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September 7, 2004

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

**Re: California Independent System Operator Corporation  
Docket No. ER04-\_\_\_\_-000  
Amendment No. 63 to the ISO Tariff**

Dear Secretary Salas:

Pursuant to Section 205 of the Federal Power Act ("FPA"), 16 U.S.C. § 824d, and Sections 35.11 and 35.13 of the Federal Energy Regulatory Commission's ("Commission") regulations, 18 C.F.R. §§ 35.11, 35.13, the California Independent System Operator Corporation ("ISO")<sup>1</sup> respectfully submits for filing an original and six copies of an amendment ("Amendment No. 63") to the ISO Tariff. Amendment No. 63 modifies the ISO Tariff to accommodate the transfer by Western Area Power Administration, Sierra Nevada Region ("Western") of Operational Control over Western's interest in the upgrade of Path 15 to the ISO.<sup>2</sup> The amendment also modifies the ISO Tariff to provide several clarifications concerning cost recovery.

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<sup>1</sup> 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.

<sup>2</sup> Concurrently with the present filing, the ISO is submitting a filing to modify the Transmission Control Agreement ("TCA"), under which the ISO assumes Operational Control of the transmission facilities that constitute the ISO Controlled Grid, in part to accommodate Western's transfer of Operational Control over its interest in the Path 15 upgrade to the ISO.

## I. BACKGROUND

### A. Upgrade of Path 15

Path 15 currently comprises two high voltage transmission lines within the ISO Controlled Grid that extend from Southern California to Northern California.<sup>3</sup> It is often constrained because of the need for significant north-south transfer capability to accommodate the movement of hydroelectric power from the Pacific Northwest to Southern California and also because of the need for south-north transmission to accommodate Generators in Southern California transmitting power to Northern California.<sup>4</sup>

In order to alleviate Congestion on Path 15, Western, together with Pacific Gas and Electric Company ("PG&E") and Trans-Elect NTD Path 15, LLC ("Trans-Elect") (collectively, "Path 15 Participants") have over the past several years taken steps to plan and build a third high voltage line and associated transmission upgrades parallel to the existing Path 15 transmission facilities. These steps have included the filing by the Path 15 Participants of a Letter Agreement, which the Commission has accepted.<sup>5</sup> The ISO understands that Western's unreimbursed costs for the development of the Path 15 upgrade project are approximately \$1.3 million, which represents approximately 0.5 percent of the \$306 million original estimate of the cost of the project.<sup>6</sup> Pursuant to the Letter Agreement, Western will own the new high voltage transmission line and associated land that is the most significant part of the transmission upgrades, and Western will receive an entitlement to 10 percent of the transmission system rights in the upgrade of Path 15.<sup>7</sup> Construction of the Path 15 upgrade began in Fall 2003; the energization of the third high voltage transmission line may occur as early as mid-November 2004.

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<sup>3</sup> *Pacific Gas and Electric Company*, 107 FERC ¶ 61,335, at P 1 (2004) ("June 30, 2004 Order")

<sup>4</sup> *Id.*

<sup>5</sup> *Western Area Power Administration*, 99 FERC ¶ 61,306 ("June 12, 2002 Order"), *reh'g denied*, 100 FERC ¶ 61,331 (2002) ("September 25, 2002 Order"), *petition for review denied sub nom. Public Utilities Commission of the State of California v. Federal Energy Regulatory Commission*, 367 F.3d 925 (2004). The steps have also included the filing by the Path 15 Participants of a Coordinated Operations and Interconnection Agreement, which the Commission has also accepted. See June 30, 2004 Order.

<sup>6</sup> See June 12, 2002 Order at 62,278.

<sup>7</sup> *Id.*

Western is not a public utility under the FPA,<sup>8</sup> nor is it currently a Participating TO or partial Participating TO. Instead, at present Western may be characterized as a Project Sponsor.<sup>9</sup>

## **B. Importance of the Path 15 Upgrade**

Efforts by Western to assist in reducing Congestion along Path 15 were sparked by the National Energy Policy Report's recommendation in 2001 that President Bush direct the Secretary of Energy to authorize Western to explore ways of relieving the Path 15 bottleneck through transmission expansion.<sup>10</sup> Through a public process, Western solicited proposals from non-federal entities in the construction and ownership of Path 15 upgrades; Western ultimately selected Trans-Elect and PG&E as its fellow Path 15 Participants.<sup>11</sup>

The Commission has stressed the need to eliminate Congestion along Path 15 and the benefits of the upgrade to Path 15. It has explained that "Path 15 is a uniquely critical path, with transmission limitations that have had serious impacts on the ability to move power over the system."<sup>12</sup> Moreover, the Commission has stated that "[t]he need for additional transmission facilities in California, particularly along Path 15, has not abated since the issuance of the *Removing Obstacles Orders* – which sought, among other things to promote just this result – the timely construction of additional transmission facilities."<sup>13</sup> Further, "[i]t generally is recognized that serious transmission congestion plagues the California energy markets, particularly along Path 15, and that the upgrades will provide much needed transmission capacity to Northern California."<sup>14</sup> The Commission has also stated that the proposal of the Path 15 Participants for upgrading Path 15 represented the best option available for relieving the Congestion there.<sup>15</sup> The Commission has noted that the Department of Energy's

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<sup>8</sup> *Id.*

<sup>9</sup> A Project Sponsor is defined as "[a] Market Participant . . . that proposes the construction of a transmission addition or upgrade in accordance with Section 3.2 of the ISO Tariff."

