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March 28, 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. ER06-54-___**

Dear Secretary Salas:

The California Independent System Operator Corporation ("CAISO")¹ hereby submits this report in compliance with the Commission's January 27, 2006 order in the captioned proceeding, *California Independent System Operator Corp.*, 114 FERC ¶ 61,077 ("January 27 Order").

I. Background

In the January 27 Order, the Commission noted that "[i]n its protest, PG&E [Pacific Gas and Electric Company] requests that its Tesla-Westley Tap line plus

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

its Los Banos-WestleyTap line be considered looped through Westley.”² On this issue the Commission also noted:

[I]n its answer to PG&E’s protest, CAISO argues that PG&E’s protest is untimely and beyond the scope of this proceeding. . . . CAISO asserts, further, that PG&E’s concern about looping is a seams issue between control areas that may best be addressed through coordinated operation procedures rather than in a bilateral ICAOA [Interconnected Control Area Operating Agreement]. CAISO states that it commits to work with the other parties (*i.e.*, PG&E, Modesto [Modesto Irrigation District], Turlock [Turlock Irrigation District], and SMUD [Sacramento Municipal Utility District] to develop operating procedures to address PG&E’s concern about looping.³

In response to the concerns raised by PG&E and the CAISO, the Commission stated:

[W]e agree with CAISO that the treatment of PG&E’s Tesla-Westley-Los Banos line is beyond the scope of this proceeding. Nevertheless, we accept CAISO’s offer to work with the relevant parties to this proceeding to develop operating procedures to address PG&E’s issue. Accordingly, we direct the CAISO to report to the Commission the status of its efforts on this issue within 60 days of the date of this order.⁴

Pursuant to the directives in the January 27 Order, the CAISO provides its report on the status of its efforts on the issue of the treatment of PG&E’s Tesla-Westley and Westley-Los Banos 230 kV transmission lines. The CAISO notes that it shared drafts of this report with PG&E, SMUD, Turlock, and Modesto prior to submitting the report, and adopted some (though not all) of the suggestions

² January 27 Order at P 10.

³ *Id.* at P 15.

⁴ *Id.* at P 20.

they had regarding the drafts. The CAISO anticipates that if any of these parties wishes to provide comments concerning this report, it will do so in its own submittal.

II. The CAISO's Discussions with PG&E, Modesto, Turlock, and SMUD Regarding the Issue

Since the issuance of the January 27 Order, the CAISO has engaged in discussions with PG&E, Modesto, Turlock, and SMUD regarding the issue of the treatment of the Tesla-Westley and the Westley-Los Banos 230 kV lines. In February the CAISO met with Modesto to discuss Modesto's concerns. At that meeting the CAISO stated that it would also contact PG&E. In March the CAISO discussed the issue with PG&E. The CAISO also contacted Turlock and learned that it has concerns similar to Modesto's. In addition, the CAISO contacted SMUD to see if it had any concerns, and subsequently the CAISO and SMUD discussed the subject. The CAISO has also been copied on direct communications between the other parties in an effort to resolve the issue.

III. Current Status of the Issue

Based on its discussions with PG&E, Modesto, Turlock, and SMUD, it is clear to the CAISO that there currently is a lack of agreement regarding the operating procedures to be applicable to establishing the scheduling limits for the Tesla-Westley and the Los Banos-Westley 230 kV lines, at least for the interim period until further studies can be conducted. PG&E asserts that, in order to assure reliable operation of these two new interties at Westley (the new CAISO-SMUD (Modesto) and CAISO-Turlock Control Area interties) and avoid adverse

impacts on Path 15 and other possible reliability impacts on the ISO Controlled Grid, scheduling limits based upon comprehensive power system studies must be used, as opposed to scheduling limits based simply on thermal limits, to account for contingency loss of critical transmission facilities (*i.e.*, facilities associated with Path 15) in the vicinity. Therefore, PG&E asserts that it currently must employ an interim operating procedure based upon the best available engineering analysis, pending further studies, for the PG&E-Westley intertie facilities owned by PG&E (the "Interim Operating Procedure"). That procedure may have the effect of reducing the available transmission capability for scheduling at those interties below their thermal limits.

As part of its efforts to cooperate in and expedite the December 1, 2005 Control Area change,⁵ PG&E issued the Interim Operating Procedure on November 22, 2005, prior to the Control Area change and as part of the set of measures to ensure reliability pursuant to Section 1.3 of the CAISO-SMUD ICAOA, contained in Amendment No. 4 to that ICAOA, and prior to the Commission's acceptance of Amendment No. 4 to the ICAOA on November 30, 2005.⁶ The CAISO has operated the interties in accordance with this operating instruction since December 1, 2005, the date Modesto joined the SMUD Control Area and Turlock formed its own Control Area. However, PG&E noted that the

⁵ See Transmittal Letter for Amendment No. 4 to the CAISO-SMUD ICAOA, Docket No. ER05-1533-000 (Sept. 30, 2005), at 1-2.

⁶ See *California Independent System Operator Corp.*, 113 FERC ¶ 61,217 (2005), at Ordering Paragraph (B) (2005), *reh'g dismissed*, 114 FERC ¶ 61,024, at P 21 (2006).

