

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

**California Independent System) Docket Nos. ER04-445-005
Operator Corporation) ER04-445-006**

**MOTION FOR LEAVE TO FILE ANSWER AND ANSWER OF
THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
TO MOTIONS TO INTERVENE, COMMENTS, LIMITED PROTESTS
AND PROTESTS**

I. INTRODUCTION

On January 5, 2005, the California Independent System Operator Corporation (“ISO”)¹ made its revised compliance filing in the matter of the Large Generator Interconnection Procedures (“LGIP”) and, along with the original Participating Transmission Owners (“PTOs”) comprised of Southern California Edison Company (“SCE”), Pacific Gas and Electric Company, and San Diego Gas & Electric Company, made its revised compliance filing in the matter of the Large Generator Interconnection Agreement (“LGIA”) in compliance with Orders 2003 and 2003-A in the above captioned dockets. A number of parties have moved to intervene in the present proceeding with respect to these LGIA and LGIP compliance filings. Some of the motions to intervene were filed earlier in these proceedings with renewed motions to intervene in the proceedings on these filings. In addition, some of the motions to intervene include limited protests and protests² concerning these compliance filings.³

¹ Capitalized terms not otherwise defined herein shall have the meaning set forth in the Master Definitions Supplement, Appendix A to the ISO Tariff.

² Some of the parties that have submitted pleadings concerning the joint compliance filing request affirmative relief in pleadings styled as protests. The ISO is not prohibited from responding to these pleadings. Florida Power & Light, 67 FERC ¶ 61,315 (1994). Additionally, to the extent that this answer is deemed an answer to protests, the ISO requests waiver of Rule 213 (18 C.F.R. § 385.213) to permit it to make this Answer. Good cause for the waiver exists given the nature and complexity of this proceeding and the usefulness of this Answer in ensuring the development of a complete record. See,

II. BACKGROUND

On January 20, 2004, the ISO tendered a proposed LGIP filing in response to Order No. 2003, and on February 9, 2004, the ISO and PTOs (the “Joint Parties”) submitted a proposed pro forma LGIA. On March 9, 2004, the ISO filed its answer to protests in the matter of its LGIP filing, and then on March 16, 2004, it filed its answer to protests of the LGIA filing.

Meanwhile, on March 5, 2004, the Commission issued Order No. 2003-A, which incorporated revisions to the Commission’s pro forma LGIP and LGIA to address certain of the issues that had been decided by the Commission, that had been initiated by petitions for rehearing of the original order. On April 26, 2004, the ISO filed a revised LGIP and the Joint Parties filed a revised LGIA in compliance with Order 2003-A. On June 1, 2004, the ISO filed a further answer that fully responded to the issues raised by Calpine and other interveners regarding the compliance filings pursuant to Order No. 2003-A.

On July 30, 2004, the Commission rejected the ISO’s LGIP compliance filings and the Joint Parties’ LGIA compliance filings in which the ISO had claimed certain variations from the Commission’s pro forma language under the “independent entity” standard. In the July 30, 2004 order, the Commission directed the ISO to demonstrate

Enron Corp., 78 FERC ¶ 61,179 at 61,173, 61,741 (1997); El Paso Electric Co., 68 FERC ¶ 61,181 at 61,889 & n. 57 (1994).

³ Motions to intervene, comments, limited protests and protests were filed by the following entities in the matter of the LGIP: The California Electricity Oversight Board (“EOB”); The Cities of Anaheim, Azusa, Banning, Colton, and Riverside (“Southern Cities”); Calpine Corporation (“Calpine”); Constellation Generation Group, LLC (“CGG”); The Metropolitan Water District of Southern California (“MWD”); and the Transmission Agency of Northern California (“TANC”). Entities filing similar pleadings with respect to the LGIA compliance filing included: The Cogeneration Association of California and the Energy Producers and Users Coalition (“CAC/EPUC”); EOB; Southern Cities; Calpine; CGG; MWD; and TANC. In addition, an “Out-of-Time Motion to Renew Limited Protest” with respect to the LGIP was filed by SCE on February 3, 2005.

that any changes from the Order 2003-A pro forma provisions of the LGIA and LGIP are “consistent with or superior to” the Order 2003-A provisions.⁴ Still later in this series of orders, on December 20, 2004, the Commission issued Order 2003-B in which it ordered certain additional revisions to the pro forma interconnection documents based on filed requests for rehearing. The ISO’s answer⁵ to protests and other responsive pleadings herein, pursuant to Rule 213 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. § 385.213, relates only to the compliance filings required by Orders Nos. 2003 and 2003-A.

