

STATE OF CALIFORNIA

ARNOLD SCHWARZENEGGER, *Governor*

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



November 22, 2005

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

Re: *Preventing Undue Discrimination and Preference in Transmission Services*
Docket No. RM05-25-000

Dear Ms. Salas:

Enclosed for filing in the above-docketed case, please find an original electronic filing of the attached document entitled **“NOTICE OF INTERVENTION AND COMMENTS OF THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA.”**

Thank you for your cooperation in this matter.

Sincerely,

/s/ Laurence G. Chaset

Laurence G. Chaset
Staff Counsel

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

Preventing Undue Discrimination and
Preference in Transmission Services

Docket No. RM05-25-000

**NOTICE OF INTERVENTION AND COMMENTS OF
THE PUBLIC UTILITIES COMMISSION OF
THE STATE OF CALIFORNIA**

Pursuant to Rule 214 (a) and Rule 211 and Rule 212 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission (“Commission”), and the Commission’s September 16, 2005 Notice of Inquiry, the Public Utilities Commission of the State of California (“CPUC”) hereby intervenes and provides its comments in the above-docketed proceeding.

INTRODUCTION

Under sections 205 and 206 of the Federal Power Act, the Federal Energy Regulatory Commission (FERC) has a mandate to ensure that, with respect to any transmission in interstate commerce or any sale of electric energy for resale in interstate commerce by a public utility, no person is subject to any undue prejudice or disadvantage. Pursuant to that mandate, in 1996, FERC issued Order No. 888¹ to remedy undue

¹ Promoting Wholesale Competition Through Open Access Non-discriminatory Transmission Services by Public Utilities; Recovery of Stranded Costs by Public Utilities and Transmitting Utilities, Order No. 888, FERC Stats. & Regs. ¶ 31,036 (1996).

discrimination or preference in access to the monopoly owned transmission wires that control whether and to whom electricity can be transported in interstate commerce. In Order No. 888, FERC required, as a remedy for undue discrimination in the operation of the transmission systems of public utilities, that all public utilities provide open access transmission service consistent with the terms and conditions of a pro forma open access transmission tariff (OATT).

In its Notice of Inquiry (NOI) that was filed on September 16, 2005 in Docket No. RM05-25-000, FERC is inviting comments on whether reforms are needed to the Order No. 888 pro forma OATT and the OATTs of public utilities in order to ensure that services thereunder are just, reasonable and not unduly discriminatory or preferential. In this NOI, FERC is also inviting comments on the implementation of Section 1231 of the Energy Policy Act of 2005 (EPAAct), which establishes Section 211A of the Federal Power Act (concerning the provision of open access transmission service by unregulated transmitting utilities), as well as on section 1233 of the EPAAct, which defines native load service obligation.

NOTICE OF INTERVENTION

The CPUC is a constitutionally established agency charged with the responsibility for regulating electric corporations within the State of California. In addition, the CPUC has a statutory mandate to represent the interest of electric consumers throughout California in proceedings before the Commission. Communications to the CPUC should be addressed to:

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Public Utilities Commission of the
State of California
505 Van Ness Avenue, 5th Floor
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This intervention serves to make the CPUC a party to these proceedings.

COMMENTS

Because California's transmission grid is, for the most part, operated by the California Independent System Operator Corporation (CAISO), most of the important examples noted in FERC's NOI of possible discrimination against non-utility users of the transmission systems owned and operated by individual regulated utilities simply do not arise. The major transmission owners whom the CPUC directly regulates, namely, the Pacific Gas & Electric Company, the Southern California Edison Company and the San Diego Gas & Electric Company, participate in the CAISO. By virtue of that participation, these companies have given up the ability to discriminate against non-utility users of those portions of the CAISO-controlled grid that they continue to own.

