

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

California Independent System Operator)
Corporation)

Docket No. ER02-2043-000
Docket No. ER02-2046-000
(Not Consolidated)

**AMENDMENT OF FILING AND RESPONSE OF THE CALIFORNIA
INDEPENDENT SYSTEM OPERATOR CORPORATION TO
THE JULY 31, 2002 DEFICIENCY LETTER**

On June 6, 2002, the California Independent System Operator Corporation ("CA ISO") filed with the Federal Energy Regulatory Commission (the "Commission" or "FERC") an unexecuted Participating Generator Agreement ("PGA") and an associated unexecuted Meter Service Agreement ("MSA") between the CA ISO and the Valero Refining Company – California ("Valero") pursuant to Section 205 of the Federal Power Act. The Agreements apply to Valero's Cogeneration Unit at Valero's petroleum refining facility in Benicia, California ("Cogeneration Unit #1"). On July 31, 2002, the CA ISO received from the Commission a deficiency letter requesting additional information associated with these filings and indicating that such additional information should be provided as an amendment to the filing. The CA ISO hereby provides the information requested in the July 31, 2002 deficiency letter.

The additional information provided is as follows:

1. Please provide one line diagrams showing the general arrangement of how Valero's Cogeneration Unit #1 facility is interconnected from its location to the 230 kV bus on the CA ISO controlled grid.

Response: The one-line diagram provided by Valero to the CA ISO in response to a request following the July 31, 2002 deficiency letter is attached (Tab 1). One-line diagrams are maintained confidentially by the CA ISO in the ordinary

course of business; thus the one-line diagram is provided subject to Rule 112 of the Commission's Rules of Practice and Procedure (18 C.F.R § 388.112). Since the document was obtained from Valero, a copy has been served on Valero along with these responses.

2. Appendix A of PG&E's Generating Facility Interconnection Agreement was to provide a description of the generating facility and a single line diagram - provide this information.

Response: The CA ISO requested appendix A of PG&E's Generating Facility Interconnection Agreement from Valero following the July 31, 2002 deficiency letter. Valero responded that an Appendix A was not submitted with the Generator Facility Interconnection Agreement. However, it is the CA ISO's understanding that Cogeneration Unit #1 is directly connected to the CA ISO Controlled Grid. No generator generates at a transmission voltage directly, without going through intermediate step up transformers. Like other directly connected generators, Cogeneration Unit #1 is connected right from the generator output through a step up transformer to the 230 kV bus. Thus, Cogeneration Unit #1 is directly connected to the CA ISO Controlled Grid.

3. All correspondence, studies and any other documents relating to any alternative points of interconnection that the CA ISO and Valero considered in establishing the point of interconnection.

Response: Based on reasonable inquiry in response to the July 31, 2002 deficiency letter, it appears that there are no documents relating to any alternative points of interconnection that the CA ISO and Valero considered in establishing the point of interconnection. The key correspondence, studies and documents exchanged between the CA ISO, Valero and PG&E related to interconnection by Cogeneration Unit #1 are attached (Tab 2). These documents are maintained confidentially by the CA ISO in the ordinary course of business and are provided subject to Rule 112 of the Commission's Rules of Practice and Procedure (18 C.F.R § 388.112). Since these documents have been shared previously with Valero, copies of the confidential documents have been served on Valero along with these responses.

4. Confirm that PG&E is the designated Scheduling Coordinator for Valero's net purchases that are transmitted under the CA ISO Tariff.

Response: it is the CA ISO's understanding from correspondence with Valero that PG&E is designated as the Scheduling Coordinator for Valero's net load.

5. Explain in detail the scheduling responsibilities of PG&E and Valero for the net purchase requirement and the interconnection and operation of Valero's Cogeneration facility that is dedicated to meet Valero's own load.