III. ANSWER

ANSWER TO PROTESTS GENERALLY

A. The Commission Has Never Acted Substantively On an ISO or Joint Parties Compliance Filing in this Matter

Several of the protesters indicated their belief that the compliance filings made on January 5, 2005 are substantively identical to those made earlier and begin their comments with the notion that the Commission’s July 30, 2004, order in this proceeding rejected the ISO’s LGIP compliance filing and the Joint Parties’ LGIA compliance filing on a substantive basis, and therefore the ISO and Joint Parties are precluded from taking any of the positions that they held in their original filings. Calpine at 3 and TANC at 3. This is simply wrong. The Commission has never acted substantively on any

⁴ Standardization of Generator Interconnection Agreements and Procedures, 104 FERC ¶ 61,103 (2003), order on rehearing, 106 FERC ¶ 61,220 (2004) (“Order No. 2003-A”).

⁵ The ISO adopts and incorporates herein by reference the previous answers to protests, limited protests and interventions filed earlier by the ISO in this proceeding to the extent that the same or similar issues have been raised in later protests. These answers are referenced by date in the Background section of this pleading. In addition, the ISO wishes in particular to call to the attention of the Commission the Matrix of Changes the ISO filed with its January 5, 2005 compliance filing in this proceeding. This matrix highlights the ISO’s support for its recommendations and further responds to the concerns raised by Calpine in earlier protests that Calpine has incorporated in its protest to the ISO’s January 5, 2005 compliance filing by reference.

LGIA/LGIP compliance filing offered by the ISO or the Joint Parties. In the July 30, 2004 order the Commission merely held that the ISO and Joint Parties could not justify any of their changes from the Commission's pro formas on the basis of the "independent entity" standard and rejected the filings on that basis. The Commission at no time parsed through the detailed Matrices of Changes containing the description of each change and the rationale for each change from the Commission's pro forma LGIA and LGIP proposed by the Joint Parties and the ISO, respectively, to opine on why the change was or was not acceptable. This was the case even though many of the proposed variations from the pro formas in the initial filings were based on the "consistent with or superior to" standard rather than the "independent entity" variation. Therefore, with no substantive determination on record by the Commission as to any of the proposed changes there is no reason to not ask the Commission to opine on the original proposal with modifications as required.

ANSWER TO PROTESTS OF THE LGIP COMPLIANCE FILING

B. The Economic Test for Network Upgrades

1. The Economic Test Proposed by the ISO for Reimbursement of the Cost of Transmission Network Upgrades Is Necessary For Equitable Treatment For Both Developers and Customers

A number of protesters oppose the use of the ISO's proposed economic test for the recovery of the cost of Network Upgrades, including Southern Cities at 4, TANC at 5 and CGG at 4. As discussed in the transmittal letter for the LGIP, until such time as it can implement locational marginal pricing ("LMP") the ISO supports the use of the "economic test" because it provides a reasonable safeguard against excessive expenditures on Network Upgrades by Interconnection Customers. Any non-economic

amounts spent on Network Upgrades would end up being paid for by the ratepayers throughout the state of California if the economic test is not utilized. Transmittal letter at 28. The ISO has often stated its belief that locational price signals should drive investment decisions and that the interconnection policies and procedures of the state should not be allowed to mute the locational prices. See, for example, Comments of the California Independent System Operator Corporation on the Commission's Advance Notice of Proposed Rulemaking on Standardized Generator Interconnection Procedures and Agreements, FERC Docket No. RM02-1 (Feb. 1, 2002).

Given that California does not currently have any locational or market driven price incentives to which developers would need to be sensitive in making siting decisions, the ISO believes that it is absolutely essential that it maintain some ability to review the cost justifications for the proposed expenditures for large Network Upgrades. It should be understood that the specific methodology for the economic test that the ISO proposes to apply has been developed and refined over the last two years with extensive stakeholder input, and has already been used in the ISO's assessment of one major transmission expansion. The California Public Utilities Commission ("CPUC") is considering this economic methodology as the standard for its own evaluation of transmission projects.