<sup>10</sup> See June 12, 2002 Order at 62,277. Moreover, Path 15 was the sole transmission path in the Western Electricity Coordinating Council that was cited as a bottleneck.

<sup>11</sup> *Id.* at 62,277-78.

<sup>12</sup> September 25, 2002 Order at P 7. In addition, the United States Department of Energy's *National Transmission Grid Study* (May 2002) listed Path 15 as a major western transmission bottleneck. September 25, 2002 Order at n.4.

<sup>13</sup> June 12, 2002 Order at 62,277.

<sup>14</sup> *Id.* at 62,280.

<sup>15</sup> September 25, 2002 Order at P 7.

*National Transmission Grid Study* stated that constraints on Path 15 had resulted in Congestion costs to California energy customers estimated at \$222 million over just the 16 months prior to December 2000, and that, by contrast, the entire cost of the Path 15 upgrades that would relieve that Congestion was estimated at that time to be approximately \$306 million.<sup>16</sup>

For these reasons, it is indisputable that the Path 15 upgrade is in the public interest. Further, Western has from the beginning stated its commitment to turn over Operational Control of its share of the upgrade to the ISO.<sup>17</sup>

### **C. The Proposal Concerning Western's 10 Percent Interest in the Path 15 Upgrade**

The ISO, current Participating TOs, and Western have engaged in discussions concerning the transfer of Operational Control of Western's 10 percent interest in the Path 15 upgrade to the ISO. As proposed by the ISO in this filing and in the companion filing to modify the TCA, Western would transfer Operational Control only of its 10 percent interest in the upgrade (approximately 150 MW of transfer capacity) and none of its other transmission assets.<sup>18</sup> In exchange for the transfer of its interest in the Path 15 upgrade, in accordance with ISO Tariff Section 3.2.7.3, Western would receive the Congestion revenues and Firm Transmission Right ("FTR") auction revenues associated with its

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<sup>16</sup> *Id.* at P 7 n.4. Ratepayers will not have to pay the entire cost of the Path 15 upgrade in one year. Instead, the costs will be spread out over the life of the Path 15 upgrade. *Public Utilities Commission of the State of California*, 367 F.3d at 928-29.

<sup>17</sup> See June 12, 2002 Order at 62,281.

<sup>18</sup> Western's 10 percent interest in the Path 15 upgrade represents only one of four major transmission projects in which Western holds an ownership interest. The remaining projects are the Pacific AC Intertie, the Central Valley Project, and the California-Oregon Transmission Project. The Path 15 upgrade is a tiny fraction of the transmission facilities under Western's operational control. Western owns and operates a total of 17,400 miles of transmission facilities. See [www.wapa.gov/geninfo/sysglance.htm](http://www.wapa.gov/geninfo/sysglance.htm). The total length of Path 15 is much less – 84 miles. See [www.wapa.gov/sn/initiatives/path15/](http://www.wapa.gov/sn/initiatives/path15/). Western will not turn over Operational Control of any of its other facilities and therefore will not become a Participating TO with regard to those facilities.

Western, in order to transfer Operational Control over only its interest in the Path 15 upgrade to the ISO, must become a partial Participating TO with regard to Path 15 only. Section 3.1.1 of the ISO Tariff currently does not make provision for a Transmission Owner to become a partial Participating TO. The ISO and Western are proposing that Western be selected as a partial Participating TO due to the regional significance of the new transmission facilities. Therefore, the ISO has proposed changes to the ISO Tariff that include such provisions.

interest in the upgrade.<sup>19</sup> Thus, Western has chosen to be a Project Sponsor and receive revenue in accordance with Section 3.2.7.3 of the ISO Tariff, and would become a partial Participating TO.

## **II. PROPOSED CHANGES**

### **A. Reasons for the Proposed Changes**

The changes contained in the present filing are intended to ensure that Western is able to transfer to the ISO's Operational Control only its interest in the Path 15 upgrade, in exchange for receiving the Congestion revenue and FTR auction revenue associated with that interest. Western's transfer of only its interest is just and reasonable, and its receipt of the Congestion and FTR auction revenue is consistent with the ISO Tariff.

#### **1. The Transfer of Operational Control over Western's Interest in the Path 15 Upgrade**

Western's 10 percent interest in the Path 15 upgrade represents only a tiny fraction of the transmission facilities under Western's operational control; Western will not turn over Operational Control of any of its other facilities and therefore will not become a Participating TO with regard to those facilities. Western, in order to transfer Operational Control over its interest in the Path 15 upgrade alone to the ISO, must become a partial Participating TO with regard to the Path 15 upgrade only. The ISO Tariff currently does not make provision for Western, or anyone else, to become a partial Participating TO. Therefore, the ISO has proposed changes to the ISO Tariff that include such provisions.