However, approximately 20% of California's power is provided by governmental entities unregulated by the CPUC, including one very large one, the Los Angeles Department of Water and Power (LADWP), and several other significantly large ones, the Sacramento Municipal Utility District (SMUD) and the Western Area Power Administration (WAPA) – that either do not participate in the CAISO at all (LADWP), or

who once did belong to it but have subsequently withdrawn and chosen to form their own control area (SMUD and WAPA). Accordingly, the problems that prompted FERC to issue Order 888 in the first place still exist in connection with these entities that do not participate in the CAISO.

While Order No. 888 set the foundation upon which to attain competitive electric markets, FERC recognized that Order No. 888 did not eliminate the potential to engage in undue discrimination and preference in the provision of transmission service.

Accordingly, in its NOI, FERC poses a lengthy set of questions designed to elicit responses addressing the nature and scope of reforms that are necessary to the Order No. 888 pro forma OATT and to the individual public utility OATTs, given the current state of the electric industry and the apparent uncertainties and inconsistent application concerning various tariff provisions that have arisen since implementation of Order No. 888.

Of particular interest to the CPUC, in its NOI, FERC is seeking comments on how best to implement Section 1231 of the EPAct, which, as noted above, concerns the provision of open access transmission service by unregulated transmitting utilities, including, but not limited to, municipal utilities such as LADWP and SMUD. There are several major problems resulting from this non-participation in the CAISO of entities such as SMUD and LADWP that call for action by FERC in connection with its anticipated reforms of the Order No. 888 pro forma OATT and the individual public utility OATTs.

A. The Calpine Sutter Problem

The withdrawal of WAPA from the CAISO in order to join the SMUD control area at the end of 2004 created a number of significant problems for Calpine's Sutter plant, which, after this withdrawal, found itself physically located within the SMUD control area, although most of its capacity was delivered to the utilities that participate in the CAISO. The effect of the Sutter plant's new isolation was to reduce liquidity in the CAISO market and, potentially, to increase costs to the utilities' ratepayers. WAPA's action accordingly had the effect of putting at risk the viability of a new, state-of-the-art plant owned by an independent generator, which is entirely contrary to the goals of the OATT.

We recognize that SMUD and WAPA have been working closely with the CAISO and Calpine to resolve this problem.² However, the isolation that the Sutter plant found itself in as a result of WAPA's withdrawal from the CAISO control area prompted the CPUC to voice its serious concern to FERC about WAPA's action. See, specifically, the letter dated September 3, 2003, from Michael R. Peevey, the CPUC's President, to Pat Wood, then-Chairman of FERC (copy attached). In Chairman Wood's response to President Peevey, dated October 2, 2003 (copy attached), he stated his, and FERC's concerns that "the resulting separation of assets could adversely affect reliability by

² For example, in Docket ER06-58-000, the CAISO has filed a "pseudo" participating generator agreement between itself and Calpine's Sutter plant to implement a pseudo tie for the Sutter plant. This arrangement will enable the Sutter plant to operate and deliver energy and ancillary services as if it were located within the CAISO control area. Sutter's new pseudo tie will be effective on December 1, 2005.

increasing the operational complexity of operating the California-Oregon Intertie.”

Chairman Wood’s response also stated FERC’s concerns “regarding the potential increased costs for customers in the West and unnecessary cost-shifting that could result from the formation of an additional control area.”

B. Recent Withdrawals from the CAISO

The Modesto Irrigation District (MID) and the owners of the California-Oregon Transmission Project (COTP) have recently chosen to withdraw their facilities from the CAISO and to transfer them to the SMUD control area. In addition, we note that the Turlock Irrigation District (TID) has recently proposed to establish its own control area, independent of either the CAISO or the SMUD/WAPA control areas. These proposed actions, which are still subject to FERC approval, will reduce the footprint of the CAISO, and will further balkanize the operation of the transmission grid in California.³ Moreover, the proposed actions of MID, TID and the owners of the COTP are not in the interest of the ratepayers of those of California’s investor-owned and municipal utilities that will continue to have their transmission systems operated by the CAISO.