It is also important to emphasize this economic test would only apply to large projects costing more than \$20 million or \$200,000 per MW. It would take into account the societal benefits of specific projects using multiple scenarios from a variety of perspectives, including the impacts on California ratepayers, producers and transmission owners. For instance, if the construction of a new Generating Facility will

result in eliminating the need for a planned reliability project, then the associated cost savings of deferring that project would be considered in the development of the cost-benefit test. If the overall benefits determined, as defined in the test, outweigh the cost of the Network Upgrades the Interconnection Customer would normally expect full reimbursement for the cost of the Network Upgrades.

It is also important to recognize that without this balanced assessment of the costs for large transmission projects, California ratepayers run the risk of having to pay unreasonable and excessive costs. Thus, at least some review of costs and benefits via the economic test of large-scale expansion projects is not only reasonable, but also represents sound public policy.

The ISO continues to believe that transmission expansion projects should be subject to the economic test only until locational-based marginal prices can be instituted in ISO Markets. This will allow developers to assess the value of the financial congestion rights that they may receive for the Network Upgrades. Absent a clear LMP signal, however, the economic benefit test should be an important part of the ISO's LGIP.

C. The ISO's Policy of Cash Reimbursement or FTR Crediting Strikes the Proper Balance for Network Upgrade Payments

TANC and SCE object to the ISO's proposed policy of providing anything other than cash reimbursement for the initial payment for Network Upgrades. TANC at 6. SCE at 2-8. The ISO continues to be of the position that Interconnection Customers should have the option of choosing between cash refunds and receiving payments in the form of Firm Transmission Rights ("FTRs"). As noted in the ISO's transmittal letter for the LGIP, the ISO's LGIP allows the Interconnection Customer to recover its

investment in economically viable projects over a five-year period. The pro forma would allow for final recovery over a twenty- year period. Transmittal letter at IV.G. The Interconnection Customer may elect to receive cash refunds or applicable transmission rights, be they financial or firm as compensation for initially funding Network Upgrades. It is the ISO's belief that financial congestion rights will eventually be the only method for funding Network Upgrades. However, cash refunds must remain the only option for the Interconnection Customer in the immediate future since FTRs do not currently offer substantial value in the ISO's zonal system.

The ISO disagrees with SCE's argument against letting the Interconnection Customer choose FTRs as reimbursement. The ISO believes FTRs should remain an option for the Interconnection Customer. When locational pricing is fully implemented, financial congestion rights like FTRs should provide measurable economic incentives for the Interconnection Customer to be sensitive to the costs of Network Upgrades. For some projects, it is possible that these economic incentives already exist. In these instances, the Interconnection Customer could seek to build facilities that impose less cost while promising greater benefits from the associated congested rights. This sensitivity toward market-driven economic incentives should promote transmission expansion where it is needed most and for which no other Market Participant has stepped forward to build these facilities.

Even if, under the current ISO Market model, no Interconnection Customer were to select the FTR option in lieu of cash refunds for its investment in Network Upgrades, the existence of the FTR option helps to prepare Market Participants for the anticipated

transition to the LMP world in which FTRs will become the only means of reimbursement to the Interconnection Customer.

Also, under the ISO's proposed economic test, the costs of Network Upgrades that exceed \$20 million or \$200,000 per MW would not be refunded unless they were determined to be "economic." This provision, for the most part, mitigates the concern raised by SCE regarding possible impacts to transmission ratepayers if the Interconnection Customer can choose its reimbursement option.

The ISO reiterates its expectation that this pricing policy will mature so that, under a LMP model, the nodal prices will provide the best available locational signal for new interconnections, and that financial congestion rights will provide the appropriate value for the reimbursement of Network Upgrades. Similar to the way that the Deliverability Assessment anticipates a time when the state's resource adequacy policy imposes a deliverability requirement, so also does the option for refunds or FTRs anticipate the ISO's new market design under development and likely to be implemented in the near future. For this reason, Interconnection Customers should benefit by having a choice of refunds or FTRs as reimbursement in the current version of the ISO's LGIP.

D. The ISO Has Not Unreasonably Increased the Amount of Time Required to Complete the Required Interconnection Studies in its Current Filing

One commenter contends that the ISO in its compliance filing would nearly double the amount of time required to complete the required interconnection studies from 7.5 months in the FERC pro forma to 16 months in the ISO modified version. TANC at 5.