Response: For purposes of this response, the CA ISO will accept that Valero does not wish to participate actively, i.e. submit bids, into the CA ISO's Energy and Ancillary Service markets. Nonetheless, Valero must, consistent with the CA ISO metering requirements, meter the gross output of Cogeneration Unit #1, and the gross load at Valero (both the load served by Cogeneration Unit #1 and the load served by PG&E under standby service). To avoid Imbalance Energy charges, Valero's Scheduling Coordinator must schedule the output of Cogeneration Unit #1 consistent with such metering, i.e., on a gross basis. That is, Valero's Scheduling Coordinator must schedule the output of Cogeneration Unit #1, and the gross load including the load served by Cogeneration Unit #1 and the load served by PG&E under standby service. (In addition, since the CA ISO's Tariff currently requires balanced schedules, the Scheduling Coordinator would have to schedule with the CA ISO generation from some source other than Cogeneration #1 to cover the Valero load that is not served by Cogeneration Unit #1.) The CA ISO understands that PG&E is the Scheduling Coordinator for the load served under its standby service – i.e. the load at Valero that is not served by Cogeneration Unit #1 -- , and hence the generation to meet this net load. However, Valero has not agreed to schedule the output of Cogeneration Unit #1, or the load served by such output with the CA ISO, or to make arrangements with a Scheduling Coordinator to undertake such scheduling.

If Valero's contention were accepted, that it is not a Participating Generator and not required to meter and schedule on a gross basis, a Scheduling Coordinator (currently PG&E) would still be required to schedule Valero's net load, and the corresponding generation to meet this load. Under the agreement signed between Valero and the CA ISO on May 24, 2002, regarding operations pending a determination by FERC regarding the PGA and associated MSA ("May 24 Agreement"), the CA ISO extended to Valero a temporary exemption for the CA ISO's Tariff provisions governing gross revenue metering, and associated gross load and generation scheduling obligations through December 1, 2002. During the time that this temporary exemption is in effect, Valero's Scheduling Coordinator is permitted to officially schedule only Valero's net load (i.e. the load that is not served by the output of Cogeneration Unit #1) and the generation to meet this load. However, Valero must submit a daily "schedule" of the full (gross) expected output of Cogeneration Unit #1 by 2:00 PM of the preceding day, although this information would only be used for operations and not for settlement. When the temporary exemption expires, Valero's Scheduling Coordinator would be required to schedule the gross output of Cogeneration Unit #1 and Valero's gross load (as well as any generation needed to meet Valero's load beyond the output of Cogeneration Unit #1).

Because Valero submitted an interconnection application with PG&E before the amendment to the generating unit interconnection section of the CA ISO's tariff (CA ISO Tariff Amendment No. 39) was adopted by the Commission, the requirement for interconnection by Valero under the CA ISO Tariff was limited to

complying with PG&E's interconnection standards and agreements, except to the extent standards and protocols adopted by the CA ISO supercede those of PG&E. See former CA ISO tariff section 5.7.2.

As to operations, in addition to the scheduling and metering requirements described above, as a Participating Generator, Valero would be required to meet applicable CA ISO Tariff provisions. Some of the key requirements among these that relate to the CA ISO's operations are that a Generator must 1) provide communications and telemetry to enable the CA ISO operations personnel, as Control Area operators, to have access to information on the output of the Generating Unit for real-time operations and to direct the operations of the Generator as necessary to maintain the reliability of the CA ISO Controlled Grid (CA ISO Tariff section 5.1.3.); 2) coordinate their outages with the CA ISO (CA ISO Tariff sections 5.5 and 2.3.3) to avoid impacts on System Reliability; 3) comply with CA ISO directions in the context of System Emergencies or the need to prevent an imminent or threatened System Emergency (CA ISO Tariff section 5.6); 4) comply with the "must-offer" obligation (CA ISO Tariff section 5.11); 5) exchange certain information with the CA ISO (CA ISO Tariff section 5.8); and 6) at the request of the CA ISO provide access to undertake certain testing (CA ISO Tariff section 5.9).

Most, but not all, of these obligations apply to Participating Generators. If Valero is deemed not to be a Participating Generator, Valero is likely to argue that it is not required to comply with the majority of these requirements. It is because these requirements allow the CA ISO to maintain System Reliability that the CA ISO opposed interconnection of Cogeneration Unit #1 until Valero agreed to comply with certain minimum requirements through the May 24 Agreement pending resolution of the applicability of the PGA and MSA by FERC. The May 24 Agreement requires Valero to 1) supply the CA ISO with reliability data (including gross telemetry of Cogeneration Unit #1's output and status data); 2) comply with applicable Western Electricity Coordinating Council ("WECC") standards and reliability criteria; 3) coordinate its outages with the CA ISO; 4) assist the CA ISO in alleviating conditions adversely affecting the reliability of the CA ISO Controlled Grid by complying with CA ISO operating orders; and 5) comply with PG&E interconnection requirements and WECC standards and agreements.

