

California ISO Response to:  
“Experiences w/Joint Transmission  
Project Development in the West”

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# California ISO Response to “Experiences with Joint Transmission Project Development in the West”

## II. Summary

In a recently published paper entitled “Experiences with Joint Transmission-Project Development in the West” (“Paper”) the Paper’s sponsors<sup>1</sup> contend that the California Independent System Operator (“ISO”) represents an obstacle to efficient transmission planning, joint ownership of transmission additions, and achieving California’s important renewable resource goals.

The ISO does not typically respond to papers of this nature. This Paper, however, compels us to respond because it so clearly mischaracterizes the ISO’s tariff, the ISO’s role in the cancellation of certain transmission projects, and the important steps the ISO has taken to remove barriers to renewable resource development. This response explains the ISO’s responsibilities, describes outreach to several of the sponsors of this Paper related to the issues it raises, and addresses other issues including those involving the tariff and the ISO’s role in achieving the state’s renewable resource goals.

The California ISO is a public benefit, not-for-profit organization responsible for operating transmission facilities owned by others that serve more than 80% of Californians. The ISO is charged by statute to reliably operate the transmission network and in doing so must meet critical system reliability and balancing requirements. In addition, the ISO’s mission is to ensure the full and efficient use of these transmission assets and promote infrastructure expansion and development to achieve the greatest benefits for California and ISO ratepayers.

The ISO accomplishes this mission through tariff provisions that incorporate system operations and planning goals based on transparent reliability and economic objectives, and simultaneously provides mechanisms to accommodate jointly owned projects governed by bilateral agreements between the ISO or its participating transmission owners, and other parties. The ISO tariff provides efficient and non-discriminatory access to the transmission network and rate recovery for new transmission when it is cost-effective and/or improves system reliability.

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<sup>1</sup> The sponsors are the Imperial Irrigation District (IID), the Turlock Irrigation District (TID), the Los Angeles Department of Water and Power (LADWP), the Sacramento Municipal Utility District (SMUD), and the Western Area Power Administration (WAPA).

The ISO tariff charges for its services at cost-based rates governed by a tariff developed in a public stakeholder process that requires review and approval both by the ISO's independent board and the Federal Energy Regulatory Commission (FERC). In contrast, the sponsors of the Paper operate under a vertically integrated "build, own, operate" model that relies on private bilateral contracts, is not transparent and does not provide for full use of its transmission system.

Despite these differences, the ISO has worked through its public tariff development process to enable non-jurisdictional parties to achieve the price certainty and firm transmission rights sought by the sponsors of the Paper, as described in more detail in the sections that follow. Moreover, the ISO provides these accommodations in a manner that is consistent with the ISO's goals of transparent operations and non-discriminatory transmission, including access to unused transmission capacity twenty-four hours a day. Anything less will increase electricity costs and create unnecessary environmental impacts as the result of unneeded transmission development.

In addition, as committed by the ISO to FERC, the ISO will address these issues more fully through its currently active Order 890 stakeholder process. The goal will be to frame the relevant issues and, if appropriate, develop tariff refinements.

Regrettably, the ISO's efforts to address these issues collaboratively are mischaracterized in the Paper, which also fails to acknowledge how the ISO tariff provides the price certainty and firm transmission rights the Paper's sponsors seek. In the sections that follow, this document describes:

- ISO outreach to key parties with concerns about the ISO's tariff.
- Principles guiding the ISO's operational and transmission planning responsibilities.
- Tariff provisions governing bilateral agreements between ISO participating transmission owners and other parties such as the sponsors of the Paper.
- Issues with the "hybrid model" described in the Paper.
- The ISO's leadership in removing barriers to renewable resource development.

## **II. The ISO has sought collaboration with several sponsors of the Paper.**

Before addressing the tariff issues raised in the Paper, the ISO is compelled to clear the record with regard to allegations that the ISO caused the cancellation of two recently considered transmission projects and is generally unwilling to consider jointly-owned projects.

In the case of Green Path Southwest, IID, San Diego Gas and Electric Company, and Citizen Energy negotiated a memorandum of understanding that would have increased access to IID's important geothermal resource area. In those negotiations IID argued for full control of the transmission although they would fund only 5% of the cost, with the remaining 95% of the costs collected from ISO ratepayers. In addition, IID sought a new provision allowing them to increase their ownership share in the future without any additional up front financial commitment. The negotiations resulted in extensive provisions to secure IID's interest and investment over the lifetime of the proposed project. Ultimately, the agreement was ratified by IID, SDG&E and Citizens Energy. We should note that the IID was represented in these negotiations by Mr. Charles Hosken who combined hard line positions with professional and effective engagement.

In the spring of 2007, the newly elected IID Board of Directors reopened the issues that had been settled in the earlier memorandum of understanding. The IID Board introduced new and previously settled issues that were unacceptable to the ISO as well as other parties in the discussions. Parties including IID and the ISO again met several times to discuss outstanding issues. ISO participants included senior ISO management, including the CEO. IID participants included the general manager and two members of the IID Board of Governors. IID board members made clear in these discussions that their priorities were driven by acquiring water and serving the irrigation and pumping needs of their customers. Their primary concern on issues like interconnections was retaining local control as opposed to achieving the most economic transmission upgrades.