The ISO offers the following table for clarification on the study timelines proposed in the LGIP:

	FERC	ISO	For ISO review and comment Added	Re-Study Total		Added
				FERC	ISO	
IR Process (initial submission acknowledgement)	5	6	1			
Interconnection Feasibility Study	45	60	15	45	60	15
Interconnection System Impact Study	90	120	30	60	80	20
Facilities (2 durations - 20% accuracy & 10% accuracy)	90 / 180	120 / 210	30	60	80	20
Total approx time (Calendar Days)	230 / 320	306 / 396	76	165	220	55
Total approx time (Months)	7.6 / 10.6	10.2 / 13.2	2.5	5.5	7.3	1.8

The rows in this table identify the set of timelines within the LGIP, which includes the timeline for acknowledgement of the Interconnection Request as well as the Interconnection Feasibility Study, the Interconnection System Impact Study, and the Interconnection Facilities Study. The bottom rows total the set of timelines (by Calendar Days and months).

The second column identifies the Calendar Days allowed under the Commission’s pro forma LGIP. The base timeline under the pro-forma LGIP would range from 230 days (approximately 7.6 months) to 320 days (approximately 10.6 months). The variance between 230 and 320 days is based on whether the Interconnection Customer chooses an Interconnection Facilities Study with a 20% or 10% level of accuracy.

The third column identifies the Calendar Days allowed under the ISO’s LGIP. The fourth column lists the number of days added by the ISO in order to review, approve and provide oversight over each study.

The fifth and sixth columns show the Calendar Days allowed for re-studies and the number of days added for the ISO's review and approval.

None of these timelines take into account the approximately 30 days in which the Interconnection Customer can execute and return a tendered agreement for each study, after the PTO's time allotment for tendering the study agreement to the Interconnection Customer.

The ISO submits that the total number of days added to the ISO's LGIP, compared to the Commission's pro-forma LGIP, is reasonable. The ISO timeline would range from 10.6 to 13.2 months, compared to a range of 7.6 to 10.6 months in the Commission's pro-forma LGIP.

This increase of approximately 19% to 25% in the overall duration of the "study phases" (for 10% accuracy or 20% accuracy respectively) is appropriate because it allows independent oversight and review of each technical study performed by the PTO, a valuable benefit especially for the Interconnection Customer. It would not be appropriate, and could impinge upon the adequacy of the technical studies, if these timelines were not moderately expanded from the Commission's pro-forma LGIP so as to allow the PTO sufficient time to perform the studies and the ISO sufficient time to review and approve each study.

The ISO believes that a more careful examination of the extended timelines within its LGIP and a balanced comparison with the Commission's pro forma LGIP demonstrates the appropriateness of the extra days built into the ISO's proposed LGIP. The independent review, commentary, and approval of complex and highly technical studies which are critical to the success of the interconnection projects by the ISO

provides great value to the Interconnection Customer, and fully justifies the modest timeline increases set forth in the LGIP.

E. It Is Reasonable That Factors Other Than Queue Position Should Determine Cost Responsibility for Network Upgrades

CGG in its comments suggests that the only factor that should determine cost responsibility for the payment of Network Upgrades is queue position. CGG at 18. The ISO believes otherwise.

The ISO contends that while the queue position is the key attribute in the determination of cost responsibility, there are other factors that may affect the determination process. The reported Commercial Operation Date (“COD”) or “on-line” date as provided in the applications, and as delays are tracked over the life of the project, may potentially affect determination of cost responsibility. Where a higher queued project’s COD is further out in time, either through initial scheduling or project delays, and a lower queued project’s COD approaches first, the lower queued developer may initiate or absorb a level of cost responsibility to advance network upgrades to a state of interconnection to the grid. Also, there is the potential for a developer’s project to be associated with, or affected by, a regional transmission planning process whereby a developer’s network upgrades are an element of, or directly influence, the transmission planning process. The ISO believes Section 4.1 of its filed LGIP appropriately allows for these unusual circumstances to affect the determination of cost responsibility. The language in Section 4.1 also reiterates the Commission conclusions in Order 2003 (¶144) that other factors (such as other interconnection requests) may be used to determine cost responsibilities.

F. The Informational Assessment to Be Conducted as Part of the Interconnection Study Process Is Specified Appropriately

In its LGIP filing, the ISO proposes to continue the practice whereby Interconnection Studies are conducted primarily by the Participating Transmission Owners (“PTOs”), under the ISO’s direction and oversight. SCE asserts that the informational assessment of neighboring systems is an unreasonable burden on the PTOs, and that each PTO should perform the Interconnection Feasibility Studies and the Interconnection System Impact Studies necessary to determine the impact upon their own systems. SCE at 8-12.

