

August 30, 2012

The Honorable Kimberly D. Bose  
Secretary  
Federal Energy Regulatory Commission  
888 First Street, NE  
Washington, DC 20426

**Re: California Independent System Operator Corporation  
Docket No. ER12-\_\_\_\_ - 000**

**ISO Management Approval for Policy-Driven and Economically-  
Driven Elements Costing \$50 Million or Less**

Dear Secretary Bose:

The California Independent System Operator Corporation (“ISO”) hereby submits for filing proposed amendments to its approved tariff to modify the ISO transmission planning process.<sup>1</sup> With these amendments, the ISO seeks to broaden the scope of transmission upgrades or additions that can be approved by ISO management and therefore proceed to competitive solicitation (if applicable to the specific upgrade or addition being approved), permitting and construction before the ISO Governing Board (“Board”) approves the comprehensive annual transmission plan.

The current ISO tariff provides that reliability upgrades or additions, or upgrades necessary to maintain the feasibility of long term congestion revenue rights (CRRs), costing \$50 million or less may be approved by ISO management prior to approval of the annual transmission plan by the Board. These projects are identified during Phase 2 of the ISO’s transmission planning process. The ISO now seeks to expand this procedure to include policy-driven and economically-driven elements that cost \$50 million or less. Because under the ISO’s existing transmission planning process policy-driven and economically-driven elements are subject to a competitive solicitation process for the purposes of selecting the project sponsor, the ISO has also proposed tariff language that would allow the solicitation process for these specific elements to be held before the Phase 3 solicitation process contemplated in tariff Section 24.5 and subsequent sections. Finally, in response to stakeholder comments, the ISO also proposes to brief the ISO Board of Governors in a public session regarding all projects costing \$50 million or less that the ISO has recommended for management approval so that stakeholders will have an opportunity to provide comments to the Board.

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<sup>1</sup> This filing is submitted pursuant to Section 205 of the Federal Power Act, 16 U.S.C. § 824d, and Section 35.15 of the regulations of the Federal Energy Regulatory Commission (the “Commission”), 18 C.F.R. Section 35.15.

The ISO requests an effective date of October 30, 2012, 61 days from the date of this filing, so that the new tariff provisions can go into effect during the 2012/2013 transmission planning process that is currently underway.

## **I. Introduction and Background**

On December 21, 2010, the Commission approved tariff changes that implemented the ISO's revised transmission planning process ("RTPP") and introduced a holistic approach to transmission planning.<sup>2</sup> Among other changes, the revised process introduced several new and substantially different concepts regarding the ISO's transmission planning studies and the categories of transmission infrastructure improvements identified as part of these studies.

In particular, the revised process introduced a new category of transmission upgrade or addition known as a "policy-driven" element, which is a transmission upgrade or addition needed to achieve state or federal laws or other directives.<sup>3</sup> As part of the ISO's new holistic approach to transmission planning, the ISO identifies the need for these policy-driven elements through studies based on scenarios developed with stakeholders that reflect plausible build-outs of generation needed to meet the policy objectives identified in the unified study assumptions and study plans. Once such transmission upgrades and additions are identified and approved by the Board, the ISO opens a competitive solicitation process to select a project sponsor who will finance, construct and own the facilities.<sup>4</sup>

The same is true for economically-driven transmission upgrades and additions, which also are considered transmission elements in the tariff under the ISO's revised transmission planning process. During Phase 2 of the transmission planning process, the ISO will conduct economic studies to determine whether there are areas of the grid where transmission upgrades or additions, in addition to those needed for reliability or policy-driven purposes, could provide economic benefits.<sup>5</sup> Similar to policy-driven elements, needed economically-driven elements are subject to the competitive solicitation process in Phase 3. The revised transmission planning process did not introduce substantial modifications to reliability projects or to projects needed to maintain the feasibility of long term CRRs. According to the current process, the ISO conducts reliability studies and posts its study results, at which time a request window opens and the Participating Transmission Owners (Participating TOs) must submit projects responsive to these study results within 30 days.<sup>6</sup> Other stakeholders have an opportunity to submit proposals within 60 days after the request window opens.<sup>7</sup>

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<sup>2</sup> California Independent System Operator Corporation, et. al. 133 FERC ¶61,224 (2010).