Granting the ISO Operational Control of Western's 10 percent share of the Path 15 upgrade will create reliability and economic benefits amounting to approximately 150 MW of additional transfer capability for south-to-north deliveries, and increased capability for southbound deliveries, over a crucial bottleneck in the ISO Control Area.<sup>20</sup> As described above, Western had a crucial role in the building of this important upgrade. It is just and reasonable to permit Western to become a partial Participating TO with regard to its interest in the upgrade. The unique nature of the Path 15 project makes this partial turnover appropriate. Western has never intended to turn over Operational Control of all of its transmission lines in California to the ISO, and has made it clear that it is unwilling to turn over control of all of its transmission lines. Given the choice of having the additional transfer capability over Path 15 or having nothing at all, the

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<sup>19</sup> Typically a Participating TO files a Transmission Revenue Requirement for Commission approval for revenue recovery. However, a Participating TO can either exercise this option or become a Project Sponsor.

<sup>20</sup> See June 12, 2002 Order at 62,278.

Commission should accept the proposed changes to the ISO Tariff to permit Western to become a partial Participating TO.

## **2. Western's Receipt of Congestion Revenue and FTR Auction Revenue**

A few of the current Participating TOs have informed the ISO that they have concerns with the ISO Tariff provision that allows Western to be treated as a Project Sponsor and gives Western Congestion revenues and FTR auction revenues associated with the capacity interest that is turned over to ISO Operational Control. It is the understanding of the ISO that such Participating TOs contend there is an "over-recovery" because Western financed approximately 0.5 percent of the upgrade and yet would receive a 10 percent share of Congestion revenue and FTR auction revenue associated with the upgrade.<sup>21</sup> In contrast, approximately 99.5 percent of the costs of the upgrade would be recovered through the Transmission Revenue Requirements of Trans-Elect and PG&E.

The ISO believes that the cost recovery treatment proposed for Western is consistent with the provisions of Amendment No. 48 to the ISO Tariff ("Amendment No. 48"), which was previously approved by the Commission.<sup>22</sup> Western has proposed to forego the filing of a TO Tariff with the Commission and the recovery of its approximately \$1.3 million in unreimbursed costs for development of the upgrade as part of its Transmission Revenue Requirement. Instead, Western has chosen to receive the Congestion revenues and FTR auction revenues associated with its interest in the upgrade as a Project

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<sup>21</sup> This understanding is based on comments made by a Participating TO representative during the "public comment" portion of the July 29, 2004 meeting of the ISO Governing Board. The Path 15 upgrade is one of three lines that will comprise Path 15 once it is completed; thus the revenue allocation for Western's 10 percent interest in the Path 15 upgrade will be approximately 3.3 percent of the revenues associated with the entire Path. The following provides a point of reference regarding Western's potential revenue recovery as a Project Sponsor, as opposed to its recovery of its approximately \$1.3 million in unreimbursed costs and being allowed to net Congestion revenue against Congestion costs (Usage Charges) through a Transmission Revenue Requirement. Based on the actual clearing price for Path 15 FTRs in 2004, \$7,035/MW for 1,535 FTRs sold, the revenue for those FTRs was \$10,798,725. If no changes were to occur in the revenue from the FTR auction after the addition of the Path 15 upgrade, Western's percentage of that auction revenue would be approximately 3.3 percent or \$365,358. For calendar year 2003, Congestion revenue paid to the Participating TO for Path 15 was \$689,632; if Western had been a Participating TO at that time and Congestion revenue had not changed, Western would have received \$22,758. However, when the new transmission line for the Path 15 upgrade is energized and an additional 1,500 MW of transfer capability is available on Path 15, it is anticipated that Congestion will decrease and the value of FTRs will decrease, which will result in much lower FTR auction and Congestion revenue for Western and less opportunity to recover its unreimbursed costs.

<sup>22</sup> See *California Independent System Operator Corporation*, 102 FERC ¶ 61,278, order on compliance filing, 104 FERC ¶ 61,128, *reh'g denied*, 104 FERC ¶ 61,127 (2003).

Sponsor, consistent with Section 3.2.7.3 as modified by Amendment No. 48. That section states in relevant part:

Provided that the ISO has Operational Control of the transmission upgrade or addition, a Project Sponsor that does not recover the investment cost under a FERC-approved rate through the Access Charge or a reimbursement or direct payment from a Participating TO shall be entitled to receive:

....

- (b) its share, as determined in subsection (d) below, of the proceeds of the FTR auction for FTRs defined on the Inter-Zonal Interface of which the transmission addition or upgrade forms a part as set forth in Section 9.5.3, provided that the Project Sponsor does not receive FTRs from the ISO in accordance with Section 9.4.3 of the ISO Tariff; and
- (c) its share, as determined in subsection (d) below, of the Congestion revenues provided as calculated pursuant to Section 7.3.1.6 on the Inter-Zonal Interface of which the transmission addition or upgrade forms a part.