A significant responsibility borne by the ISO is to ensure the performance of Interconnection Studies that analyze the system-wide impact of the interconnection and are not limited just to one PTO’s portion of the ISO Controlled Grid. The LGIP manages this broader analysis by enhancing the service provided to those Interconnection Customers whose projects are located near the boundaries between different PTOs’ portions of the ISO Controlled Grid.

The informational assessment to be conducted pursuant to LGIP Section 6.2 and LGIP Section 7.3 is a task that could easily be performed by the interconnecting PTO as part of the scope of the Interconnection Feasibility Study or the Interconnection System Impact Study. Such an assessment is an appropriate check on the potential grid impact to a neighboring PTO in cases where adverse impacts to the neighboring PTO are unlikely to occur, and would not substitute for a necessary Interconnection Feasibility Study or Interconnection System Impact Study in cases where adverse impacts are expected on the neighboring system.

The ISO disagrees with SCE's contention that this coordinated assessment is an unreasonable burden on PTOs. The assessment would be performed only "to the extent necessary and reasonably practicable" in order to avoid unnecessary cost and time for the Interconnection Customer to sponsor two separate studies. LGIP Section 6.2. The ISO believes this "one-stop shop" benefit to the Interconnection Customer outweighs by far the minimal costs of PTO coordination that this informational assessment would require. Moreover, as part of its supervisory role over the interconnection process, as spelled out in Sections 6 and 7 of the LGIP, the ISO will determine the need for an informational assessment for specific projects, or direct the performance of separate studies by separate PTOs for other projects, thus ensuring the appropriate analysis of the entire ISO Controlled Grid.

For instance, if the ISO were reasonably certain that a particular Interconnection Study would reveal adverse impacts on both PTO systems, the ISO would then direct both PTOs to each perform separate but closely coordinated Interconnection Studies. If impacts on a neighboring PTO are unlikely but the ISO wanted to have additional assurance of this, then the ISO might direct only one PTO to perform a study and request the neighboring PTO to provide input to that study. This second situation would result in a PTO studying the neighboring PTO's system for informational purposes to allow the ISO to confirm its decision not to direct the neighboring PTO to conduct a separate Interconnection Study. In most instances, the ISO's ability to direct the interconnecting PTO to perform the informational assessment should reduce the contractual burden on the second PTO and on the Interconnection Customer.

The performance of an Interconnection Study of a proposed new Generating Facility to be located near the seam between two PTOs' portions of the ISO Controlled Grid requires an analysis of a study area that could span across both PTOs' portions of the ISO Controlled Grid. Thus, the LGIP creates a balance between the efficiency of an Interconnection Customer getting the necessary studies conducted in a timely manner with the current business practices in the region. Yet, at the same time the LGIP ensures the proper technical analysis, with the ISO's appropriate oversight, for interconnections on any part of the ISO Controlled Grid.

ANSWER TO PROTESTS OF THE LGIA COMPLIANCE FILING

G. There Is No Reason For the Interconnection Customer to File A Separate Tariff for Reactive Power Sales

CGG contends that the Joint Parties' proposal to modify Article 11.6 of the LGIA to eliminate the right of the Interconnection Customer to file a tariff under section 205 of the Federal Power Act to propose reactive power compensation different than that allowed for under the ISO Tariff is problematic. CGG at 16. The ISO believes that it is not. Indeed, because the Commission has already approved the ISO Tariff, there should be no need for another administrative proceeding to determine compensation for the provision of reactive power by the Interconnection Customer. The Commission has deemed the ISO Tariff under which such compensation is provided to be "just and reasonable". If the ISO Tariff did not contain such provisions, it might be reasonable for the Interconnection Customer to file a separate tariff for the provision of this service. However, such is not the case with reactive power. The ISO Tariff covers provision of this service.

Moreover, the ISO Tariff provisions will continue to apply to all existing Generating Units that are not new “Large Generating Facilities” subject to the terms of the LGIA. It would be nonsensical for different rules to apply to the provision of reactive power by new Generating Units as opposed to previously existing Generating Units. Not only would it create a substantial administrative burden for the ISO to track and compensate these Generating Units differently based on the date of their construction and interconnection, but it would create an unreasonable distinction among these Generating Units with regard to provision of an identical service.