<sup>3</sup> Tariff Section 24.4. 6.6.

<sup>4</sup> See Tariff Section 24.5 *et. seq.*

<sup>5</sup> Tariff Section 24.4.6.7

<sup>6</sup> Tariff Section 24.4.2

<sup>7</sup> Tariff Section 24.4.3; the 60 day schedule is described in the BPM for Transmission Planning.

Although non-Participating TOs may submit reliability proposals through the request window, only Participating TOs with a service territory are obligated to finance, own and construct such projects.<sup>8</sup> Thus, reliability projects, and projects needed to maintain the feasibility of long term CRRs are, in general, not subject to competitive solicitation. It should be noted that if reliability projects or projects needed to maintain the feasibility of long term CRRs have incidental policy or economic benefits, these projects will also be open to competitive solicitation.<sup>9</sup>

To distinguish between additions and upgrades needed to address reliability concerns and the feasibility of long term CRRs, which are proposed by Participating TOs,<sup>10</sup> and policy-driven/economically-driven upgrades and additions that are identified in the ISO study process, the ISO introduced a distinction in terminology as part of the revised transmission planning process. According to the tariff, a transmission “project” is proposed through the request window and has a sponsor to finance, own and construct the facilities, whereas a transmission “element(s)” is identified in the planning process and has no sponsor until the competitive solicitation is concluded.<sup>11</sup>

The tariff modifications herein pertain to tariff section 24.4.10, which describes the transmission plan approval process. This section was part of the tariff that existed prior to RTPP and, although the ISO re-numbered it and introduced minor non-substantive changes as part of RTPP, the pre-existing language was largely carried over into the new process even though some new terms were introduced and not added to the section. As a result, section 24.4.10 contains a provision whereby ISO management can approve transmission upgrade and addition **projects** costing \$50 million or less and, with such approval, such projects can proceed to permitting and construction prior to Board approval of the transmission plan. The ISO did not add a reference to **elements** costing \$50 million or less. Under the previous transmission planning process, this Section 24.4.10 provision would have been applicable to all projects, regardless of the category of transmission, because the distinction between “element” and “project” was not introduced until RTPP. Now, however, without a reference to “elements”, management approval of smaller projects under 24.4.10 is limited to transmission upgrades and additions needed to address reliability concerns and to maintain the feasibility of long term CRRs. With this proposal the ISO will expand the \$50 million or less management approval provision to include economically-driven and policy-driven elements, as well as reliability projects or projects needed to maintain the feasibility of long term CRRs that have incidental policy or economic benefits and would be subject to competitive solicitation.

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<sup>8</sup> See Tariff Sections 24.4.6.2 and 24.4.6.4.

<sup>9</sup> *Id.*

<sup>10</sup> Or, as noted above, if identified by the ISO or non-Participating TOs, reliability projects and those needed to maintain the feasibility of long term CRRs will be built and owned by a Participating TO with a service territory,

<sup>11</sup> See Section 24.1.

The ISO implemented its revised transmission planning process in the 2010/2011 planning cycle which culminated in Board approval of the transmission plan in May 2011. The 2011/2012 cycle was completed with Board approval of the transmission plan in March 2012. There were no transmission elements identified in either cycle that required the opening of a competitive solicitation to select project sponsors.<sup>12</sup> However, now that the ISO has worked through two transmission planning cycles and is in the midst of the 2012/2013 cycle, it has become apparent that there may be elements or projects needed to maintain long term CRRs with incidental policy or economic benefits costing \$50 million or less, that should also be eligible for management approval and allowed to proceed to competitive solicitation, permitting and construction prior to Board approval of the transmission plan. Thus, the ISO initiated a stakeholder process to consider the tariff changes needed to include these additional categories of transmission upgrades or additions, policy-driven or economically-driven elements to be approved and accelerated through the transmission planning process.