These operational requirements are the minimum needed for the CA ISO to maintain System Reliability. It is undisputed that Valero intends to rely on the interconnected electricity system to provide balancing power to augment the power produced by Cogeneration Unit #1. Valero concedes that it will purchase its net power requirements and standby service from PG&E. See Motion to Intervene, Protest, and Motion to Reject of Valero Refining Company- California at 5. This balancing is provided through the interconnected grid, which, as described in the CA ISO's June 6 transmittal letter in this matter, responds automatically in the event of power fluctuations from the unit. The requirements

for gross telemetry and gross Scheduling provide the basis by which the CA ISO can monitor and control the balancing function that Valero seeks to avail itself of, and thus maintain reliability of the entire CA ISO Control Area.

Moreover, as set forth in the CA ISO's June 6 transmittal letter, a failure by Valero to agree to abide by CA ISO Tariff requirements by signing a PGA does indeed create reliability concerns. The CA ISO Automatic Generation Control (AGC) application within the CA ISO Energy Management System (EMS) responds automatically to fluctuations in Load and Generating Unit output by sending signals to Generating Units that have successfully bid Regulation into the CA ISO Day Ahead, Hour Ahead or Supplemental Energy Ancillary Service markets. In the case of Valero, these fluctuations involve Cogeneration Unit #1, a sizeable (approximately 50 MW) facility interconnected directly to the CA ISO Controlled Grid. Fluctuations in operations, and scheduled and unscheduled outages of Cogeneration Unit#1 have the potential to substantially affect system operations on the CA ISO Controlled Grid in the Benicia area. Without having information on scheduled and unscheduled outages and on the real time status (through scheduling and telemetry) of Cogeneration Unit #1, the CA ISO would nevertheless have to respond to significant swings in Control Area Load and Generation in the Benicia area without advance notice or after-the-fact knowledge of what is causing or has caused the swings¹.

Finally, as noted in the CA ISO's June 6 transmittal letter, the CA ISO requires gross telemetry to accurately calculate its Control Area Load in order to meet WECC operating reserve criteria. The applicability of these requirements to on-site load have been litigated extensively in Docket No. ER98-997 in which the WECC submitted a brief to the Commission supporting the CA ISO's contention that the CA ISO must ensure that adequate operating reserves are available for all Control Area Load including on-site load. Because it would be prohibitively expensive to telemeter all Load within the Control Area, the CA ISO relies on real-time telemetry of the gross output of Generators within the Control Area to accurately calculate its Control Area Load, and hence the necessary operating reserves to meet WECC operating reserve criteria at all times. Without gross telemetry of the output of a significant generating unit such as Cogeneration Unit #1, the CA ISO could not accurately calculate its Control Area Load for purposes of meeting WECC operating reserve criteria at all times.

¹ The CA ISO notes moreover that while Valero claims that it is installing a megawatt control system that will regulate the output of plant, the system is not yet in place and no details have been provided in Valero's protest about the system or the time frame for its installation. The May 24, 2002, Agreement conditions the temporary exemption from gross revenue metering on immediate notice by Valero to the CA ISO in the event of delivery of net Generation to the CA ISO Controlled Grid, so clearly this circumstance was known to be a possibility. See May 24, 2002 Agreement footnote 1. In any event, such a system would not prevent a sudden appearance of load on the system when Cogeneration Unit #1 ceases to operate. To prevent such an appearance of load, Valero would have to install a device to trip load in the event of an outage of Cogeneration Unit #1.

In the absence of a PGA, the May 24 Agreement addresses the minimum operational requirements that would allow the CA ISO to maintain System Reliability as Control Area operator. Nonetheless the CA ISO cannot rely on the May 24 Agreement indefinitely to address these requirements because the Agreement is only effective through the date of an unappealable decision arising from a FERC determination of whether a PGA and associated MSA must be executed by Valero. If FERC determines that a PGA is not applicable, once the decision becomes unappealable, the May 24 Agreement would cease to be effective, and the CA ISO would have no contractual basis to require Valero to meet minimum operational requirements, which would have an adverse effect on the CA ISO's ability to maintain System Reliability as the Control Area operator. At a minimum, to support reliable operations by the CA ISO, the Commission should require Valero to abide by the May 24 Agreement indefinitely if it rejects the unexecuted PGA and MSA.

Respectfully submitted,

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Date: August 27, 2002