



STAFF REPORT

DATE: JUNE 19, 2012
 TO: HONORABLE MAYOR AND CITY COUNCIL
 FROM: ROD FOSTER, CITY MANAGER/GENERAL MANAGER *RF*
 PREPARED BY: DAVID X. KOLK, ELECTRIC UTILITY DIRECTOR *DK*
 SUBJECT: LETTER OF INTENT TO BECOME A PARTICIPATING TRANSMISSION OWNER

RECOMMENDED ACTION

It is recommended that the City Council authorize the Utility Director to file an “Application to become a Participating Transmission Owner (PTO)” with the California Independent System Operator (CAISO) and to provide supporting documents, including a Transmission Revenue Requirements schedule with the Federal Energy Regulatory Commission, and to begin negotiations with the CAISO to change the City of Colton’s transmission status from “Existing Transmission Contracts (ETC)” to “Participating Transmission Owner (PTO).”

GOAL STATEMENT

The proposed action will support the City’s goal to provide safe, reliable, affordable and environmentally sustainable electric service, as well as to reduce cost of service.

BACKGROUND

In 1996, the California legislature passed Assembly Bill 1890 (AB 1890) in an effort to restructure California’s electric utility industry and to lower costs to the state’s ratepayers. This new law fundamentally changed California’s electric utility industry by, among other things, creating the California Independent System Operator Corporation (CAISO) to assume control and operation of most of California’s electric transmission grid, as well as create new centralized markets for purchases and sales of electricity commodities.

A central part of AB 1890 was the requirement that the state’s three investor-owned utilities; the Southern California Edison Company, the Pacific Gas and Electric Company, and the San Diego Gas and Electric Company, transfer control (but not ownership) of their transmission systems to the CAISO. The City of Colton, as a publicly owned utility (POU), was not required to transfer control of its transmission assets to the CAISO, although it could have voluntarily done so. Any transmission owner (whether publicly or privately owned) that transfers control of its transmission assets to the CAISO is then considered a Participating Transmission Owner (PTO)

under the CAISO's Operating Agreement and Tariff (the "CAISO Tariff"), on file with the Federal Energy Regulatory Commission (FERC).

In exchange for transferring control of its transmission assets to the CAISO's control, a PTO is entitled to implement a Transmission Owner Tariff (TO Tariff) that specifies its annual costs of the transmission assets transferred. These costs are referred to as the PTO's annual Transmission Revenue Requirement (TRR). Once a PTO's TO Tariff is approved by the FERC, the CAISO will begin collecting usage fees (referred to as a "Access Charge") from all transmission system users (including the PTO) that are designed to pay the PTO an amount equal to its approved TRR.

As described above, POU's were not required to become PTO's, although the CAISO Tariff includes a process whereby POU's (and others) can voluntarily transfer control of their transmission rights to the CAISO and become a PTO. Since 2001, most publicly owned utilities in Southern California have chosen to turn their transmission over to the CAISO and become PTO's. These include the cities of Anaheim, Riverside, Pasadena, Vernon, Azusa and Banning. The cities of Los Angeles, Burbank and Glendale, along with the Imperial Irrigation District, Turlock Irrigation District and Sacramento Municipal Utility District, have not elected to transfer control of their transmission assets to the CAISO and become PTO's. There are currently fourteen PTO's under the CAISO Tariff.

To become a PTO, each POU developed its TRR, which reflects the cost of its existing transmission contracts, debt service cost on transmission investment (or a rate of return), a portion of the general fund transfer, and the internal cost of administering its transmission assets. The CAISO uses the TRR's from all the PTO's, both public and private, to develop a transmission usage rate intended to recover all the PTO's' respective TRR's.

The only Southern California municipal utility within the CAISO's territory which has not turned its transmission over to the CAISO is Colton. Colton has historically preferred the certainty of transmission costs instead of becoming a PTO, although the expiration of certain Colton transmission contracts and the CAISO's recent market redesign have significantly reduced that cost certainty. Colton had transmission contracts that delivered power to the City from the City's generation resources. However, in 2008, some of these contracts expired and Colton began using CAISO transmission, which represented a significant increase in CAISO fees to convey energy from the San Juan Generating Station to Colton. There was also a problem with the allocation of certain CAISO costs to PTO's for "reliability must-run" units (e.g., the eight 10 MW generators connected to Colton's transmission system) that would have increased Colton's costs if Colton had elected to become a PTO at that time. The method for allocation of these costs was changed by the CAISO in 2009, so concerns about these added costs are now moot.