## **II. Purpose and Timing of Proposed Tariff Modification**

As discussed above, because the ISO did not modify the Section 24.4.10 language to include “elements” in addition to “projects,” the section currently provides an opportunity for low cost reliability projects and those needed to maintain the feasibility of long term CRRs to move forward expeditiously when the alternative of waiting for Board approval of the entire transmission plan could cause unacceptable delays and be problematic. Now, given the rapid pace of renewable development and policy-driven transmission enhancements needed to facilitate generator construction schedules, the ISO believes that management should have the ability to advance low cost policy-driven projects (and possibly economically-drive projects) ahead of the schedule for Board approval of the comprehensive transmission plan.

The ISO’s conclusion that the tariff language should be expanded is based not only on the need to modify a discrepancy in tariff drafting but on information from the generation interconnection process and recommendations from the California Energy Commission (CEC) and the California Public Utilities Commission (CPUC) during the development of the 2012/2013 renewable portfolio scenarios. Specifically, in addition to providing the base case and renewable portfolio scenarios that the ISO will analyze during the current transmission planning cycle, these agencies noted potential infrastructure needed to access renewables within the Imperial Irrigation District and suggested that it might be appropriate to expedite the time schedule for approval and conduct of a competitive solicitation of any needed low cost upgrade or addition prior to the Board approval of the transmission plan.<sup>13</sup> Accordingly, the ISO recognized that there needed to be a tariff mechanism by which a competitive solicitation process could be held for projects approved by management prior to the Phase 3 process that commences after Board approval of the transmission plan.

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<sup>12</sup> In the 2010/2011 cycle the ISO identified a Category 1 policy-driven element that was an upgrade to a Participating TO’s transmission system and not eligible for competitive solicitation.

<sup>13</sup> See May 16, 2012, letter from the CEC and CPUC at [http://www.caiso.com/Documents/2012-2013-FinalRenewableGenerationPortfoliosRecommended\\_CPUC-CEC.pdf](http://www.caiso.com/Documents/2012-2013-FinalRenewableGenerationPortfoliosRecommended_CPUC-CEC.pdf).

In addition, with the modifications to sections 24.4.6.2 and 24.4.6.4 approved by the Commission as part of the RTPP compliance filing, reliability projects and projects needed to maintain the feasibility of long term CRRs that provide incidental policy-driven or economically-driven benefits will be subject to the competitive solicitation process.<sup>14</sup> Should any of these elements cost \$50 million or less, they would not have a project sponsor until the Phase 3 process, which begins after Board approval of the transmission plan, and therefore would not be eligible for earlier management approval. Furthermore, the current tariff language in tariff Section 24.4.10 provides that ISO management may approve smaller (reliability) projects ahead of transmission plan approval, but does not set forth a schedule for such approval. In some prior transmission planning cycles, the ISO has identified the “\$50 million and under” projects recommended for management approval in the draft transmission plan, which thus provided an opportunity for stakeholder discussion at the fourth stakeholder meeting under the planning process, and comments following the meeting. During the stakeholder process, the ISO explored the possibility that the need for certain smaller projects might require an expedited approval process that would occur outside of the existing stakeholder opportunities for notice and comment in the tariff, as had been done in the past. Accordingly, the ISO suggested that the details of an expedited stakeholder consultation and management approval process could be developed in the BPM for transmission planning.