H. The Transmission Provider Should Not Be Responsible for Costs Related to the Termination of the LGIA

One commenter, CGG, contends that the Transmission Provider should be liable for termination costs if it is in any way responsible for the termination of the LGIA. CGG at 17. The ISO opposes the recommendation offered by CGG. At the threshold, it must be understood that the term “Transmission Provider” in these sections refers to the ISO and the PTOs together or separately, if so stated. See Change Matrix to Article 2.3.1. It is quite clear from a review of Articles 2.3.1-2.3.4 of the LGIA that it is contemplated that the only methods by which the LGIA would or could be terminated involve actions primarily under the control of the Interconnection Customer and not the “Transmission Provider” or ISO and PTOs. For example, under Article 2.3.1, Written Notice, the LGIA may be terminated by the Interconnection Customer upon 90 calendar days advance written notice, but the ISO and PTOs can terminate only after the Generating Facility ceases commercial operation. In the second instance applicable to the ISO and PTOs, there would be no cost. It is only the Interconnection Customer that should be responsible for costs associated with its own request to suspend work under Article

2.3.3 of the LGIA which makes reference to Article 5.16 which amplifies the fact that it is the Interconnection Customer that is allowed to call for a suspension of work that triggers the incurrence of cost. Thus, the simple answer to CGG's claim that the ISO and PTOs should be responsible for termination costs under the LGIA if they are responsible for such termination is that the respective articles of the LGIA do not contemplate that the ISO and PTOs have the ability to terminate in any situation in which they would cause costs to be incurred. The deletion of the term "Transmission Provider" clarifies the fact that neither the ISO nor the PTOs are liable for such costs.

I. The Changes Proposed to the Pro Forma LGIA Do Not Materially "Alter the Balance" of Rights and Obligations from Order No. 2003

One commenter, Southern Cities, claims that the modifications that the ISO and PTOs have proposed to the pro forma LGIA have "altered the balance" of rights and obligations between the parties as envisioned by the Commission in its approval of Order No. 2003 and its progeny. Southern Cities at 5-6. The ISO sees no significant change in the relationship caused by the proposed changes. The ISO and PTOs have only proposed changes that they consider to be "consistent with or superior to" the proposals that the Commission made in its pro forma version of the LGIA. All of these changes are offered to make the "one size fits all" pro forma fit the circumstances of the ISO's operations pursuant to the ISO Tariff and the associated relationship between the ISO and the PTOs to a much better extent than in the Commission's pro forma LGIA. In adapting the LGIA, however, the ISO has worked with the PTOs to continue to maintain the balance crafted by the Commission between the rights and obligations of Interconnection Customers and of the PTOs and the ISO. The justification for each of the changes to the LGIA cited by Southern Cities has been explained on an individual

basis by the ISO and the PTOs in the Matrix of Changes accompanying the filing. Neither those changes nor any other changes to the LGIA alter the balance of rights and obligations in the LGIA.

J. A Copy of the Reliability Management System Agreement that Must Be Signed Is Already Readily Available and the ISO Does Not Need to Make It Available at the Time of the Final Compliance Filing in this Proceeding

One commenter, TANC, asks that the ISO make available at the time of the final compliance filing in this proceeding a copy of the Reliability Management System (“RMS”) Agreement that must be signed under the terms of Article 9.1 of the LGIA. The ISO points out that the RMS Agreement is already publicly available to TANC and the Commission by its posting on the WECC internet web site, and it may be found at the following internet address:

http://www.wecc.biz/documents/library/RMS/RMS_Agreement_Amended_09-21-01.pdf.

The ISO notes that the WECC requires all generators within the Western Interconnection (including the ISO Control Area) to sign an RMS Agreement, and that the additional notice of this WECC requirement within the LGIA is meant merely as a reminder to all parties of this important reliability obligation. Execution of the RMS Agreement should not unnecessarily hinder the Interconnection Customer, and, in fact, inclusion of this requirement in the joint ISO/PTO LGIA should facilitate the interconnection process by informing Interconnection Customers of an obligation that they will need to meet regardless of whether it is referenced in the LGIA.