Colton currently pays about \$3.0 - \$3.2 million for non-CAISO transmission annually. Slightly more than \$360,000 of this is paid to Burbank and Los Angeles for Magnolia Power Plant management services and moving energy from the Magnolia Power Plant to the CAISO system,

while most of the remainder is paid to SCE, along with the debt and operating costs on the Mead-Phoenix and Mead-Adelanto Transmission Projects, which are partially owned by Colton (through the Southern California Public Power Authority or SCPPA).

The CAISO Tariff defines which transmission assets are eligible for transfer to the CAISO's control. All of Colton's transmission resources are eligible, except for Colton's transmission used to move power from the Magnolia Power Plant to the CAISO system. The CAISO would pay all of the monthly costs of Colton's eligible transmission contracts with SCE, Los Angeles and SCPPA, and debt service on the Mead-Phoenix/Mead-Adelanto Transmission Projects.

In addition, the internal costs of managing Colton's transmission resources, about \$70,000 annually, would be recovered, along with any transmission related legal and consulting expenses and a portion of the general fund transfer (the percentage amount would have to be negotiated).

In total, Colton's estimated TRR is about \$2.7 million. If approved by the FERC, the CAISO would include Colton's TRR in the TRRs of the other PTOs and collect fees from all CAISO transmission users that are designed to pay Colton this amount each year (adjusted on an annual basis as actual costs change) for turning over its transmission resources for CAISO control and becoming a PTO.

Colton, like the other PTOs, would then pay the CAISO for any energy using the CAISO transmission system. At the current CAISO usage rates, Colton's annual charges for using the CAISO system would be about \$2.4 million (this does not include the cost of moving energy from the Magnolia Power Plant through the Los Angeles Department of Water and Power's system, which is an ineligible transmission asset for purposes of Colton's TRR).

The net effect of the change is that Colton's overall annual transmission charges decline from about \$3.2 million to about \$2.72 million, a savings of around \$450,000 annually.

Even though Colton believes that it is entitled to its calculated TRR, Colton will have to file a TO Tariff at the FERC and defend its estimates of time and the level of costs. There is no guarantee that the FERC will accept all the values calculated by the City. In addition, other PTOs may oppose certain elements of Colton's TRR and ask for lower costs since Colton's proposed TRR affects their costs as well. However, the final value should be close to the estimated amount since most of Colton's transmission costs are fixed.

The CAISO tariff requires that the Letter of Intent to become a PTO be filed by Colton no later than July 1 for Colton to become a PTO effective January 1, 2013. The Letter of Intent can be withdrawn up to August 31, 2012. However, the exact level of Colton's TRR request will not be known until the end of the year after FERC hearings, so there is some risk that FERC could approve a lower level of revenues than Colton is requesting.

Also, prior to January 1, 2013, Colton will have to get approval from the other participants in the Mead-Phoenix/Mead-Adelanto Transmission Projects to assign its rights to the CAISO (although

many of the participants already have completed the assignment) and then receive bond counsel approval of the assignment, and Colton will need to negotiate with the CAISO and the other PTOs a revision to the CAISO's Transmission Control Agreement, which is the agreement executed by all of the PTOs defining their transmission obligations under the CAISO Tariff.

FISCAL IMPACTS

Colton's annual transmission costs will decline by approximately \$450,000 annually if the proposed TRR is accepted by the FERC.

ALTERNATIVES

1. City Council may provide alternative direction to staff.

ATTACHMENTS:

Application for Participating Transmission Owner Status

CITY OF COLTON
APPLICATION FOR
PARTICIPATING TRANSMISSION OWNER STATUS

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APPENDIX B - COLTON’S TRANSMISSION ENCUMBRANCES

CITY OF COLTON APPLICATION FOR PARTICIPATING TRANSMISSION OWNER STATUS

1. Description of Colton's Transmission Lines and Facilities

The City of Colton receives access to the ISO Controlled Grid by virtue of a Wholesale Distribution Access Tariff ("WDAT") with the Southern California Edison Company ("SCE") and does not have legal title to any transmission lines or facilities. The WDAT governs SCE's provision of wholesale distribution service between Colton's system and the ISO Controlled Grid. Such service is provided from the point where the 69 kV conductors of SCE and Colton connect at the Colton Substation, to the point at SCE's 230/115/69 kV Vista Substation where SCE's 230 kV facilities interconnect with the ISO Controlled Grid.

2. Description of Colton's Transmission Entitlements

The City of Colton has the following entitlements to transmission service associated with High Voltage Transmission Facilities (see also Appendix A, and Figure 1 attached thereto):

2.1 Mead-Adelanto Project

The Mead-Adelanto Transmission Project is comprised of a 500 kV alternating current transmission line extending between the Marketplace and Adelanto Switching Stations.