Stakeholders generally agreed with this approach, subject to the following explicit guidelines: 1) there must be an urgent need for the project or element to be advanced ahead of the approval schedule for other small projects and Board approval of the transmission plan; 2) there must be a high degree of certainty that projects or elements being approved in advance of other transmission upgrades or additions will not conflict and potentially moot with other projects or elements still being considered during Phase 2; 3) projects or elements eligible for expedited approval are subject to the \$50 million cost ceiling; and 4) the need to accelerate a project may be driven either by the ISO’s study process or by external circumstances.<sup>15</sup> In response to comments submitted by Southern California Edison, the ISO has proposed tariff language incorporating these principles into Section 24.10 but proposes to work with stakeholders to address, in the BPM for transmission planning, the details of the regularly scheduled approval process for projects and elements with capital costs of \$50 million or less, details regarding the expedited process and details regarding the accelerated competitive solicitation process. Putting these process details in the BPM is consistent with the approach taken with the revised transmission planning process and which was approved by the Commission. For example, Section 24.4.9 sets forth basic milestones for the Phase 2 stakeholder process but leaves much of the details to the BPM. Similarly, tariff Sections 24.5.1-24.5.3 provide that the schedule for the competitive solicitation process submission schedule and details about project submission packages will be addressed

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<sup>14</sup> Modifications to these sections were approved by the Commission with by letter approval on March 26, 2012. See *California Independent System Operator Corporation*, Docket ER11-2705-003.

<sup>15</sup> Attachment A, pages 2-3.

in the BPM.<sup>16</sup> The language proposed for Section 24.5.1 simply builds on this framework.

Finally, in response to stakeholder concerns, the ISO has included tariff language that allows an opportunity for stakeholders to present any concerns to the Board regarding projects or elements recommended for expedited management approval. The ISO intends to implement this tariff change during the 2012/2013 transmission planning cycle and therefore requests that the Commission approve the proposed tariff language with an effective date of October 30, 2012. This will allow the ISO to provide notice to the stakeholders during the Phase 2 study cycle, of any projects or elements costing \$50 million or less that are recommended for expedited management approval ahead of other transmission enhancements that would be identified in the transmission plan.

Concurrently with this filing, the ISO is conducting a stakeholder process regarding compliance with the Commission's Order 1000 requirements. Consistent with the directives of that Order, the ISO anticipates submitting revised tariff language on October 11, 2012. The ISO has advised its stakeholders that if the Order 1000 compliance filing is not approved by February 2013 it will be impossible to implement those tariff revisions during the 2012/2013 transmission planning cycle. In contrast, the ISO seeks to implement the instant modifications for transmission upgrades or additions costing \$50 million or less during the current 2012/2013 cycle. Thus, it was not practicable to include this tariff proposal with the Order 1000 compliance filing due to the difference in likely implementation dates.

The ISO's Order 1000 compliance tariff language is still under development with stakeholders but the general design of the ISO's transmission planning process is not being proposed for change. There will be additional revisions to Sections 24.4.10 and 24.5.1 required to implement Order 1000, but the basic construct for management approval of projects and elements with capital costs of \$50 million or less, which is the subject of this tariff amendment filing, will not be affected by the Order 1000 compliance filing.

### **III. The Stakeholder Process**

The ISO posted a draft straw proposal, explaining the need to revise tariff sections 24.4.10 and 24.5.1, on May 31, 2012 and held a stakeholder conference call on June 7. Following the receipt of stakeholder comments, the ISO posted a final proposal on June 21, with a follow up call on June 28 and stakeholder comments submitted on July 6.<sup>17</sup> The ISO presented the proposal to the ISO Board of Governors on July 12, 2012.<sup>18</sup>

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<sup>16</sup> See BPM for Transmission Planning at <https://bpm.caiso.com/bpm/bpm/version/000000000000137> , Section 5.

<sup>17</sup> The final proposal is attached as Attachment A.

<sup>18</sup> See Board memo at Attachment B.