Pursuant to Section 3.2.7.3 and Western's proposal, Western would keep its interest share (10 percent) of the Congestion revenue and FTR auction revenue from the Path 15 upgrade.<sup>23</sup>

The provision of Congestion revenue and FTR auction revenue to Western is entirely consistent with Amendment No. 48. In Amendment No. 48, the ISO, *inter alia*, proposed modifications to Section 3.2.7.3 of its Tariff that include the language from that section quoted above. The ISO noted that:

The Commission has recognized that there is a need to encourage new generation and transmission investment in California. The ISO's proposal furthers this goal. The ISO's proposal also is consistent with the position the Commission has taken in its Standard Market Design Notice of Proposed Rulemaking issued on July 31, 2002 in Docket No. RM01-12. In that regard, the Commission proposed that "[i]f an entity pays to construct new generation or transmission facilities that add transfer capability, and the costs of the upgrade are not rolled in, the entity

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<sup>23</sup> As noted in footnote 21 above, the Path 15 upgrade is one of three lines that will comprise Path 15 once it is completed; thus the revenue allocation for Western's 10 percent interest in the Path 15 upgrade will be approximately 3.3 percent of the revenue associated with the entire Path.

would receive the Congestion Revenue Rights associated with the new transfer capability."<sup>24</sup>

The ISO explained that approval of Amendment No. 48 was necessary to compensate FPL Energy, LLC ("FPLE") for an upgrade to increase the transmission rating on a transmission line owned by Southern California Edison Company ("SCE"), the Blythe-Eagle Mountain line.<sup>25</sup> The Commission accepted Amendment No. 48, subject to modifications not relevant here.

The present case is similar to that presented in Amendment No. 48. Western, like FPLE, seeks to be treated for purposes of revenue recovery as a Project Sponsor,<sup>26</sup> and needs to be compensated for the addition of a transmission line. Moreover, as the Commission recognized with regard to Amendment No. 48, "certainty [is] required to encourage investment in transmission upgrades."<sup>27</sup> Therefore, the Commission should permit Western to receive the Congestion revenues and FTR auction revenues as a Project Sponsor to compensate Western with regard to the Path 15 upgrade.<sup>28</sup>

The present case can be contrasted with, for example, that of the Cities of Anaheim, Azusa, Banning, and Riverside, California (collectively, "Southern Cities"). The Southern Cities are Participating TOs that have provided to the ISO the right to operate their transmission facilities in exchange for recovery of their Transmission Revenue Requirements and the receipt of FTRs pursuant to Section 9.4.3 of the ISO Tariff; any FTR revenues that the Southern Cities receive in excess of their Congestion costs are offset against their Transmission Revenue Requirements pursuant to a TO Tariff filed with the Commission. Accordingly, the Southern Cities do not have the opportunity to keep Congestion revenues and FTR *auction* revenues as a Project Sponsor pursuant to Section

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<sup>24</sup> Transmittal Letter for Amendment No. 48, Docket No. ER03-407-000 (Jan. 13, 2003), at 3 (quoting *Remedying Undue Discrimination Through Open Access Transmission Service and Standard Electricity Market Design*, Notice of Proposed Rulemaking, 67 Fed. Reg. 55,451 FERC Stats. & Regs. ¶ 32,563 (2002), at P 238).

<sup>25</sup> *California Independent System Operator Corporation*, 102 FERC ¶ 61,278, at PP 2-3 (2003) ("March 12, 2003 Order").

<sup>26</sup> See *California Independent System Operator Corporation*, 104 FERC ¶ 61,128, at P 2 (2003).

<sup>27</sup> March 12, 2003 Order at P 21. See also *id.* at P 20 (noting SCE's opposition to a methodology that "would likely lead to disparate results in similar cases" and would "discourage transmission expansion through uncertainty").

<sup>28</sup> A Project Sponsor is also entitled to receive Wheeling Revenue if the transmission addition or upgrade is an Inter-Zonal Interface that connects the ISO Control Area with another Control Area. Path 15 is not an Inter-Zonal Interface between two Control Areas.



3.2.7.3, they are required to credit these revenues against their Transmission Revenue Requirement.