The City of Colton is entitled to firm bidirectional service equaling 1.75% of the facility's 1,291 MW rated capability, or 23 MW.

2.2 Mead-Phoenix Project

The Mead-Phoenix Transmission Project is comprised of:

- ▶ a 500 kV alternating current transmission line extending between Westwing and Perkins Substations. With regard to this component, the City of Colton is entitled to firm bidirectional service equaling 0.2308% of the facility's 1,923 MW rated capability, or 4 MW.

- ▶ a 500 kV alternating current transmission line extending between Perkins and Mead Substations. With regard to this component, the City of Colton is entitled to firm bidirectional service equaling 0.2308% of the facility's 1,923 MW rated capability, or 4 MW.

- ▶ a 500 kV alternating current transmission line extending between Mead Substation and Marketplace Switching Station. The City of Colton is entitled to firm bidirectional service equaling 0.1620% of the facility's 2,600 MW rated capability, or 4 MW.

- ▶ 500/230 kV transformation between the Mead Substation 500 kV bus and the Mead Substation 230 kV bus. The City of Colton holds no entitlement to these transformation facilities.

2.3 Marketplace-McCullough Transmission Line

The Marketplace-McCullough transmission line is a 500 kV alternating current transmission line extending between the Marketplace and McCullough Switching Stations. This facility's rated capability is 3,475 MW.

As part of both the Mead-Adelanto and Mead-Phoenix Transmission Projects, the City of Colton is entitled to firm bidirectional service equaling 33 MW.

2.4 Adelanto-Victorville/Lugo

The Adelanto-Victorville/Lugo path is comprised of 500 kV alternating current transmission facilities extending between the Adelanto Switching Station, the Victorville Switching Station, and the midpoint of the Lugo-Victorville 500 kV line.

The City of Colton is entitled to firm bidirectional service over this path in an amount up to its transmission service entitlement in the Mead-Adelanto Project (i.e., 22.59 MW).

2.5 Lugo/Victorville 500 kV to Vista 230 kV

Colton's 21 MW entitlement to firm unidirectional network service from the midpoint of the Lugo/Victorville 500 kV line to the Vista Substation 230 kV Substation is derived from two separate agreements with the Southern California Edison Company:

- ▶ one agreement providing for 3 MW of service.
- ▶ one agreement providing for 18 MW of service.

2.6 Mead 230 kV to Vista 230 kV

Colton's 3 MW entitlement to firm unidirectional network service from the Mead Substation 230 kV bus to the Vista Substation 230 kV bus is derived from a firm transmission service agreement with the Southern California Edison Company.

2.7 Devers Substation to Vista 230 kV

Colton's 14.043 MW entitlement to firm unidirectional network service from the Devers Substation to the Vista Substation 230 kV bus is derived from a firm transmission service agreement with the Southern California Edison Company.

3. Encumbrances

There will be no encumbrances related to the City of Colton's transmission service entitlements at the time Colton places its entitlements under the ISO's Operational Control.

4. Transmission Lines and Facilities to be placed under ISO's Operational Control

The City of Colton intends to place under the ISO's Operational Control all of its transmission entitlements listed in Section 2 above. The City of Colton does not have ownership of, or entitlements to, any Low Voltage Transmission Facilities.

5. Reliability Criteria

The City of Colton does not have any specific Local Reliability Criteria that are applied to the entitlements identified in Section 2 above. The transmission providers or the operating agents for the transmission projects to which Colton has a transmission service entitlements meet the WECC standards.

6. Maintenance Practices

The City of Colton does not operate or maintain any of the transmission facilities related to its transmission service entitlements. The operating agreements for the Southern California Public Power Authority ("SCPPA") transmission projects (Items 2.1, 2.2, and 2.3) require that the operating managers perform operating and maintenance work according to Prudent Utility Practice, the respective agreements and applicable guidelines.

7. Temporary Waivers

Not applicable.

8. Proposed Transmission Owner (TO) Tariff

A draft of Colton's Transmission Owner Tariff ("TO Tariff") is attached. The City of Colton will file the final draft of its TO Tariff, including its proposed Transmission Revenue Requirement ("TRR"), with the Federal Energy Regulatory Commission ("FERC") under the FERC's rules and procedures.

9. Colton's TRR

The City of Colton will file its TRR as part of the filing noted in Section 8 above.