As discussed in the final proposal, stakeholders largely supported the proposed tariff revisions, and no stakeholders opposed it. Several stakeholders requested additional details surrounding the process by which they would be informed of the ISO's recommendations for expedited management approval of projects or elements with an urgent need to move forward. The ISO responded to this request for additional information in the final proposal by listing the guidelines for expedited approval discussed above. The ISO also noted that the details of the accelerated approval process that will be described in the BPM for Transmission Planning are intended to be used infrequently and only under limited circumstances.<sup>19</sup>

During the second round of stakeholder comments, Southern California Edison expressed concern that an accelerated management approval process for policy-driven or economically-driven smaller elements would not provide an opportunity for stakeholders to address the Board on a timely basis before the transmission upgrade or addition moves forward. Southern California Edison noted that if a reliability-driven project is urgently needed, the ISO would have identified such a need through the application and analysis of reliability criteria. In contrast, the need for a policy-driven or economically-driven process might not be so well defined. Thus, Southern California Edison urged the ISO to establish a means by which stakeholders could bring unresolved issues to the Board for possible action.<sup>20</sup>

In response to the Southern California Edison concern, the Board directed management to conduct a public Board briefing session prior to the expedited approval of any project or element so that stakeholders could raise issues and seek possible Board resolution. Accordingly, the ISO has added proposed tariff language reflecting the Board directive.

#### **IV. Proposed Tariff and Business Practice Manual Language**

Because the tariff language reflecting the ISO's proposal is straightforward and involves only two sections, the ISO included the same draft revisions of sections 24.4.10 and 24.5.1 in the straw proposal and the final proposal. Following Board approval of this tariff amendment initiative, the additional language discussed above has been added to section 24.4.10.<sup>21</sup>

Specifically, in section 24.4.10 the ISO has added language that includes transmission upgrade and addition elements and captures policy-driven and economically-driven elements with capital costs of \$50 million or less. The management approval process, which includes an expedited process for particular projects or elements that are selected for early approval consistent with the tariff guidelines, will be

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<sup>19</sup> Attachment A, page 2.

<sup>20</sup> See Southern California Edison comments at [http://www.caiso.com/Documents/SCE\\_Comments-Approval\\_TransmissionElementsUnder50MillionDraftFinalProposal.pdf](http://www.caiso.com/Documents/SCE_Comments-Approval_TransmissionElementsUnder50MillionDraftFinalProposal.pdf)

<sup>21</sup> Clean tariff sections are set forth at Attachment C and Attachment D contains the blacklined sections.

conducted according to a schedule set forth in the BPM.<sup>22</sup> Finally, consistent with the Board direction, section 24.4.10 provides for a public Board briefing session whenever projects or elements are recommended for management approval before Board approval of the transmission plan.

Section 24.5.1 contains proposed language that allows for an accelerated competitive solicitation process once an element costing \$50 million or less is approved by management. Currently, if policy or economically driven elements are approved as part of transmission plan, Phase 3 is initiated with a two month period that provides an opportunity for project sponsors to submit proposals. The ISO proposes to launch a similar two month period for project proposals once management has approved a smaller element. As described above, all other details regarding the accelerated solicitation process will be developed with stakeholders through the BPM change management process. The ISO envisions that the accelerated solicitation process will follow the same basic procedure identified in section 24.5 in general, but modified to reflect a shorter evaluation timeline with other adjustments reflecting the smaller size and scope of the elements

#### **V. Communications**

Communications regarding this filing should be addressed to the following individuals, whose names should be placed on the official service list established by the Secretary with respect to this submittal:

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<sup>22</sup> Currently, the BPM provides *minimum* milestones for the stakeholder process and allows the ISO to establish additional dates for stakeholder interaction. The ISO notes that the Bay Area Municipal Transmission Group provided suggestions about the accelerated process in comments responding to the straw proposal and these suggestions will be taken into account in developing the BPM language. See comments at <http://www.caiso.com/Documents/BAMx-Comments-ApprovalofTransmissionElementsUnder50MillionStrawProposal.pdf>

## **VI. Service**

The ISO has served copies of this transmittal letter, and all attachments, on the California Public Utilities Commission, the California Energy Commission, and all parties with effective Scheduling Coordinator Service Agreements under the ISO Tariff. In addition, the ISO is posting this transmittal letter and all attachments on the ISO website.