Proposals such as those of MID, TID and the owners of the COTP create an unnecessary duplication in effort in managing grid operations. Moreover, once implemented, such proposals undermine or eliminate the benefits of the economies of scale resulting from the use of a unified grid operator. Unfortunately, the CAISO has no

³ Although the COTP line will now reside within the SMUD control area, we note that the CAISO will remain the path operator of this line, as it currently is.

ability to stop MID, TID and COTP from taking their proposed steps, although the CAISO has openly expressed its concerns about the consequences of these proposed actions.

C. Steps That FERC Should Take Under Section 1231 of the EAct

We note that in Section 1231 of the EAct, Congress appears to have given FERC explicit authority to require that previously non-jurisdictional transmission owners provide transmission service on a non-preferential and non-discriminatory basis. We recommend that FERC implement this new authority using a three-pronged approach, including the development of positive incentives, the implementation of mandatory rules, and the establishment of a program of disincentives and penalties.

1. Incentives

In light of the experience of the Sutter plant and the looming MID/TID/COTP problems, FERC needs to use the opportunity provided by this rulemaking to implement Section 1231 of the EAct by developing a set of positive incentives for non-jurisdictional transmission owners, such as SMUD, WAPA, and in the near future, presumably also MID, TID and the owners of the COTP, to join or re-join an ISO or RTO in order to fully capture the benefits of open access transmission.

In implementing this approach, FERC needs to work closely with the California stakeholders to actively explore the benefits that entities such as the CAISO provide to transmission owners in terms of enhanced reliability, the economic and administrative efficiencies of centralized grid operations and the open and non-discriminatory provision

of transmission service. The first goal of this process should be the development of a clear and consensus-based quantification of the benefits of participation in an ISO or RTO. With this initial quantification in hand, the second goal of this process should be the development of a set of specific incentives and policies that can serve to strongly encourage entities such as SMUD, WAPA, MID, TID and the owners of the COTP to see the benefits of participation in the CAISO and to re-join that organization.

2. Mandatory Rules

We note that Section 1231(b) provides that FERC may require, by rule or order, that unregulated transmitting utilities (such as SMUD and WAPA) may be required to provide transmission service:

- (a) at rates that are comparable to those that the unregulated transmitting utility charges itself; and
- (b) on terms and conditions (not relating to rates) that are comparable to those under which the unregulated transmitting utility provides to transmission services to itself and that are not unduly discriminatory or preferential.

In addition, Section 1231(f) provides that

"The rate changing procedures applicable to public utilities under subsections (c) and (d) of section 205 [of the FPA] are applicable to unregulated transmitting utilities for purposes of this section [211A]."

These requirements appear to give FERC the authority to require previously non-jurisdictional entities, such as SMUD and WAPA, to file tariffs with FERC that would be subject to the due process and the “just and reasonable” requirements of the Federal Power Act. In light of this language, at the same time that FERC is undertaking the voluntary process of identifying the benefits of participation in an ISO/RTO toward the end of incentivizing such participation, FERC should be actively exploring a set of mandatory actions that it may impose on non-jurisdictional entities such as SMUD, WAPA and the rest.

The NOI raises the implementation of Section 1231 as a general matter, asking questions such as whether there should be a generic rulemaking to impose the requirements of this section or whether its implementation should be effected on a case-by-case basis. We think that a generic rulemaking would be the best vehicle for FERC to adopt in order to develop a set of mandatory rules addressing the rates and terms and conditions of service under a pro forma OATT and under entity-specific OATTs.

However, in connection with any such rulemaking, FERC must also be sure to address the pressing question of what should be done to prevent any further balkanization of the California grid. After all, such balkanization runs directly counter to FERC’s long-established and clearly enunciated policy in favor of unified grid operations managed by RTOs and ISOs. FERC should accordingly use the opportunity provided by the issuance of its NOI in this proceeding, as well as by the language of Section 1231 of the EPAct, to initiate an investigation (presumably, but not necessarily, via the *sua sponte* establishment

of a sub-docket in this proceeding) to affirmatively address issues such as the experience of the Sutter plant and the possible adverse impacts of MID and COTP's separation from the CAISO control area. SMUD, WAPA, MID, TID and the owners of the COTP should be made mandatory respondents in this investigation.