Interim Operating Procedure states that it is subject to revision when comprehensive transmission studies have been completed.

PG&E confirmed in conversations with the CAISO that the scheduling limits are based on expected through flow during peak operating conditions and that the use of these limits in the Interim Operating Procedure is consistent with PG&E's Interconnection Agreements ("IAs") with both Modesto and Turlock. Subsequently, on March 7, 2006, PG&E shared with the CAISO a draft of its "PG&E to Westley Intertie Rating Study Comprehensive Progress Report" ("Comprehensive Progress Report"), which showed the operating limits to be more restrictive under certain outage conditions.

Modesto and Turlock, on the other hand, strongly object to the Interim Operating Procedure and assert that it is inconsistent with and unsupported by Modesto's and Turlock's IAs with PG&E.⁷ Consistent with its obligations under

⁷ The IA between Modesto and PG&E that is currently in effect is the Second Revised IA, which the Commission accepted for filing and suspended for a nominal period, to become effective upon completion of Modesto's transfer from PG&E to the Western Area Power Administration's ("Western") Sub-Control Area within the SMUD Control Area (as requested by Modesto), subject to refund. *Pacific Gas and Electric Co.*, 112 FERC ¶ 61,348, at Ordering Paragraph (A) (2005) ("IA Order"). The completion of Modesto's transfer to the Western/SMUD Control Area occurred on December 1, 2005, and therefore the Second Revised IA became effective on that same date. In the IA Order, the Commission also established hearing and settlement judge procedures concerning that IA. *Id.* at Ordering Paragraph (B). Settlement judge procedures in that proceeding are ongoing. See Report of Settlement Judge, Docket No. ER05-1286-000 (Mar. 17, 2006), as corrected on March 21, 2006.

The IA between Turlock and PG&E that is currently in effect is the Second Revised IA, which the Commission accepted for filing and suspended for a nominal period, to become effective on August 1, 2005, subject to refund. *Pacific Gas and Electric Co.*, 110 FERC ¶ 61,189, at Ordering Paragraph (A) (2005). The Commission also established hearing and settlement judge procedures concerning that IA. *Id.* at Ordering Paragraph (B). Subsequently, the Commission approved an uncontested settlement that resolved all issues pending in the proceeding. *Pacific Gas and Electric Co.*, 111 FERC ¶ 61,481 (2005).

Section 3.2.3.1 of the CAISO-SMUD ICAOA, SMUD has initiated a process by which it is working with PG&E, the CAISO, Modesto, Western, and Turlock to resolve this operational issue by May 2006 on the basis of system operations reliability studies.

The CAISO's own position is that it is bound by the ISO Tariff to implement the Interim Operating Procedure until PG&E, Modesto, and Turlock resolve, possibly as the result of further studies of the interface and its relationship to the remainder of the ISO Controlled Grid, any dispute they may have regarding the operating procedures applicable to the Tesla-Westley and Tesla-Los Banos 230 kV lines. The IAs between PG&E and Modesto and between PG&E and Turlock are identified as Encumbrances in PG&E's Appendix B of the Transmission Control Agreement ("TCA") and have been treated by the CAISO as "Existing Contracts" as that term is defined in the ISO Tariff, and thus are subject to the provisions of the ISO Tariff concerning Existing Contracts.⁸ In particular, Section 16.2.3.1.1 of the ISO Tariff states:

The ISO will have no role in interpreting Existing Contracts. The parties to an Existing Contract will, in the first instance, attempt jointly to agree on any operating instructions that will be submitted to the ISO. In the event that the parties to the Existing Contract cannot agree upon the operating instructions submitted by the parties to the Existing Contract, the dispute resolution provisions of the Existing Contract, if applicable, shall be used to resolve the

⁸ See *California Independent System Operator Corp.*, 113 FERC ¶ 61,250, at P 3 (2005); *Pacific Gas and Electric Co., et al.*, 81 FERC ¶ 61,122, at 61,471 (1997). Existing Contracts are defined in the ISO Tariff as "[t]he contracts which grant transmission service rights in existence on the ISO Operations Date (including any contracts entered into pursuant to such contracts) as may be amended in accordance with their terms or by agreement between the parties thereto from time to time." ISO Tariff, Appendix A (definition of "Existing Contracts").

dispute; provided that, until the dispute is resolved, and unless the Existing Contract specifies otherwise, the ISO shall implement the Participating TO's operating instructions.

(Emphasis added.) PG&E (*i.e.*, the only Participating TO among the parties to the PG&E-Modesto IA and the PG&E-Turlock IA) submitted the Interim Operating Procedure, which contains operating instructions applicable to the Tesla-Westley and Westley-Los Banos 230 kV lines. Modesto and Turlock, the other parties to the IAs, now dispute the Interim Operating Procedure, and the IAs do not specify any provision superseding Section 16.2.3.1.1 of the ISO Tariff. Therefore, the CAISO believes it is required by the provisions of the ISO Tariff italicized above to implement PG&E's operating instructions until the dispute between PG&E and Modesto and Turlock concerning the Interim Operating Procedure is resolved in accordance with the dispute resolution provisions of the IAs or through further studies and discussions based upon those studies. Furthermore, Section 3.1.2, "Pre-Existing Contracts", of both the ICAOA between the CAISO and SMUD and the ICAOA between the CAISO and Turlock incorporate the concept set forth in the ISO Tariff.⁹ The CAISO under the present circumstances simply believes that it is not authorized to take action contrary to the Interim Operating Procedure.