10. Address and Contact Names

Mr. David X. Kolk, Ph.D.
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Colton, CA 92324

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Telephone: (202) 585-6905
Fax: (202) 585-6969

11. Settlement Account

<REDACTED>

12. Colton's Monthly MWh Demands

**MWh Demand Per Month
Calendar Year 2011**

<u>Month</u>	<u>MWh</u>
January	26,984
February	26,903
March	25,645
April	26,205
May	26,262
June	26,347
July	26,454
August	39,921
September	34,779
October	29,386
November	26,172
December	<u>24,408</u>
Total	339,466

13. Instructions for Encumbrances and Entitlements

Because no encumbrances exist with respect to Colton's transmission service entitlements, the development of instructions related to encumbrances is unnecessary. Instructions related to Colton's transmission service entitlements, if necessary, will be developed jointly with the ISO and the operating agents/transmission providers. The City of Colton anticipates that any such instructions will be identical to the existing instructions applicable to similar entitlements placed under the ISO's Operational Control by the Cities of Anaheim, Riverside, Azusa, Banning and Pasadena.

14. List of Supporting Agreements Attached

- Mead-Adelanto Project Agreements
 - Operation Agreement
 - Transmission Service Contract
 - Joint Ownership Agreement
- Marketplace Substation

Participation Agreement

- Mead-Phoenix Project Agreements

Operation Agreement
Transmission Service Contract
Joint Ownership Agreement

- SCE Agreements

Restructuring Agreement
Hoover Firm Transmission Service Agreement
Pasadena Firm Transmission Service Agreement
1995 San Juan Unit 3 Firm Transmission Service Agreement
Palo Verde Nuclear Generating Station Firm Transmission Service Agreement