K. It Is Appropriate to Have All Generators Subject to the Provisions of the LGIP and LGIA Until Other Provisions Are Approved

Two commenters, MWD and TANC, believe that it is not appropriate for the ISO and PTOs to extend the provisions of the LGIA and LGIP to generators of less than 20 MW. MWD at 7 and TANC at 4. The ISO disagrees. The ISO and the PTOs believe that it is absolutely essential that all interconnections begin to be governed under three-party interconnection agreements as set forth in the Commission's pro forma LGIA. The benefits of the involvement of the ISO in the interconnection process as a neutral third-party represent the primary reason that the Commission has promulgated these new procedures and agreements. If the parties were to return to the two-party agreement as suggested by MWD for the connection of new generators under 20 MW, this would be a major move back toward the environment of potential preference that existed in the past. MWD at 7. MWD seems to want to "mix and match" the old world of the two-party agreement with the proposed provisions of the LGIP for generators of less than 20 MW. Moreover, this approach is more reasonable than leaving Generating Facilities 20 MW or less governed, for the current time, by outdated provisions of the ISO Tariff that have been superceded by the implementation of the LGIP. The ISO and PTOs believe that until a separate set of procedures is finally approved by the Commission for the connection of generators under 20 MW, the agreement and procedures for Large Generating Facilities should apply. In addition, the ISO believes that in order to manage the interconnection queuing process effectively, uniformly and consistently it is absolutely necessary for all new generation regardless of size to follow the same set of procedures. This approach is consistent with or superior to the FERC pro forma

because all interconnection customers would be treated uniformly until the Commission issues its final rule for Small Generators. Transmittal letter at 20.

L. The Procedures Offered by the ISO and PTOs for Existing Qualifying Facilities Are Reasonable and Should Be Approved

CAC/EPUC protests the requirements that have been proposed for existing cogeneration installations as a modification to the pro forma LGIA and ISO Tariff. Notably, the ISO and PTOs would have the existing cogeneration installation submit an affidavit under section 5.7.1.2 of the ISO Tariff to the effect that their energy capability or characteristics will not substantially change and would allow the PTO the right to verify whether any such changes have occurred. CAC at 5-6. The ISO believes that such requirements are necessary to maintain system integrity. The ISO and the PTOs are extremely concerned that an existing cogeneration facility may maintain the total output to the system, but may change the character or the pattern of its use on the system in such a manner that the reliability of the system is compromised. While the ISO wishes to minimize the administrative burden to the existing cogenerator, it must carry out its responsibility to make certain that the transmission system is not compromised by a change in the character of the output that reaches the ISO Controlled Grid. The affidavit requirement is a simple way to ask the cogeneration operator to be sure to report any change in the character of the generation that it plans to bring to the grid. The right to verify the contents of the affidavit is the right to enter and inspect the facility to verify that no change has occurred or will occur that will negatively impact reliability on the ISO Controlled Grid. This requirement is absolutely essential for grid security.

CAC/EPUC also asserts that the LGIA filed by the Joint Parties does not recognize the operating characteristics of Qualifying Facilities (“QFs”). However, there is nothing in the Commission’s pro forma LGIA that addresses special operating characteristics of QFs, and the version of the LGIA filed by the Joint Parties adds no significant additional burdens on QFs beyond those set forth in the Commission’s pro forma LGIA. CAC/EPUC cannot use its protest of the Joint Parties’ LGIA compliance filing as a vehicle for a collateral attack on the provisions of the Commission’s pro forma LGIA. Moreover, the Commission has just ordered the ISO to implement a new pro forma Participating Generator Agreement for QFs that provides for recognition of special QF operating characteristics with regard to the application of the provisions of the ISO Tariff – which addresses the essence of CAC/EPUC’s protest. Consequently, there is no basis for addition of any modifications to the LGIA filed by the Joint Parties to address QFs in particular.

Respectfully submitted,

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Dated: February 10, 2005



February 10, 2005

BY ELECTRONIC TRANSMISSION

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 Nos. ER04-445-005 and ER04-445-006**

Dear Secretary Salas:

Enclosed for electronic filing please find a Motion for Leave to File Answer & Answer of the California Independent System Operator Corporation to Motions to Intervene, Comments, Limited Protests, and Protests in the above-referenced docket.

Thank you for your assistance in this matter.

Very truly yours,

/s/ Gene L. Waas
Gene L. Waas

Counsel for the California Independent
System Operator Corporation

Enclosures

cc: All parties of record

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in the above proceeding.

Dated at Folsom, CA, this 10th day of February, 2005.

/s/ Gene L. Waas
Gene L. Waas