3. Disincentives

In light of the Sutter and the MID/COTP issues, FERC also needs to use the opportunity provided by this rulemaking to develop a set of disincentives and/or penalties that would make it more difficult in the future for non-jurisdictional entities such as SMUD and WAPA from leaving control areas, such as the CAISO. Such disincentives and/or penalties should, at a minimum, include the imposition of hefty mandatory surcharges on the use of ISO or RTO-controlled grids by entities that were previously participants in that ISO or RTO, but which subsequently left it to form their own control area or to join a non-jurisdictional control area, such as SMUD's. Ideally, such disincentives and/or penalties should be structured in such a way as to provide a powerful incentive for SMUD and WAPA to re-join the CAISO.

FERC needs to take serious steps to mitigate the effect, or to prevent future instances, of decisions by entities such as SMUD, WAPA, MID and the owners of the COTP to separate their transmission operations from large, FERC-approved control areas such as that of the CAISO. In this regard, the implementation of Section 1231 is particularly important, because it provides an opportunity for FERC to address more squarely than it has in the past the generic seams issues created by the proliferation of

control areas operated by previously unregulated transmission owners and the ability of such entities to "free ride" on the systems and open access requirements of the jurisdictional entities. The implementation of a scheme of disincentives and penalties could prove to be a strong antidote to the elimination of current seams and the creation of new ones, and could ideally eliminate the "free rider" problem altogether.

D. Other Issues

There are a number of other issues raised by FERC's NOI that the CPUC wishes to comment on briefly. These include:

1) Coordination with the States

Open access, by itself, is a great idea, but it has to be implemented in connection with coordinated generation planning and siting policies. Most of these latter are the functions of the states, not FERC. Therefore, any reforms to Order 888 must defer to the states' functions in this regard, and should encourage – but not mandate – state initiatives such as California's Resource Adequacy planning efforts. More coordinated role between FERC and the states is crucial. Interstate transmission issues are primarily a FERC responsibility while retail sales and distribution issues are state responsibilities. The fact that there can be an overlap of state and federal responsibilities when wholesale transactions and generating asset transfers affect state-regulated service is an important reminder that FERC and states need to cooperate and work together collaboratively in resolving transmission issues such as those raised in this NOI.

2) Coordination with Docket RM05-30

In its Docket RM05-30-000, FERC is addressing the development of the mandatory reliability standards called for in Section 1211 of the EPAct. FERC should coordinate those efforts with its efforts to reform Order 888 in this Docket RM05-25-000 toward the goal of assuring smoother regional oversight over reliability that entities joining (or re-joining) an ISO or RTO could directly benefit from. In this regard, FERC should clearly articulate how the cost of reliability services is to be shared by all market participants. Given that there are other entities that are not members of an RTO/ISO, but who do use the services of an RTO/ISO-controlled grid (for example, to wheel power), it would be unfair if the costs of reliability were imposed only on regulated utilities and other entities that do belong to an RTO/ISO. Such other, non-member entities benefit from reliability services provided by the members of the RTO/ISO and must not be allowed to become “free riders” who are not paying their fair share for the costs of such reliability services.

3) Coordination With the CAISO MRTU Effort

One main purpose of Order 888 was to bring down costs for use of the transmission grid, on the theory that open access transmission would attract least cost generation, thereby resulting in lower costs to ratepayers. Unfortunately, since 1997, we have not seen these benefits in California, where we still experience inter-zonal congestion, load pockets and generation pockets that inhibit the free flow of power that was envisioned by Order 888. The CAISO is working diligently with stakeholders on its

MRTU effort, which we expect to be implemented in 2007. We hope that the implementation of MRTU will ultimately alleviate the congestion costs that we have seen in California. But in any revisions of Order 888, these same issues that we in California are addressing in the MRTU effort may also have to be addressed. If this turns out to be the case, FERC should not change Order 888 in any way that might contradict or create obstacles for our on-going MRTU effort in California.