## **B. Description of the Proposed Changes**

This ISO Tariff amendment includes the following proposed changes:

- In Section 3 of the ISO Tariff, concerning the relationship between the ISO and Participating TOs, a new section, Section 3.1.3, has been added to provide that Western<sup>29</sup> is required to turn over to the ISO's Operational Control only its rights and interests in the Path 15 upgrade and is not required to turn over Operational Control of any facilities not related to the Path 15 upgrade. Section 3.1.3 also provides that for purposes of the ISO Tariff, Western will be treated with respect to revenue recovery as a Project Sponsor in accordance with Section 3.2.7 of the ISO Tariff (discussed further below).
- Section 3.1 has been modified to state that New Participating TOs will be required to turn over Operational Control of all facilities and Entitlements as described in the section, except as provided in Section 3.1.3.
- Section 3.2.7.3(a) has been modified to clarify which Project Sponsors should receive Wheeling Revenue and the method of determining the share of Wheeling revenues that each Project Sponsor is entitled to receive.
- Section 3.2.7.3(d) has been modified to clarify that the Project Sponsor's share of Wheeling, Congestion, and FTR auction revenues for an upgraded transmission facility will be calculated based in part on the ratings of the transmission facility before and after the upgrade or addition to the transmission facility.
- Section 3.2.7.4 has been modified to provide that, because Western is specified in proposed Section 3.1.3 to recover revenue as a Project Sponsor, Western's transmission facility costs will not be included in the ISO Grid-wide component of the High Voltage Access Charge in accordance with Schedule 3 of Appendix F of the ISO Tariff.

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<sup>29</sup> Section 3.1.3 references a new defined term in the ISO Tariff, Western Path 15, which means "[t]he Western Area Power Administration, Sierra Nevada Region (or its successor) with respect solely to its rights and interests in the Path 15 Upgrade." The new defined term Path 15 Upgrade means "[t]he upgraded transmission facilities across the Path 15 Inter-Zonal Interface that have been turned over to ISO Operational Control."

### **III. EFFECT ON METERED SUBSYSTEMS**

The changes proposed in the instant amendment should not conflict with the principles of the MSS Agreement ("MSSA").

### **IV. EFFECTIVE DATE**

The ISO respectfully requests, pursuant to Section 35.11 of the Commission's regulations, 18 C.F.R. § 35.11, that the ISO Tariff changes contained in this amendment be made effective on November 1, 2004. The ISO submits that good cause for the requested date exists because these changes must become effective by November 1 in order to ensure that Operational Control over Western's interest in the Path 15 upgrade can be transferred to the ISO prior to energization of the upgrade, which the ISO understands may occur as early as mid-November 2004.

### **V. COMMUNICATIONS**

Communications regarding this filing should be addressed to the following individuals, whose names should be placed on the official service list established by the Secretary with respect to this submittal:

John C. Anders<sup>30</sup>  
Contracts Counsel  
Deborah Le Vine  
Director of Contracts  
The California Independent System  
Operator Corporation  
151 Blue Ravine Road  
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### **VI. SERVICE**

The ISO has served copies of this letter, and all attachments, on the California Public Utilities Commission, the California Energy Commission, the California Electricity Oversight Board, the Participating TOs, all parties with effective Scheduling Coordinator Service Agreements under the ISO Tariff, and Western. In addition, the ISO is posting this transmittal letter and all attachments on the ISO Home Page.

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<sup>30</sup> In addition to Mr. Anders, the ISO respectfully requests that Ms. Deborah Le Vine be added to the official service list at the same mailing address. Ms. Le Vine and Mr. Anders work in separate buildings and it would be helpful to the ISO if both receive service.

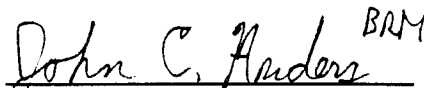
**VII. ATTACHMENTS**

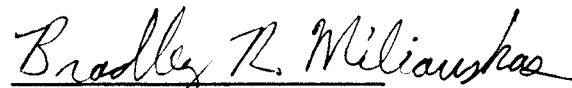
The following documents, in addition to this letter, support this filing:

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| Attachment A | Revised Tariff sheets  |
| Attachment B | Black-lined Tariff provisions  |
| Attachment C | Notice of this filing, suitable for publication in the Federal Register (also provided in electronic format) |

Two extra copies of this filing are also enclosed. Please stamp these copies with the date and time filed and return them to the messenger. Please feel free to contact the undersigned if you have any questions concerning this matter.

Respectfully submitted,

  
John C. Anders  
John C. Anders  
California Independent System  
Operator Corporation  
151 Blue Ravine Road  
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Bradley R. Miliauskas  
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Enclosures

**ATTACHMENT A**

**3. RELATIONSHIP BETWEEN ISO AND PARTICIPATING TOs.**

**3.1 Nature of Relationship.**

Each Participating TO shall enter into a Transmission Control Agreement with the ISO. In addition to converting Existing Rights in accordance with Section 2.4.4.2, and except as provided in Section 3.1.3, New Participating TOs will be required to turn over Operational Control of all facilities and Entitlements that: (1) satisfy the FERC's functional criteria for determining transmission facilities that should be placed under ISO Operational Control; (2) satisfy the criteria adopted by the ISO Governing Board identifying transmission facilities for which the ISO should assume Operational Control; and (3) are the subject of mutual agreement between the ISO and the Participating TOs. The ISO shall notify Market Participants when an application has been received from a potential Participating TO and shall notify Market Participants that a New Participating TO has executed the Transmission Control Agreement and the date on which the ISO will have Operational Control of the transmission facilities.