⁹ It is worth noting that Section 3.2.3.1 of the CAISO-SMUD ICAOA indicates that the Sacramento Valley Study Group ("SVSG") is the appropriate forum for adjusting the base Real Time Operating Limits specified in Service Schedule 6 to that ICAOA, which includes the Westley-Tesla 230 kV line rating that is the subject of concern to Modesto. Section 3.2.3.1 of the CAISO-Turlock ICAOA simply states that the limits are to be jointly established "in consultation with the Transmission Owner(s)." CAISO Filing of CAISO-Turlock ICAOA, Docket No. ER06-54-000 (Oct. 19, 2005), at Attachment A (Original Sheet No. 11, containing Section 3.2.3.1); January 27 Order (accepting CAISO-Turlock ICAOA).

The CAISO is, however, pleased to report that on March 7, 2006, PG&E proposed that the Comprehensive Progress Report be submitted to the Western Electricity Coordinating Council ("WECC") for a path rating determination for Westley. PG&E has indicated that, pursuant to the WECC's determination, PG&E is willing to revise the scheduling limits stated in the Interim Operating Procedure. The CAISO believes that this WECC process will ultimately have the effect of creating the sort of "coordinated operating procedure" that is the subject of this report.¹⁰

In response to PG&E's proposal, on March 15, 2006, SMUD sent an e-mail to PG&E recommending that a more adequate study be conducted that would include 500 kV lines in addition to the two 230 kV lines identified by PG&E. In lieu of PG&E's proposal, SMUD stated that it would fully support and participate in a WECC Three-Phase Rating Process for the "Los Banos North" or "LBN" interface, which comprises the Los Banos-Tracy 500 kV line, the Los Banos-Tesla 500 kV line, and the Los Banos-Westley 230 kV line. In the meantime, SMUD agreed that reliability studies should be immediately performed for the area identified by PG&E in preparation for 2006 summer operations. Therefore, SMUD informed PG&E that it would continue with its plan to conduct a coordinated study (among SMUD, PG&E, Turlock, Modesto, Western, and the CAISO) as part of the Sacramento Valley Study Group ("SVSG"), and invited

¹⁰ The WECC has not yet issued a timetable for resolution; however, the CAISO understands that it can take approximately one year to make such a determination depending on the interest of members, the complexities involved, and the studies required.

PG&E to participate in this process.¹¹ On March 21, 2006, PG&E accepted SMUD's invitation to participate in the SVSG process for an immediate solution while the WECC process was pursued in parallel.¹² The CAISO submits that these processes should be permitted to take their course before it is appropriate for the Commission to take any further action or for any party to complain to this Commission about the action, or inaction, of the CAISO with regard to the Interim Operating Procedure.

IV. Next Steps

Because the issue of the path rating determination regarding the Interim Operating Procedure will be presented to the WECC and the SVSG also intends to conduct a study, the issue is not completely within the CAISO's control and will be resolved pursuant to the WECC's reliability and planning criteria and the SVSG process. The CAISO believes this is an appropriate means of resolving the issue in both the short term, provided PG&E as part of the study team agrees with the results of the studies and revises the Interim Operating Procedure accordingly, and the long term as the parties are all members of the WECC and there appears to be a willingness to support such a determination. Thus, the WECC process, and potentially the SVSG study process, are the ones to which the parties should look in an effort to resolve this issue. The CAISO of course

¹¹ Completion of the SVSG process is targeted for May 2006 (*i.e.*, before summer operation).

¹² The CAISO will of course participate in both the WECC and the SVSG processes; however, the CAISO in any event believes that it is bound to follow PG&E's operating instruction until the issue is resolved in the appropriate forum, whatever that may be.

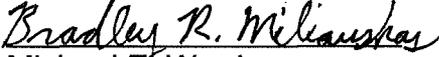
intends to participate in the processes at the WECC and the SVSG to the extent appropriate, and to assist the parties in furtherance of the parties' efforts to work through any dispute regarding the issue. Further, the CAISO intends to implement the outcome of the WECC process, the SVSG study process if PG&E revises the Interim Operating Procedure, the PG&E-Modesto IA and PG&E-Turlock IA dispute resolution processes, as applicable, or (assuming that none of the preceding processes resolves the issue) whatever other process the Commission might order for resolution of this matter.

V. Conclusion

Pursuant to the report provided herein, the Commission should accept the instant filing in satisfaction of the January 27 Order. Please contact the undersigned with any questions concerning this filing.

Respectfully submitted,

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System Operator Corporation

Dated: March 28, 2006

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document on the official service list for the captioned proceeding in accordance with Rule 2010 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.2010.

Dated at Folsom, California, on this 28th day of March, 2006.



John Anders