4) Native Load Service Obligation

The NOI also calls for comments on the new Native Load Service Obligation provisions of Section 1233 of the EPAct. Specifically, in paragraph 9 of the NOI, FERC asks whether or not the approach that it took in Order 888 is the same as that set forth in section 1233. In this regard, we would note simply that native load will still need to be protected against uncertainties resulting from the anticipated implementation in 2007 of locational marginal pricing and from congestion on the grid by an appropriate allocation of Congestion Revenue Rights (CRRs) rather than by having to compete for such rights in an auction. This is an important issue that we in California are attempting to address in connection with the MRTU process, and FERC needs to make sure that they do not do anything as part of the process of revising Order 888 that might undermine this effort.

5) Hoarding Issues

Section N, at pages 26-27 of the NOI, asks whether there is evidence of hoarding or other anti-competitive transmission practices that warrants reform to the OATT. In California, we have had some negative experience with the grandfathering of Existing

Transmission Contracts (ETCs), especially by certain municipal entities.

Currently, the CAISO reserves grid rights for ETC users holding pre-CAISO transmission service contracts. “Phantom congestion” arises when old contracts pre-dating the CAISO allow certain grid users to sit on unused grid rights until 20 minutes ahead of real time. Because of this, other entities cannot make use of the released capacity, for the reason that CAISO markets close a full hour ahead of real time. These ETC rights accordingly allow for the hoarding of a significant amount of transmission capacity that will go unused in real time. In a December 8, 2004 filing in the MRTU Docket (ER02-1656-021), the CAISO proposed a methodology for honoring existing ETCs that would allow for the elimination of “phantom congestion” under MRTU. Under this proposal, for service within the CAISO-controlled grid, the CAISO will not set aside transmission capacity until the last hour, and will continue to provide firm transmission service only when needed to the holders of such rights. However, the CAISO will hold ETC rights holders financially harmless from any congestion costs associated with the proposed ETC schedule changes.

Thus, for municipal entities that participate in the CAISO, we may be able to eliminate “phantom congestion” by implementation of a CRR allocation approach and by the approach for ETCs set forth in the CAISO’s December 8, 2004 filing. However, even when MRTU is eventually implemented, there may continue to be some hoarding problems on the California grid in connection with the operations of municipal entities that have not turned over operational control of their transmission facilities or that do not

participate in the CAISO.

6) Reporting by Non-Jurisdictional Entities

More transparent reporting should be required from entities, such as SMUD and WAPA, which do not participate in FERC-approved ISOs/RTOs. In California, the CAISO's Department of Market Monitor can monitor the behavior of market participants of the CAISO control area but does not have access to the information of the neighboring control areas or their practices. In order to provide vigilance over the entire California grid and to avoid potential or actual discrimination, FERC should require such non-CAISO Transmission Owners to provide transparent transmission information, of the same type and scope as that provided by the CAISO, to all market participants.

Respectfully submitted,

RANDOLPH L. WU
AROCLES AGUILAR
LAURENCE G. CHASET

By: /s/ Laurence G. Chaset

Laurence G. Chaset

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Attorneys for the Public Utilities
Commission of the State of California

November 22, 2005



PUBLIC UTILITIES COMMISSION

STATE OF CALIFORNIA
505 VAN NESS AVENUE
SAN FRANCISCO, CALIFORNIA 94102

MICHAEL R. PEEVEY
PRESIDENT

TEL: (415) 703-3703
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September 3, 2003

Via Facsimile and U.S. Mail

Chairman Pat Wood III
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20002

Re: *Western Area Power Administration Proposal to Form a Federal Control Area*

Dear Chairman Wood:

I write to express my concern over a Western Area Power Administration (Western) proposal to form a Federal Control Area in California. Western's transmission facilities include significant portions of the California-Oregon Intertie (COI), as well as an extensive system of 230kV lines, which are tightly integrated with Pacific Gas and Electric Company's (PG&E) system. Western and PG&E currently operate their resources in an integrated manner pursuant to various contracts between them. These contracts, principally Contract Nos. 2948A and 2947A, terminate January 1, 2005. Formation of an independent Federal Control Area is one of the alternatives Western is considering in anticipation of its contracts' expiration.

