

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

City and County of San Francisco,)	
)	
Complainant)	
)	Docket No. EL15-3-000
v.)	
)	
Pacific Gas and Electric Company,)	
)	
Respondent)	
)	

**COMMENTS OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
ON COMPLAINT**

The California Independent System Operator Corporation (“CAISO”) respectfully submits these comments on the complaint filed on October 9, 2014, by the City and County of San Francisco (the “City”) against Pacific Gas and Electric Company (“PG&E”).¹ As discussed in these comments, the CAISO tariff, the CAISO Transmission Control Agreement, and Commission precedent do not support extension of the transmission services provided under the Interconnection Agreement (“IA”) between the City and PG&E, as requested by the City. The IA is, among other things, an existing transmission contract, and the transmission service it provides represents an encumbrance on the CAISO controlled grid. PG&E is not permitted to extend the term of any encumbrance without the CAISO’s written consent, which has neither been provided nor requested. Moreover, it is the policy of the Commission not to extend

¹ The CAISO submits these comments pursuant to Rule 206(f) of the Commission’s Rules of Practice and Procedure, 18 C.F.R. § 206(f) (2014).

existing contracts. These comments do not suggest that interconnection and distribution services should continue, nor do they object to some limited extension as the Commission may deem necessary to resolve the underlying dispute. The CAISO desires only to make it known that it would object to an outcome that included the continued provision of transmission services beyond the expiration of the IA.

The CAISO does not comment on any other element of the complaint. The CAISO will continue to work with the City and PG&E as necessary to ensure the City receives continued transmission service on the CAISO controlled grid. In addition, the CAISO will work directly with the City to account appropriately for the continued operation of its transmission system, which is not part of the CAISO controlled grid but is located entirely within the CAISO balancing authority area.

At this time, the CAISO does not seek to intervene in the proceeding. The CAISO is not a party to the IA that is the subject of this complaint. The City is not seeking direct relief from the CAISO and does not claim that transmission service under the CAISO tariff is unjust or unreasonable. To the extent these circumstances change, the CAISO reserves its right to intervene at a later date.

I. BACKGROUND

The City's IA with PG&E was executed in 1987, ten years before the formation of the CAISO.² As such, it constitutes an "Existing Contract" under the CAISO tariff³ and

² PG&E, FERC Rate Schedule No. 114.

³ See appendix A of the CAISO tariff.

an Encumbrance listed in the CAISO's Transmission Control Agreement.⁴ As an existing contract, the CAISO must hold the City's share of transmission capacity on the CAISO controlled grid from the CAISO's forward market. If the City does not use some or all of its existing rights, then in real-time the CAISO has the right to use the unused capacity.

In addition to the IA, as a non-participating transmission owner in the CAISO balancing authority area,⁵ the City operates under an Operating Agreement with the CAISO that governs the relationship between the CAISO and the City.⁶ This Operating Agreement governs, among other things, the City's settlement requirements, information exchange, telemetry, metering, and outage coordination with the CAISO. Although the Operating Agreement is not at issue in this proceeding, the Operating Agreement expires simultaneously with the IA. The CAISO fully anticipates that it will be able to enter into a new operating agreement with the City well before the Operating Agreement expires.

⁴ See California Independent System Operator Corp., FERC Electric Tariff No. 7, Transmission Control Agreement, appendix B.

⁵ The City operates 115 kV and 230 kV transmission facilities, but has not executed the Transmission Control Agreement transferring operational control of those facilities to the CAISO.

⁶ See *California Independent System Operator Corp.*, 125 FERC ¶ 61,129 (2008); CAISO First Revised Rate Schedule No. 64.

II. Comments

A. The CAISO Supports Termination of Existing Transmission Contracts upon Expiration

The CAISO recognizes the need to honor existing transmission rights that precede the existence of the CAISO.⁷ The CAISO has consistently demonstrated this principle by creating detailed, specific rules and procedures for these contracts to be scheduled and settled alongside normal transactions in the CAISO market.⁸ These rules and procedures have struck the proper balance between the need to recognize existing contracts and the need to avoid imposing constraints on the CAISO's ability to exercise operational control over the system reliably and without phantom congestion or significant costs on other market participants.

At the same time, the CAISO tariff provides that the transmission service rights and obligations of non-participating transmission owners under existing transmission contracts—such as the City—will continue only for the duration of those contracts.⁹ The tariff further provides that any CAISO participating transmission owner “shall attempt to negotiate changes to [any] Existing Contract to align the contract's scheduling and operating provisions with the CAISO's scheduling and operational procedures, rules and protocols, to align operations under the contract with CAISO operations.”¹⁰ This

⁷ See, e.g. section 16.1 of the CAISO tariff.

⁸ See, e.g., *California Independent System Operator Corp.*, 116 FERC ¶ 61,274 at P 25 (2006) (“[T]he CAISO has worked steadily with market participants over the past few years to accommodate existing contracts and pre-existing relationships within the context of the LMP mechanism”).

⁹ Section 16.1 of the CAISO tariff.