- Los Angeles Department of Water and Power Agreement

Adelanto-Victorville/Lugo Firm Transmission Service Agreement

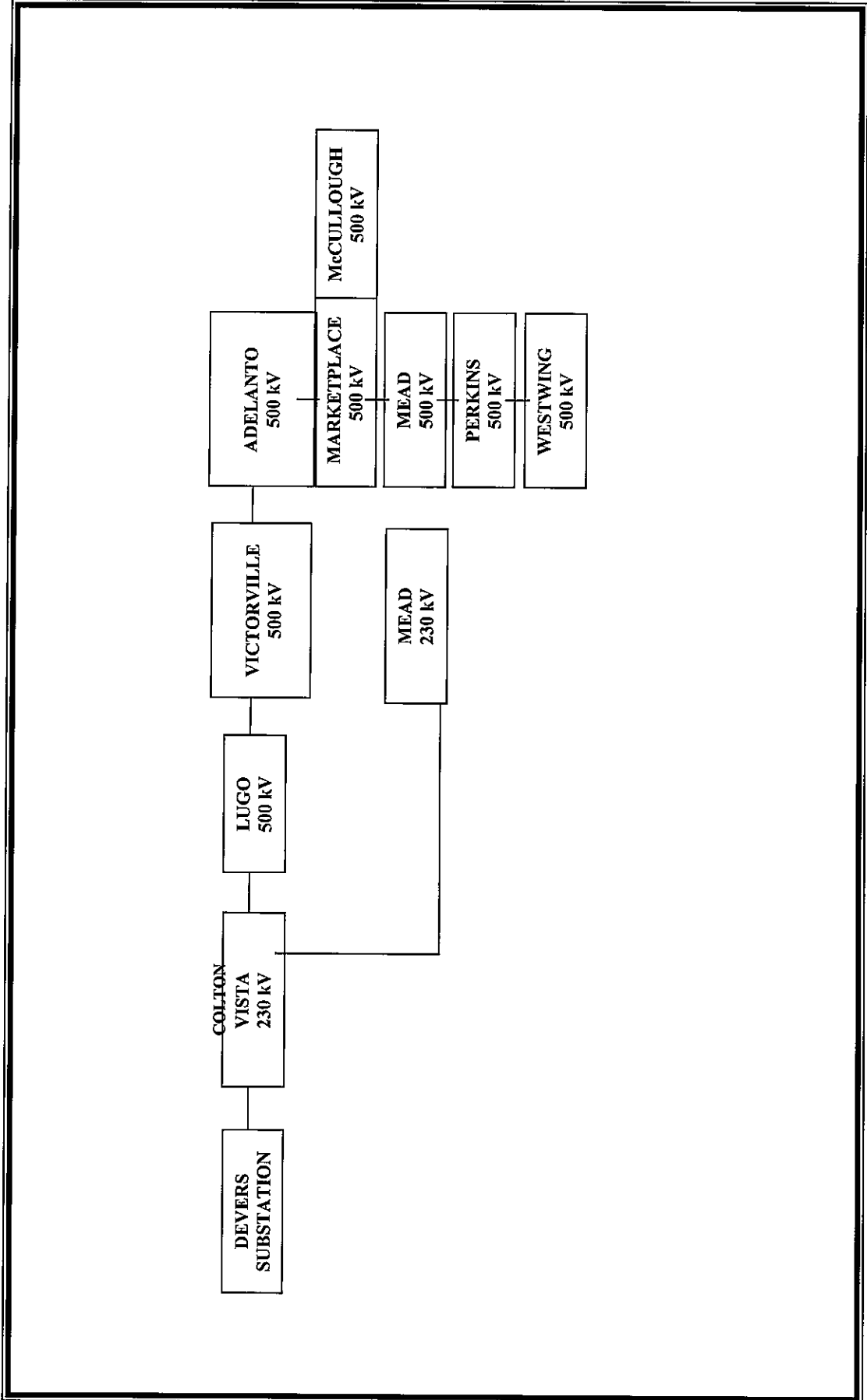
APPENDIX A
CITY OF COLTON
TRANSMISSION SERVICE ENTITLEMENTS

Point of Receipt-Delivery	Parties	Direction	Contract Title	FERC No.	Contract Termination	Contract Amount
1. Marketplace-Adelanto	Colton-SCPPA	Bi-directional	Mead-Adelanto Project Transmission Service Contract	None	See note 1	23 MW
2. Westwing-Mead-Marketplace	Colton-SCPPA	Bi-directional	Mead-Phoenix Project Transmission Service Contract	None	See note 2	4 MW
3. Marketplace-McCullough	Colton-SCPPA	Bi-directional	Mead-Adelanto Project Transmission Service Contract	None	See note 3	33 MW
4. Adelanto-Victorville/Lugo	Colton-LADWP	Bi-directional	Mead-Phoenix Project Transmission Service Contract Adelanto-Victorville/Lugo Firm Transmission Service Agreement	None	See Note 4	23 MW
5. Devers-Vista	Colton-SCE	To Vista	1995 San Juan Unit 3 Firm Transmission Service Agreement	365	See Note 5	14,043 MW
6. Mead-Vista	Colton-SCE	To Vista	Hoover Firm Transmission Service Agreement	361	See Note 6	3 MW
7. Lugo/Victorville-Vista	Colton-SCE	To Vista	Pasadena Firm Transmission Service Agreement	363	See Note 7	18 MW
8. Lugo/Victorville-Vista	Colton-SCE	To Vista	Palo Verde Nuclear Generating Station Firm Transmission Service Agreement	362	See Note 8	3 MW

Notes:

1. Agreement terminates on: (i) October 31, 2030; or (ii) such later date as all bonds used to finance the project have been paid, or provisions for their payment have been made.
2. Agreement terminates on: (i) October 31, 2030; or (ii) such later date as all bonds used to finance the project have been paid, or provisions for such payment has been made.
3. Agreement terminates concurrent with termination of the agreements referred to in notes 1 and 2, above.
4. Agreement terminates on: (i) four year notice by either party; (ii) the date of retirement of the Mead-Adelanto Project; (iii) the date the Lugo-Victorville point of interconnection is permanently removed from service; (iv) the in-service date of a new transmission line interconnecting LADWP's Adelanto Switching Station and SCE's Lugo Substation; or (v) upon 30 days notice if Colton elects to terminate the agreement following a change in the rate for transmission service charged by LADWP.
5. Agreement terminates on: (i) one year notice by Colton; (ii) termination of Colton's interest in San Juan Generating Station Unit 3; or (iii) unacceptable FERC modification.
6. Agreement terminates on: (i) one year notice by Colton; (ii) termination of Electric Service Contract providing for Colton's interest in the Boulder Canyon Project (Hoover); or (iii) unacceptable FERC modification.
7. Agreement terminates on: (i) one year notice by Colton; (ii) termination of Colton's interest in San Juan Generating Station Unit 3; or (iii) unacceptable FERC modification.
8. Agreement terminates on: (i) one year notice by Colton; (ii) termination of Colton's interest in the Palo Verde Nuclear Generating Station; (iii) termination of the Arizona Nuclear Power Project Participation Agreement; or (iv) unacceptable FERC modification.

CITY OF COLTON
TRANSMISSION SERVICE ENTITLEMENTS



Point of Receipt-Delivery	Parties	Direction	Contract Title	FERC
None				