

Second, regular users of PG&E's transmission facilities, such as those Loads within PG&E's former Control Area, are more likely to become involved in the rate proceedings involving PG&E's pass-through of these costs. PG&E's pass-through of costs are no different than any other formula rate in this regard. If PG&E fails to take reasonable steps to reduce those costs – such as transmission expansions and improvements when the cost of the expansion for

improvements is less than the local reliability costs – these parties can challenge the prudence of PG&E’s costs. See id at 13:13-17.

**B. Issue I: Should the ISO Be Responsible for Collecting the RS Charges?**

By structuring its RST charges under the TO Tariff as an addendum to its Wheeling Access Charge, PG&E expects that the ISO will bill those charges on PG&E’s behalf. PG&E has proposed that the RST charge be an adder on the Scheduling Points where PG&E has transmission. This adder would have to be separately accounted for as the allocation of these revenues is inconsistent with the allocation of wheeling revenues. See Prepared Direct Testimony of Lanette L. Kozlowski, Exhibit PGE-1, at 22:11-23, 23:1-17.

The ISO opposes that proposal. The ISO Tariff does not currently provide for billing and collection services for any TO-specific charges that are contained in that TO’s tariff. The responsibility, and cost, for collecting such charges appropriately belongs with the TO and should not be shifted to the ISO. Furthermore, the ISO’s settlement process and software does not currently accommodate such TO charges. In order to bill the charges that PG&E proposes, the ISO would need to modify its existing software and add personnel resources. See Prepared Direct Answering Testimony of Deborah A. Le Vine, Exhibit No. ISO-1, at 15:8-13. Such administrative costs would be borne by all Scheduling Coordinators through the ISO’s Grid Management Charge. See California Independent System Operator Corp. FERC Electric Tariff, First Replacement Volume No. I at 8.2.2, 8.3-8.4 (October 13, 2000), available on-line

at [www.caiso.com/pubinfo/tariffs](http://www.caiso.com/pubinfo/tariffs). These additional costs cannot be justified, and should certainly not be spread to the entire market. See Prepared Direct Answering Testimony of Deborah A. Le Vine, Exhibit No. ISO-1 at 15:13-15.

#### **IV. CONCLUSION**

For the reasons set forth above, PG&E's proposed reliability services charges should be limited to Loads within PG&E's former Control Area. Furthermore, PG&E should be responsible for collecting these charges.

Respectfully submitted,

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Dated: February 14, 2001

## **CERTIFICATE OF SERVICE**

I hereby certify that I have served the foregoing document upon all parties on the restricted service list compiled by the Presiding Administrative Law Judge in the above-captioned proceeding.

Dated at Washington, DC this 14<sup>th</sup> day of February, 2001.

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Michael Kunselman



February 14, 2001

The Honorable David P. Boergers  
Secretary  
Federal Energy Regulatory Commission  
888 First Street, NE  
Washington, DC 20426

**Re: California Independent System Operator Corporation,  
Docket Nos. ER00-2360-000, et al.**

Dear Secretary Boergers:

Enclosed for filing in the above-captioned dockets are one original and 14 copies of the Pre-hearing Brief of the California Independent System Operator Corporation. Two courtesy copies have been provided to Presiding Judge Birchman. Additionally, two copies of the filing are enclosed. Please stamp these copies with the date and time filed and return them to the messenger.

Thank you for your assistance in this matter.

Respectfully submitted,

Michael Kunselman

Attorney for the California Independent  
System Operator Corporation

Enclosures

February 14, 2001

The Honorable Bruce L. Birchman  
Presiding Administrative Law Judge  
Federal Energy Regulatory Commission  
888 First Street, N.E.  
Room 11F-37  
Washington, D.C. 20426

**Re: California Independent System Operator Corporation  
Docket Nos. ER00-2360-000, et al.**

Dear Judge Birchman:

Enclosed are two copies of the Pre-hearing Brief of the California Independent System Operator Corporation's filed with the Secretary today in the above-captioned dockets.

Yours truly,

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Enclosures