**3.1.1** In any year, a Participating TO applicant must declare its intent in writing to the ISO to become a New Participating TO by January 1 or July 1, and provide the ISO with an application within 15 days of such notice of intent. Applicable agreements will be negotiated and filed with the Federal Energy Regulatory Commission as soon as possible for the New Participating TO, such that the Agreements can be effective the following July 1 or January 1.

**3.1.2** With respect to its submission of Schedules to the ISO, a New Participating TO shall become a Scheduling Coordinator or obtain the services of a Scheduling Coordinator that has been certified in accordance with Section 2.2.4, which Scheduling Coordinator shall not be the entity's Responsible Participating TO in accordance with the Responsible Participating Transmission Owner Agreement, unless mutually agreed, and shall operate in accordance with the ISO Tariff and applicable

agreements. The New Participating TO shall assume responsibility for paying all Scheduling Coordinators charges regardless of whether the New Participating TO elects to become a Scheduling Coordinator or obtains the services of a Scheduling Coordinator.

**3.1.3** Western Path 15 shall be required to turn over to ISO Operational Control only its rights and interests in the Path 15 Upgrade and shall not be required to turn over to ISO Operational Control Central Valley Project transmission facilities, Pacific AC Intertie transmission facilities, California-Oregon Transmission Project facilities, or any other new transmission facilities or Entitlements not related to the Path 15 Upgrade. For purposes of the ISO Tariff, Western Path 15 shall be treated with respect to revenue recovery as a Project Sponsor in accordance with Section 3.2.7.

**3.2 Transmission Expansion.**

A Participating TO shall be obligated to construct all transmission additions and upgrades that are determined to be needed in accordance with the requirements of this Section 3.2 and which: (1) are additions or upgrades to transmission facilities that are located within its PTO Service Territory, unless it does not own the facility being upgraded or added and neither terminus of such facility is located within its PTO Service Territory; or (2) are additions to existing transmission facilities or upgrades to existing transmission facilities that it owns, that are part of the ISO Controlled Grid, and that are located outside of its PTO Service Territory, unless the joint-ownership arrangement, if any, does not permit. A Participating TO's obligation to construct such transmission additions and upgrades shall be subject to: (1) its ability, after making a good faith effort, to obtain all necessary approvals and property rights under applicable federal, state, and local laws and (2) the presence of a cost recovery mechanism with cost responsibility assigned in accordance with Section 3.2.7. The obligations of the Participating TO to construct such transmission additions or upgrades will not alter the rights of any entity to

construct and expand transmission facilities as those rights would exist in the absence of the TO's obligations under this ISO Tariff or as those rights may be conferred by the ISO or may arise or exist pursuant to this ISO Tariff.

**3.2.7.1** Where a Project Sponsor commits to pay the full cost of a transmission addition or upgrade as set forth in Section 3.2.1.1.2, the full costs shall be borne by the Project Sponsor.

**3.2.7.2** Where the need for a transmission addition or upgrade is determined by the ISO or as a result of the ISO ADR Procedure as set forth in Section 3.2.1.1.3, the cost of the transmission addition or upgrade shall be borne by the Participating TO that will be the owner of the transmission addition or upgrade and shall be reflected in its Transmission Revenue Requirement.

**3.2.7.3** Provided that the ISO has Operational Control of the transmission upgrade or addition, a Project Sponsor that does not recover the investment cost under a FERC-approved rate through the Access Charge or a reimbursement or direct payment from a Participating TO shall be entitled to receive:

- (a) its share, as determined in subsection (d) below, of the Wheeling revenues calculated in accordance with Section 7.1.4.3 that are attributable to the transmission addition or upgrade, which shall be determined by using the capacity increase, if any, of a Scheduling Point, to the extent such increase results from the addition or upgrade, as the rating increase for purposes of subsection (d) below;
- (b) its share, as determined in subsection (d) below, of the proceeds of the FTR auction for FTRs defined on the Inter-Zonal Interface of which the transmission addition or upgrade forms a part as set forth in Section 9.5.3, provided that the Project Sponsor does not receive FTRs from the ISO in accordance with Section 9.4.3 of the ISO Tariff; and
- (c) its share, as determined in subsection (d) below, of the Congestion revenues provided as calculated pursuant to Section 7.3.1.6 on the Inter-Zonal Interface of which the transmission addition or upgrade forms a part.



- (d) The Project Sponsor's share of Wheeling, Congestion and FTR auction revenues for the upgraded transmission facility shall be the number that is determined by dividing the number that is determined by subtracting the rating of the transmission facility before the upgrade or addition from the new rating for the upgraded or additional transmission facility by the new rating for the upgraded or additional transmission facility. The Participating TO's share of Wheeling, Congestion and FTR auction revenues for the upgraded or additional transmission facility shall be the number that is determined by subtracting the Project Sponsor's share from one hundred percent (100%). Such allocated shares shall become effective on the date the new rating takes effect. The full amount of capacity added to the system will be based on the physical addition to the transfer capability as determined through the regional reliability council process of the Western Electricity Coordinating Council or its successor.