¹⁰ Section 16.1.1 of the CAISO tariff.

requires that the CAISO honor existing transmission contracts until either the participating transmission owner can negotiate conforming changes, or the existing transmission contracts expire.¹¹

In addition, the CAISO Transmission Control Agreement bars participating transmission owners from creating any new “Encumbrance” or extending the term of an existing “Encumbrance” without the CAISO’s prior written consent.¹² The Transmission Control Agreement defines an Encumbrance as a legal restriction or covenant “binding on a Participating TO that affects the operation of any transmission lines or associated facilities and which the CAISO needs to take into account in exercising Operational Control over such transmission lines or associated facilities if the Participating TO is not to risk incurring significant liability.”¹³ This definition specifically includes both existing contracts under the CAISO tariff and encumbrances entered into after the CAISO began operation.¹⁴ The CAISO needs to take into account the City’s facilities in exercising operational control of the CAISO controlled grid. As such, the City’s IA constitutes an Encumbrance, and any extension of the City’s IA without the CAISO’s prior consent would violate the Transmission Control Agreement.

Although it can be argued that only a relatively small amount of facilities is at stake in the instant proceeding, the CAISO and PG&E will not consent to the extension of an Encumbrance because of the precedent it would set for other parties with existing contracts that would want to expand the scope of their existing rights. The repeated

¹¹ See, e.g., *Pacific Gas and Electric Co.*, 115 FERC ¶ 61,372 at PP 7-10 (2006).

¹² Section 4.4.3 of the CAISO TAC.

¹³ CAISO TCA, Appendix D.

¹⁴ *Id.*

expansion of existing contracts would materially impair the CAISO's ability to exercise operational control over affected facilities, as the CAISO would be required to provide priority scheduling and hedge financial benefits to all such expanded rights. This is especially true now, at the beginning of the CAISO's regional expansion through its Energy Imbalance Market. The CAISO cannot grant preferential rights and terms for existing contracts at the potential cost of new entrants and existing participants entering new contracts. Many other CAISO market participants also have significant existing contracts set to expire in the near future, and the CAISO and its participating transmission owners have been successful in negotiating new transmission contracts for these market participants.¹⁵

The Commission consistently has supported the CAISO and its participating transmission owners' efforts in encouraging full-fledged, modern participation in the CAISO market upon the expiration of an existing contract. At the commencement of the CAISO market, the Commission found that "it may be difficult for the ISO to accommodate the varied operations, protocols, and procedures of Existing Contracts," but that this was an "unavoidable *transitional* problem," and only "*temporary*."¹⁶

In fact, in implementing Order No. 888 and the CAISO market, the Commission approved the CAISO's proposed five-year transition period for transmission owners "to

¹⁵ See, e.g., *Pacific Gas & Electric Co.*, Load Interconnection and Generator Interconnection Agreements with State of California Department of Water Resources ("CDWR"), Docket No. ER15-227-000 (Oct. 29, 2014) (discussing PG&E and the CAISO's work with CDWR to replace its 20-year Comprehensive Agreement, set to terminate on December 31, 2014).

¹⁶ *Pacific Gas & Electric Co.*, 81 FERC ¶ 61,122 at 61,470-471 (1997) (emphases added).

convert their existing contractual rights to ISO rights.”¹⁷ The Commission held that “those entities that decide to participate and become a member of the ISO should be obligated to conform their existing transmission contracts to the operating rules of the ISO.”¹⁸ The Commission rejected requests for a ten-year transition period and found that five years “provide[] ample opportunity to explore and weigh the costs and benefits of participating in the ISO.” While these holdings applied specifically to transmission owners, they are relevant to the City today. The City has enjoyed almost 17 years of CAISO benefits, but only under its existing contracts. If the City wishes to continue to interconnect with the CAISO controlled grid, its contracts must accurately reflect the present costs of the transmission service rights provided.

B. The CAISO Supports Extension of the Interconnection Agreement as Required to Develop Replacement Arrangements

The City has requested that the Commission consider an extension of the IA until either the parties agree or the Commission has issued an order. The IA as a comprehensive agreement covers both transmission service and distribution service. As evident in the complaint, the City does not raise an issue with the CAISO’s transmission service and only challenges the distribution service provided by PG&E. The CAISO would therefore prefer the City’s existing transmission service to expire in accordance with the IA, and support any extension of distribution service deemed necessary by the Commission.

¹⁷ *Id.* at 61,471

¹⁸ *Id.*

Alternatively, while the CAISO cannot consent to a long-term extension of an existing transmission contract, the CAISO understands that the Commission may consider a temporary extension of the City's IA to provide the City and PG&E with adequate time to develop long-term agreements that replace the existing contracts. The CAISO does not believe this should be necessary given the advance notice of the termination and the availability of CAISO transmission services; however, the CAISO would not have any objection to a short-term extension.

The CAISO understands the significance of the agreements at issue in this proceeding, both to the City and to PG&E. In recent years, the CAISO has helped several participants with existing transmission contracts transition to the full CAISO market. While the CAISO understands that this process requires time and diligence, it fully anticipates that the City will be able to transition to new transmission contracts on a timely basis and to the benefit of all parties.

Respectfully submitted,

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Dated: November 10, 2014

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon the parties listed on the official service list in the captioned proceeding, 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 10th day of November, 2014.

S/ Sarah Garcia
Sarah Garcia