## **VII. Attachments**

The following documents, in addition to this transmittal letter, support the instant filing:

- Attachment A Final Draft Proposal
- Attachment B Memorandum to ISO Governing Board
- Attachment C Clean Tariff Sections
- Attachment D Blacklined Tariff Sections

## **VIII. Conclusion**

For the foregoing reasons, the Commission should accept the proposed tariff modifications that will allow ISO management to approve policy-driven and economically-driven elements, as well as reliability projects and projects needed to maintain the feasibility of long term CRRs that provide incidental reliability or economic benefits, with capital costs of \$50 million or less, on an accelerated basis prior to Board approval of the transmission plan. To the extent that such transmission upgrades or additions are subject to the competitive solicitation process, the proposed tariff language authorizes the ISO to accelerate the process prior Phase 3 of the transmission planning process.

Respectfully submitted,  
**By: /s/ Judith B. Sanders**  
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Attorneys for the California Independent  
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**Attachment A – Final Draft Proposal**  
**Tariff Amendment on ISO Management Approval for**  
**Policy-Driven and Economically-Driven Elements Costing \$50 Million or Less**  
**California Independent System Operator Corporation**  
**Fifth Replacement FERC Electric Tariff**  
**August 30, 2012**



California ISO  
Shaping a Renewed Future

# Draft Final Proposal

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## Approval of Transmission Elements Under \$50 Million

June 21, 2012

Market & Infrastructure Development

# Approval of Transmission Elements Under \$50 Million

## Draft Final Proposal

### 1 Background and Summary

The current ISO tariff, Section 24.4.10, provides for ISO management to approve transmission projects that are expected to cost less than \$50 million and are identified as needed in the annual transmission planning process. Such management approval for less costly projects, which predated the current competitive solicitation framework for economic and policy-driven transmission elements, enables the ISO to move forward on accelerated timelines in situations where the annual approval process through the Board of Governors could create problematic delays.

In developing the Revised Transmission Planning Process (RTPP) filing during 2010, the ISO introduced a distinction between transmission “projects” versus transmission “elements” identified as needed in the comprehensive transmission plan. The former term – “project” – includes both a specification of needed transmission facilities as well as identification of a specific entity that will build and own the facilities, whereas the latter term – “element” – includes only the specification of needed facilities, based on the principle that builder-owner would be determined through the competitive solicitation process. At that time, the ISO did not review the existing management approval tariff provision to consider its interaction with the “project” versus “element” distinction, and as a result the provision was not extended to include policy-driven or economically-driven transmission elements under \$50 million.

Since that time, however, the ISO has recognized that the “project” versus “element” distinction could unnecessarily limit the applicability of the management approval provision, and that situations may arise where it is appropriate to allow ISO management to approve transmission elements of less than \$50 million that would then proceed to a competitive solicitation process to determine who shall build and own such transmission elements. In particular, given the relatively rapid pace of negotiation of bilateral contracts for renewable energy to meet the state’s 33 percent RPS mandate, earlier definitive approval of certain needed transmission upgrades can be critical to the commercial viability of some proposed renewable generating facilities. Moreover, subsequent to the ISO’s RTPP filing, FERC approved tariff provisions that potentially enable some reliability-driven transmission facilities to now be classified as “elements” for the sake of competitive solicitation, in which case earlier approval and completion of the competitive solicitation may be

warranted. These developments have led the ISO to consider extending the applicability of the management approval provision to include transmission elements as well as projects.<sup>1</sup>

Therefore, to ensure that smaller and required projects and elements can be advanced more quickly than the annual process set out in the tariff, the ISO intends to amend the tariff to:

1. Enable ISO management approval of transmission elements (including reliability, policy-driven, economic and long-term Congestion Revenue Rights (CRR) feasibility elements) that are estimated to cost less than \$50 million.
2. Enable a separate competitive solicitation process for eligible elements less than \$50 million to proceed ahead of the timelines set out in the tariff for the annual competitive solicitation process, which would generally follow Board approval of comprehensive transmission plan.