I am opposed to the formation of a Federal Control Area in California, and ask for your assistance in defeating this proposal. Formation of a separate control area is the most problematic of the alternatives being considered by Western. It is antithetical to the FERC's longstanding objective of fostering a seamless grid, and inconsistent with California's goal of reducing 'seams' between control areas in the Western interconnection by creating consistent rules and operations to induce greater efficiency and increased reliability. Specific concerns raised by the Western proposal include:

- Adverse impacts on grid reliability resulting from increased operational complexity of operating the COI.
- Increased costs for users of Western's portion of the Pacific AC Inter-tie (PACI), and significant cost-shifting from the customers of the proposed Federal Control Area to CAISO customers.

- Increased 'seams' issues in the West that are likely to increase transaction costs.

Western is facing increased transmission costs once its contracted rates with PG&E expire. Consequently, Western's proposal includes a plan to charge a "pancaked" transmission rate to CAISO-served customers using a PACI to access Northwestern markets. Western would set its pancaked rate by allocating a disproportionate share of Western's transmission costs to a single PACI line. The effect of this rate design is to charge PG&E ratepayers disproportionately for use of the PACI. The "pancaked rate" aspect of Western's plan runs contrary to the FERC's longstanding anti-pancaking policies. And the proposed cost allocation—increasing costs for one group of customers to subsidize Western customers in an entirely different part of the system—is incompatible with the non-discriminatory and open access policies that the FERC has fostered for well over a decade. Since FERC is responsible for reviewing Western's rates, I would encourage you to consider whether rates such as those proposed by Western are consistent with FERC policies of non-discrimination.

Western has alternatives to formation of a Federal Control area. Western is already evaluating the alternatives of joining the CAISO as a Participating Transmission Owner (PTO) or Metered sub-system (MSS). Western should join the ISO as a full-fledged PTO. Western already plans to place its Path 15 project under the CAISO, and so become a "partial" PTO. I am concerned about the unfair nature of a proposal that would permit Western to roll into CAISO rates the costs of expensive assets such as Path 15, while retaining the lower cost assets in a separate control area. FERC should discourage such selective treatment of assets, as it did in its disposition of CAISO Tariff Amendment No. 49.²

A Western MSS would be an acceptable "second best" alternative, so long as cost-shifting to IOU ratepayers is limited. This approach does not, however, further the development of a seamless grid, as it would allow Western to function as a semi-autonomous "bubble" within the CAISO control area.

Western, as a Federal agency, should be encouraged to take the lead in advancing the Federal policy of integration of transmission resources into ISO/RTOs. In addition, Western should be encouraged to act consistently with federal policies concerning seamless markets and non-discriminatory transmission access.

I understand why Western might be hesitant to join the CAISO, given high CAISO costs, the complexity of the CAISO's settlement system, and continual changes to market rules and market design. The CPUC shares these concerns and has requested a benchmarking study to place CAISO costs in perspective.³ A FERC-directed review of

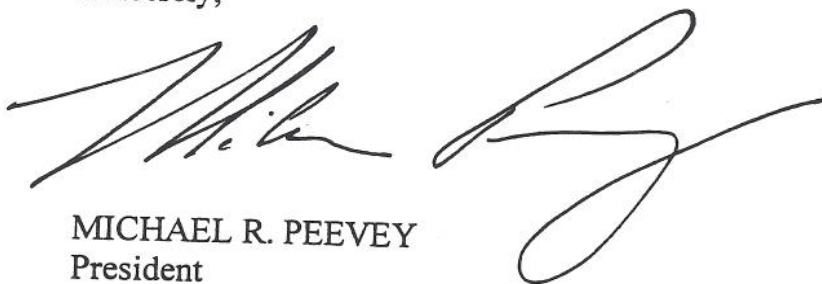
² California Independent System Operator Corporation, 103 FERC ¶ 61,260 (2003).