**3.2.7.4** Once a New Participating TO has executed the Transmission Control Agreement and it has become effective, the cost for New High Voltage Facilities for all Participating TOs shall be included in the ISO Grid-wide component of the High Voltage Access Charge in accordance with Schedule 3 of Appendix F, unless and with respect to Western Path 15 only, cost recovery is provided in Section 3.2.7.3. The

<b><u>Participating TO</u></b>	A party to the TCA whose application under Section 2.2 of the TCA has been accepted and who has placed its transmission assets and Entitlements under the ISO's Operational Control in accordance with the TCA. A Participating TO may be an Original Participating TO or a New Participating TO.
<b><u>Path 15 Upgrade</u></b>	The upgraded transmission facilities across the Path 15 Inter-Zonal Interface that have been turned over to ISO Operational Control.
<b><u>Payment Date</u></b>	The date by which invoiced amounts are to be paid under the terms of the ISO Tariff.
<b><u>PBR (Performance-Based Ratemaking)</u></b>	Regulated rates based in whole or in part on the achievement of specified performance objectives.
<b><u>Physical Scheduling Plant</u></b>	A group of two or more related Generating Units, each of which is individually capable of producing Energy, but which either by physical necessity or operational design must be operated as if they were a single Generating Unit and any Generating Unit or Units containing related multiple generating components which meet one or more of the following criteria: i) multiple generating components are related by a common flow of fuel which cannot be interrupted without a substantial loss of efficiency of the combined output of all components; ii) the Energy production from one component necessarily causes Energy production from other components; iii) the operational arrangement of related multiple generating components determines the overall physical efficiency of the combined output of all components; iv) the level of coordination required

to schedule individual generating components would cause the  
ISO to incur scheduling costs far in excess of the benefits of  
having scheduled such individual components separately; or

<b><u>Voltage Limits</u></b>	For all substation busses, the normal and post-contingency Voltage Limits (kV). The bandwidth for normal Voltage Limits must fall within the bandwidth of the post-contingency Voltage Limits. Special voltage limitations for abnormal operating conditions such as heavy or light Demand may be specified.
<b><u>Voltage Support</u></b>	Services provided by Generating Units or other equipment such as shunt capacitors, static var compensators, or synchronous condensers that are required to maintain established grid voltage criteria. This service is required under normal or System Emergency conditions.
<b><u>Waiver Denial Period</u></b>	The period determined in accordance with Section 5.11.6.
<b><u>Warning Notice</u></b>	A Notice issued by the ISO when the operating requirements for the ISO Controlled Grid are not met in the Hour-Ahead Market, or the quantity of Regulation, Spinning Reserve, Non-Spinning Reserve, Replacement Reserve and Supplemental Energy available to the ISO does not satisfy the Applicable Reliability Criteria.
<b><u>WEnet (Western Energy Network)</u></b>	An electronic network that facilitates communications and data exchange among the ISO, Market Participants and the public in relation to the status and operation of the ISO Controlled Grid.
<b><u>Western Path 15</u></b>	The Western Area Power Administration, Sierra Nevada Region (or its successor) with respect solely to its rights and interests in the Path 15 Upgrade.
<b><u>Wheeling</u></b>	Wheeling Out or Wheeling Through.
<b><u>Wheeling Access Charge</u></b>	The charge assessed by the ISO that is paid by a Scheduling Coordinator for Wheeling in accordance with Section 7.1.  Wheeling Access Charges shall not apply for Wheeling under a

bundled non-economy Energy coordination agreement of a  
Participating TO executed prior to July 9, 1996. The Wheeling  
Access Charge may consist of a High Voltage Wheeling  
Access Charge and a Low Voltage Wheeling Access Charge.

**ATTACHMENT B**

### **3.1 Nature of Relationship.**

Each Participating TO shall enter into a Transmission Control Agreement with the ISO. In addition to converting Existing Rights in accordance with Section 2.4.4.2, and except as provided in Section 3.1.3, New Participating TOs will be required to turn over Operational Control of all facilities and Entitlements that: (1) satisfy the FERC's functional criteria for determining transmission facilities that should be placed under ISO Operational Control; (2) satisfy the criteria adopted by the ISO Governing Board identifying transmission facilities for which the ISO should assume Operational Control; and (3) are the subject of mutual agreement between the ISO and the Participating TOs. The ISO shall notify Market Participants when an application has been received from a potential Participating TO and shall notify Market Participants that a New Participating TO has executed the Transmission Control Agreement and the date on which the ISO will have Operational Control of the transmission facilities.

**3.1.1** In any year, a Participating TO applicant must declare its intent in writing to the ISO to become a New Participating TO by January 1 or July 1, and provide the ISO with an application within 15 days of such notice of intent. Applicable agreements will be negotiated and filed with the Federal Energy Regulatory Commission as soon as possible for the New Participating TO, such that the Agreements can be effective the following July 1 or January 1.

