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February 27, 2006

The Honorable Magalie Roman Salas  
Secretary  
Federal Energy Regulatory Commission  
888 First Street, NE  
Washington, DC 20426

**Re: California Independent System Operator Corporation  
Docket No. ER03-407-\_\_\_**

Dear Secretary Salas:

The California Independent System Operator Corporation ("CAISO") hereby submits the instant informational filing in response to the Federal Energy Regulatory Commission's ("Commission") March 8, 2005 Order ("March 8 Order") in the captioned proceeding, *California Independent System Operator Corporation*, 110 FERC ¶ 61,271. Specifically, the CAISO hereby informs the Commission that: (1) the Western Electricity Coordinating Council ("WECC") has declined to determine (pursuant to Section 3.2.7.3(d) of the CAISO Tariff) the relative allocation of increased capacity on Path 59 attributable to an upgrade undertaken by FPL Energy, LLC ("FPL Energy"), and (2) as the result of the WECC's decision not to act on the request for determination, the CAISO has worked with FPL Energy and Southern California Edison Company ("SoCal Edison") to establish a basis for allocating Wheeling revenues, Congestion charges, and Firm Transmission Right ("FTR") auction revenues associated with the upgrade to the SoCal Edison Blythe-Eagle Mountain transmission line ("Path 59") that is both equitable and acceptable to FPL Energy and SoCal Edison – the only parties directly impacted by the specific allocation proposal at issue here. The CAISO believes that the allocation methodology worked out among the CAISO, FPL Energy, and SoCal Edison is both fair and equitable. Thus, in light of the WECC's actions, the CAISO seeks the Commission's guidance in accordance with prior Commission directives. In addition, the CAISO requests

that the Commission approve implementation of the proposed allocation methodology regarding Path 59.

## I. BACKGROUND

On January 13, 2003, the CAISO filed Amendment No. 48 to its Tariff ("Amendment No. 48") to provide Congestion revenues, Wheeling revenues, and revenues from the auction of FTRs to entities other than Participating Transmission Owners ("Participating TOs"), if such entities (*i.e.*, Project Sponsors) fund transmission facility upgrades on the CAISO Controlled Grid. The CAISO noted that FPL Energy needed to be compensated for an upgrade to Path 59, but that the existing Tariff did not expressly provide a means for compensating entities other than Participating TOs who upgrade transmission facilities. In Amendment No. 48, the CAISO proposed that the Participating TO whose facilities were upgraded and the Project Sponsor responsible for upgrading such facilities reach agreement on the shares of Wheeling, Congestion revenues and FTR auction revenues to be provided to the Project Sponsor rather than automatically providing shares equal to the amount of the new capacity. Alternatively, the Participating TO and the Project Sponsor could submit the issue to arbitration. The CAISO stated that it would escrow any revenues associated with the upgraded transmission line until the appropriate allocation of those revenues was determined.<sup>1</sup>

In its March 12, 2003 Order on Amendment No. 48,<sup>2</sup> as modified by its July 23, 2003 Order on the CAISO's first compliance filing in the proceeding,<sup>3</sup> the Commission rejected the CAISO's proposal for the Participating TO and the Project Sponsor to negotiate the appropriate allocation of revenues associated with upgraded facilities or submit to arbitration. Instead, the Commission determined that a Project Sponsor should receive FTR auction revenues, Wheeling revenues, and Congestion revenues associated with the full amount of capacity added to the system, with that amount of capacity to be determined through the regional reliability council process. The Commission directed the CAISO to amend Section 3.2.7.3(d) of the Tariff to refer to the WECC or its successor.

On August 25, 2003, the CAISO submitted a compliance filing in which it proposed to amend the Tariff to provide that the determination of the full amount

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<sup>1</sup> The CAISO has placed Path 59 auction revenues into escrow pending a final determination regarding the appropriate allocation of such revenues.

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

<sup>3</sup> *California Independent System Operator Corporation*, 104 FERC ¶ 61,128 (2003).

of capacity added to the system would be “based on the physical addition to the transfer capability” as determined through the regional reliability council process of the WECC. On October 29, 2004, the Commission issued an order directing the CAISO to remove the phrase “based on the physical addition to the transfer capability.”<sup>4</sup>

On November, 29, 2004, SoCal Edison filed a motion for clarification and a conditional request for rehearing in which it requested that the Commission clarify who would determine path ratings as required by Section 3.2.7.3(d) in the event the WECC declined to do so. The March 8 Order addressed SoCal Edison’s motion for clarification. The Commission stated:

With respect to SoCal Edison’s first requested clarification, SoCal Edison is correct that we intended that the WECC, not the [CA]ISO, determine the amount of the increase in capacity attributable to an upgrade under section 3.2.7.3 of the [CAISO] tariff. The [CA]ISO and/or other interested parties will have to ask the WECC to determine the increased capacity attributable to the upgrade to Path 59 that FPL Energy funded.

....

SoCal Edison’s second requested clarification asks what should be done, and by whom, if the WECC does not rate the path. SoCal Edison’s question appears to be premature. . . . If the [CA]ISO requests the WECC to determine the increase in capacity on Path 59 attributable to an upgrade made under section 3.2.7.3 of the tariff, and the WECC declines to make such a determination, then the [CA]ISO must so inform the Commission and seek further guidance from the Commission at that time.

March 8 Order, 110 FERC ¶ 61,271, at PP 11-12.