Nevertheless, IID and SDG&E executed a memorandum of understanding that provided for access to the geothermal generation in the District's service territory. Subsequently, IID cancelled their participation in the project. At no time did IID claim that the ISO was the cause. Perhaps most importantly, IID submitted information under oath in a California Public Utilities Commission proceeding which did not mention the ISO and said that routing issues were the reason for the withdrawal from the project.

The ISO's efforts with the Los Angeles Department of Water and Power (LADWP) were also extensive and frustrating. The Department has a lot to gain from being part of the larger State grid as a way to minimize the need for new transmission, increase their access to renewable generation at lower cost to their

ratepayers, and reduce their CO2 footprint. The CEO of the ISO approached LADWP management on several occasions to open discussions regarding these issues. In those discussions, the ISO asked LADWP to discuss their Green Path North project and other alternatives with regard to how they benefit LA and the rest of the state. LADWP, however, asked the ISO not to discuss these issues because it involved political and environmental matters that LA did not want to expose.

Not long after these discussions, a Department spokesman told the media that problems for their project were caused by the ISO tariff. When called by the ISO and asked to explain, the Department's General Manager acknowledged that the ISO tariff was not the problem and assured the ISO that the Department's media spokesperson was mistaken. However, the Department did not correct the record and has now made the same assertions in the Paper.

The ISO also reached out to the Sacramento Municipal Utility District (SMUD). The ISO initiated contact with SMUD that led to a meeting involving the ISO CEO, the entire ISO executive team, the SMUD General Manager and SMUD's executive team. A key objective was to discuss better ways to plan for transmission upgrades to address California's renewable resource and greenhouse gas objectives and to identify other initiatives that could benefit both organizations. The ISO and SMUD agreed to discuss ways to improve planning and identify possible joint efforts. The Vice President of Planning and Infrastructure Development of the ISO subsequently sought to have substantive discussion with SMUD management on these matters. Three separate meetings were scheduled only to be cancelled by SMUD.

The ISO has reached out to these entities on many occasions, as shown in the examples described here. Moreover, the ISO remains ready to continue these discussions. They must be motivated, however, by an interest in reaching results that are in the interest of all parties. The ISO is amenable to these discussions but has no control over other parties' willingness to engage with the ISO.

**III. The ISO is guided by clear principles reflected in its tariff and in carrying out its day-to-day operations and transmission responsibilities.**

The ISO tariff is the product of ten years of evolution involving agreements with transmission owners, consensus-building around complex stakeholder issues, open and transparent planning, and rigorous oversight by regulators who must make findings that the tariff is just and reasonable. These efforts focus on achieving what is in the best interest of the state – reliable and efficient service – and are open to all stakeholders regardless of whether they participate in the ISO's markets or not.

Indeed, over the years, the ISO has adopted tariff provisions that accommodate the physical ownership rights and business needs of entities like the Paper's sponsors who jointly own transmission with entities that are part of the ISO, as described further in subsection "IV" below. Here is a brief discussion of key principles guiding the ISO's effort to meet its critical public service obligations.

**Costs borne by ISO ratepayers must provide commensurate benefits.**

The ISO conducts a transmission planning process under rules promulgated by FERC that are specifically designed to maintain reliability and prevent discrimination in access to transmission systems owned by both public and private vertically integrated utilities. This planning process must meet stringent criteria regarding, among other things, comparability, coordination, openness, transparency, and regional coordination. As such, all interested parties, including public and private utilities, generation owners and developers, state and local agencies, environmental organizations and interested individuals are welcomed into the process. The ISO is ready to work with all participants, regardless of their business model, to ensure that the planning process considers the full range of transmission and resource options. The consideration includes conducting reliability and cost/benefit analyses and advancing those projects providing documented benefits to ISO ratepayers.

Over the last ten years, the ISO has approved approximately \$8 billion in transmission upgrades, half of which are under construction or in-service and provide ratepayers with reliability and cost efficiency benefits. These include projects like the Jefferson-Martin 230 kV transmission line and TransBay Cable Project, both serving San Francisco; the Tehachapi Wind Area Transmission Project to deliver wind generation to southern California; and many smaller system upgrades to lower the cost of delivering power to California consumers. These include projects owned and proposed by investor-owned utilities as well as a project jointly proposed by a municipality and a private developer.

**Existing transmission should be fully utilized before new transmission expands the environmental footprint.**

Transmission corridors and are extremely difficult to establish and should be used for the benefit of all Californians. The ISO transmission service model ensures that all transmission customers have open access to transmission capacity, while preserving the rights of non-ISO participating owners or existing contract rights holder to the transmission capacity that they own or have purchased. Importantly, the ISO model provides that when transmission capacity is not being used, the ISO will make it accessible to other parties on an as-available basis. In contrast, sponsors of the Paper insist on "physical" transmission rights. In other words, their