**3.1.2** With respect to its submission of Schedules to the ISO, a New Participating TO shall become a Scheduling Coordinator or obtain the services of a Scheduling Coordinator that has been certified in accordance with Section 2.2.4, which Scheduling Coordinator shall not be the entity's Responsible Participating TO in accordance with the Responsible Participating Transmission Owner Agreement, unless mutually agreed, and shall operate in accordance with the ISO Tariff and applicable agreements. The New Participating TO shall assume responsibility for paying all Scheduling Coordinators charges regardless of whether the New Participating TO elects to become a Scheduling Coordinator or obtains the services of a Scheduling Coordinator.

3.1.3 Western Path 15 shall be required to turn over to ISO Operational Control only its rights and interests in the Path 15 Upgrade and shall not be required to turn over to ISO Operational Control Central Valley Project transmission facilities, Pacific AC Intertie transmission facilities, California-Oregon Transmission Project facilities, or any other new transmission facilities or Entitlements not related to the Path 15 Upgrade. For purposes of the ISO Tariff, Western Path 15 shall be treated with respect to revenue recovery as a Project Sponsor in accordance with Section 3.2.7.

\* \* \*

**3.2.7 Cost Responsibility for Transmission Additions or Upgrades.**

Cost responsibility for transmission additions or upgrades constructed pursuant to this Section 3.2 (including the responsibility for any costs incurred under Section 3.2.6) shall be determined as follows:

**3.2.7.1** Where a Project Sponsor commits to pay the full cost of a transmission addition or upgrade as set forth in Section 3.2.1.1.2, the full costs shall be borne by the Project Sponsor.

**3.2.7.2** Where the need for a transmission addition or upgrade is determined by the ISO or as a result of the ISO ADR Procedure as set forth in Section 3.2.1.1.3, the cost of the transmission addition or upgrade shall be borne by the Participating TO that will be the owner of the transmission addition or upgrade and shall be reflected in its Transmission Revenue Requirement.

**3.2.7.3** Provided that the ISO has Operational Control of the transmission upgrade or addition, a Project Sponsor that does not recover the investment cost under a FERC-approved rate through the Access Charge or a reimbursement or direct payment from a Participating TO shall be entitled to receive:



- (a) its share, as determined in subsection (d) below, of the Wheeling revenues calculated in accordance with Section 7.1.4.3 that are attributable to the transmission addition or upgrade, which shall be determined by using the capacity increase, if any, of a Scheduling Point, to the extent such increase results from the addition or upgrade, as the rating increase for purposes of subsection (d) below;
- (b) its share, as determined in subsection (d) below, of the proceeds of the FTR auction for FTRs defined on the Inter-Zonal Interface of which the transmission addition or upgrade forms a part as set forth in Section 9.5.3, provided that the Project Sponsor does not receive FTRs from the ISO in accordance with Section 9.4.3 of the ISO Tariff; and
- (c) its share, as determined in subsection (d) below, of the Congestion revenues provided as calculated pursuant to Section 7.3.1.6 on the Inter-Zonal Interface of which the transmission addition or upgrade forms a part.
- (d) The Project Sponsor's share of Wheeling, Congestion and FTR auction revenues for the upgraded transmission facility shall be the number that is determined by dividing the number that is determined by subtracting the rating of the transmission facility before the upgrade or addition from the new rating for the upgraded or additional transmission facility by the new rating for the upgraded or additional transmission facility. The Participating TO's share of Wheeling, Congestion and FTR auction revenues for the upgraded or additional transmission facility shall be the number that is determined by subtracting the Project Sponsor's share from one hundred percent (100%). Such allocated shares shall become effective on the date the new rating takes effect. The full amount of capacity added to the system will be based on the physical addition to the transfer capability as determined through the regional reliability council process of the Western Electricity Coordinating Council or its successor.

**3.2.7.4** Once a New Participating TO has executed the Transmission Control Agreement and it has become effective, the cost for New High Voltage Facilities for all Participating TOs shall be

included in the ISO Grid-wide component of the High Voltage Access Charge in accordance with Schedule 3 of Appendix F, unless and with respect to Western Path 15 only, cost recovery is provided in Section 3.2.7.3. The Participating TO who is supporting the cost of the New High Voltage Facility shall include such costs in its High Voltage Transmission Revenue Requirement, regardless of which TAC Area the facility is geographically located.

\* \* \*

#### **MASTER DEFINITION SUPPLEMENT**

<b><u>Path 15 Upgrade</u></b>	<u>The upgraded transmission facilities across the Path 15 Inter-Zonal Interface that have been turned over to ISO Operational Control.</u>
<b><u>Western Path 15</u></b>	<u>The Western Area Power Administration, Sierra Nevada Region (or its successor) with respect solely to its rights and interests in the Path 15 Upgrade.</u>

**ATTACHMENT C**



the instructions on the Commission's web site under the "e-Filing" link. The Commission strongly encourages electronic filings.

Comment Date: \_\_\_\_\_