## II. DISCUSSION

Following issuance of the March 8 Order, and in accordance with the directions provided by the Commission in the March 8 Order, the CAISO submitted a letter to the WECC requesting that the WECC determine the amount of increased capacity associated with FPL Energy’s upgrade of Path 59. By letter dated August 26, 2005, the WECC responded stating that the WECC does not allocate path ratings among transmission path participants, and the issue raised by the CAISO is a commercial issue that the owners of the transmission

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<sup>4</sup> *California Independent System Operator Corporation*, 109 FERC ¶ 61,098 (2004).

path should address themselves. The WECC's letter is included as Attachment A to the present filing.

In accordance with the March 8 Order, the CAISO is informing the Commission that the WECC has declined to determine the portion of the increase in capacity rating on Path 59 that is attributable to FPL Energy's upgrade pursuant to Section 3.2.7.3(d) of the CAISO Tariff. The CAISO requests that the Commission provide further guidance regarding any amendments that need to be made to the CAISO Tariff to address the fact that WECC has declined to serve in the role specified for it in Section 3.2.7.3(d) of the CAISO Tariff.

The CAISO also is informing the Commission that, following receipt of the WECC letter, the CAISO worked with SoCal Edison and FPL Energy to reach a resolution of how revenues associated with the Path 59 upgrade should be allocated. As a result of these efforts, the CAISO, FPL Energy, and SoCal Edison believe that the following allocation of revenues would constitute an acceptable and fair resolution of the matter:

- A. Until the CAISO begins to fund the Congestion Revenue Rights ("CRR") balancing account with day-ahead congestion revenue, after the CAISO's Market Redesign and Technology Upgrade ("MRTU") is implemented:
  1. For the purpose of allocating historic, as well as future, congestion, wheeling and auction revenues or costs, between FPL Energy or its affiliates and SoCal Edison over path 59:
    - i. The allocation in the import (east to west) direction of such revenues or costs will be as follows:
      - i. The SoCal Edison share shall be 42.9 percent (72/168)
      - ii. The FPL Energy share shall be 57.1 percent (96/168)
    - ii. The allocation in the export direction (west to east) will be identical to the allocation in the import direction.
- B. After the CAISO begins to fund the MRTU CRR balancing account with day-ahead congestion revenue, the allocation of congestion revenues and CRR rights will be determined by the Commission-approved mechanisms embedded in the CAISO Tariff.

The CAISO, together with FPL Energy and SoCal Edison, urge the Commission to allow the parties to implement this arrangement as a one-time solution for a unique matter. Although the Commission rejected an approach that allowed for negotiated solutions in its March 12, 2003 Order, the Commission's primary reason for such a decision does not apply in this instance. In that

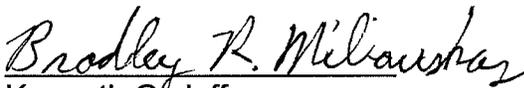
regard, in the March 12, 2003 Order, the Commission concluded that negotiated solutions do “not provide the certainty required to encourage investment in transmission upgrades.” March 12, 2003 Order at P 21. However, the FPL Energy upgrade to Path 59 has now been operational for more than two years. Thus, acceptance of an agreement between the affected parties in this limited case will in no way affect FPL Energy’s or any other company’s future investment incentives. The CAISO notes that there are no other similar projects pending at this time.

Therefore, in accordance with the March 8 Order, the CAISO also seeks the Commission’s guidance and requests that the Commission permit the CAISO to implement the allocation methodology worked out by the affected parties and the CAISO as a one-time resolution for this particular matter. The aforementioned methodology is fair and equitable and is supported by both of the directly affected parties, as well as the CAISO. As such, the resolution avoids unnecessary litigation and a protracted dispute among the parties regarding the allocation of revenues, and promotes judicial economy and the negotiated resolution of disputes – two broad policies supported by the Commission.

Please contact the undersigned with any questions concerning this filing.

Respectfully submitted,

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System Operator Corporation

**ATTACHMENT A**



## *Western Electricity Coordinating*

**ROBERT L. DINTELMAN**  
CHIEF OPERATING OFFICER

WESTERN ELECTRICITY COORDINATING COUNCIL  
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August 26, 2005

Mr. Armando J. Perez  
Vice President Planning & Infrastructure  
California Independent System Operator  
151 Blue Ravine Road  
Folsom, California 95630

Dear Mr. Perez:

Thank you for your letter of March 14, 2005, attached, in which you inquired about WECC's determination of increased capacity associated with the following upgrades:

- A new 280 MVA transformer at the Eagle Mountain Substation for the Blythe – Eagle Mountain transmission line.
- An upgrade of the Blythe (Southern California Edison) – Eagle Mountain 161 kV transmission line to increase its rating from 128 MVA to 168.7 MVA.

WECC administers a path rating process within the Western Interconnection to promote the establishment of transmission ratings that meet interconnected electric system reliability requirements. The process is described in the document entitled, "Overview of Policies and Procedures for Regional Planning Project Review, Project Rating Review, and Progress Reports." WECC also maintains a Path Rating Catalog in which key transmission paths are identified along with their ratings.

WECC does not allocate path ratings among transmission path participants. Allocation of transfer capability rights on a path is a commercial issue which the owners of the path

need to address when a path rating is established or when the rating changes. Establishing the path rating to preserve reliability is a WECC function and is independent from the allocation of the rating among path participants.

Should you have additional questions or need additional information please let me know.

Sincerely,

Robert L. Dintelman

Robert L. Dintelman

cc: Jim Filippi, PG&E  
Dana Cabbell, SCE  
Mark Smith, FPLE  
Louise McCarren, WECC  
w/attachment

**CERTIFICATE OF SERVICE**

I hereby certify that I have served the foregoing document upon all parties on the official service list compiled by the Secretary in the above-captioned proceedings, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, California this 27<sup>th</sup> day of February, 2006.

*Anthony Ivancovich*<sup>BRM</sup>  
Anthony Ivancovich