³ See, Comments of the Public Utilities Commission of the State of California Regarding Proposed Rulemaking on Electricity Market Design and Structure, Docket No. RM01-12-000 et al. at 55-58.

CAISO costs would provide a positive signal to entities such as Western that this issue is getting the attention it warrants. I would like to emphasize the importance of encouraging the CAISO to manage its costs and address customer issues in a manner that will serve to mitigate concerns regarding joining the CAISO. Encouraging the CAISO in this manner will serve to reduce the balkanization of the transmission system by drawing additional entities into the CAISO. This should reduce operational complexities and increase consistency and reliability.

Thank you for your consideration in this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael R. Peevey". The signature is fluid and cursive, with a large loop at the end of the last name.

MICHAEL R. PEEVEY
President

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, DC 20426

OFFICE OF THE CHAIRMAN

October 2, 2003

RECEIVED

OCT 7 - 2003

CHIEF OF BUREAU PEEVEY'S OFFICE

The Honorable Michael R. Peevey
President
California Public Utilities Commission
505 Van Ness Ave.
San Francisco, CA 94102-3298

Re: Western Area Power Administration's (Western) Active Consideration of
Forming a Separate Control Area

Dear President Peevey:

Thank you for your September 3, 2003 letter in which you express concern about Western Area Power Administration's (Western) active consideration of forming a separate control area. You also ask the Commission to review the costs of the California Independent System Operator (CAISO) because you believe that the level of its costs – as well as complexities of the CAISO settlement system and continual changes to market rules and design – discourage Western from joining the CASIO as an alternative to forming a separate control area.

As your letter indicates, the option of forming a separate control area is but one of several alternatives Western is considering putting in place when its contracts with Pacific Gas and Electric Company expire on December 31, 2004. I agree with you that the separate control area option would likely create seams in the West that could increase transaction costs. The Commission advocates customers having access to robust and competitive seamless markets, and the creation of yet another control area would increase seams, not decrease them. Moreover, the resulting separation of assets could adversely affect reliability by increasing the operational complexity of operating the California-Oregon Intertie. I also share your concern regarding the potential increased costs for customers in the West and unnecessary cost-shifting that could result from the formation of an additional control area.

Although the Commission reviews Western's rates, it does not develop a record on its own; rather, it only affirms or remands the rates Western submits to it for review. Because Western is in the process of evaluating its various options and is developing the record it will use for the decisions affecting the matters discussed in your letter, I encourage you to participate in its process and submit your comments directly to Western.

You also ask the Commission to review the CAISO's costs. We routinely review these costs during the course of rate change applications filed with the Commission. However, the CAISO's costs do appear to be high compared to other ISOs that evolved from existing power pools. This is due primarily to the CAISO's large, one-time initial startup expenditures. As these costs are amortized, the CAISO's costs should moderate. Also, as required by previous Commission orders, the CAISO is proposing a comprehensive market redesign which should eliminate the need for future patchwork market changes and corresponding changes to the settlement process. Without question, the costs of delay in this redesign are significant. We look forward to meeting in San Francisco on November 6 to discuss the implementation of the CAISO market redesign.

I additionally note that entities such as the City of Vernon and Southern Cities (Anaheim, Azusa, Banning, and Riverside) have recently joined the CAISO as Participating Transmission Owners, which indicates to me a willingness on the part of both the CAISO and these entities to work toward a better operational future in California. Perhaps this will influence Western as well.

I hope you find this information helpful.

Best regards,

A handwritten signature in black ink, appearing to read 'Pat Wood, III', with a stylized flourish extending to the right.

Pat Wood, III
Chairman

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