Several stakeholders submitted comments calling for additional details regarding how the ISO would consult with stakeholders regarding the specifics of the proposed transmission additions or upgrades, prior to ISO management approving them. The ISO agrees that stakeholder consultation prior to management approval is necessary and appropriate, and will develop and set out details for such a process in the Transmission Planning Process Business Practices Manual. At the same time, the ISO recognizes that process and timing of consultation with stakeholders on any specific proposed transmission additions or upgrades should take into account the specifics of the facilities being considered, the transmission need being addressed, and the urgency of moving their approval forward.

More fundamentally, it is important to emphasize that the ISO expects to use these new provisions infrequently, and only under limited circumstances. In particular, for an upgrade or addition to be advanced ahead of the rest of the annual comprehensive transmission plan:

- The need must be urgent for the approval to be advanced;
- There must be a high degree of certainty and comfort with the nature of the upgrades from a planning and engineering perspective, such that the upgrades could not conflict with other projects or alternatives being considered in the comprehensive plan. If, for example, the ISO could not demonstrate that the upgrades can confidently be advanced without creating a possible conflict with the rest of the transmission plan, the ISO would not seek to advance the approval;
- The scope of the upgrades or additions is limited by the \$50 million cost ceiling; and

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<sup>1</sup> In compliance filings submitted on December 2, 2011 and February 16, 2012 in ER10-1401-000 *et. seq.*, the ISO modified sections 24.4.6.2 and 24.4.6.4 such that reliability projects or projects needed to maintain the feasibility of long term CRRs that provide policy-driven benefits or a certain level of economic benefits will be subject to the competitive solicitation process. This tariff change creates the possibility that under \$50 million transmission upgrades and additions that would have automatically had project sponsors and been eligible as “projects” for accelerated ISO management approval would now be classified as “elements” to be subject to competitive solicitation, and as such would no longer be eligible for ISO management approval under the current tariff wording.

- While an urgently needed upgrade may be identified in the early stages of the ISO's annual transmission planning analysis, such needs could also arise as a result of some other external factor or change of circumstances.

Given the limitations stated above and the expectation that the new provisions would be used infrequently, the ISO would provide general guidelines for stakeholder consultation in the Transmission Planning Process Business Practices Manual, so that in any given situation the ISO would have the flexibility to conduct a stakeholder consultation that best fits the nature of the facilities needed and the factors driving the need.

## 2 Proposed Stakeholder Process and Timetable

The schedule below sets out the proposed timetable developed by the ISO for the tariff changes contemplated.

May 31	Post Straw Proposal with draft tariff language
June 7	Stakeholder Call
June 14	Stakeholder Comments Due
June 21	Post Draft Final Proposal with draft tariff language
June 28	Stakeholder Call
July 6	Stakeholder Comments Due
July 12 & 13	Board of Governors Meeting
July 16	File Tariff changes

## 3 Reasons for the Proposed Tariff Amendment

As noted above, section 24.4.10 contains a carry-over provision from the transmission planning process as it existed prior to RTPP that allowed "projects" under \$50 million to be approved by ISO management and proceed to construction prior to Board approval of the Transmission Plan. Although the RTPP introduced the distinction between "projects" and "elements," this tariff language was not revised.

The RTPP was implemented during the 2010/2011 transmission planning cycle. Since that time, there have been several new developments:

1. The ISO has determined that although there could be a need for smaller (*i.e.*, less than \$50 million in capital cost) policy-driven projects to be advanced more quickly than the annual transmission plan schedule, the tariff use of the term “project” does not permit transmission “elements” to be approved by management prior to Board approval of the Transmission Plan even if their cost is less than \$50 million. This issue has also arisen in the context of the renewable portfolio development for the current 2012/2013 cycle when the ISO received a revised base case and alternative scenarios on May 16, 2012, under cover of a letter from the California Public Utilities Commission (CPUC) and the California Energy Commission (CEC). This letter contained further recommendations to the ISO regarding access to resources inside the Imperial Irrigation District for purposes of meeting the State’s 33 percent Renewable Portfolio Standard (RPS) goal, and limitations which may stand in the way of development of the resources already included in previous transmission plans. The letter from the CPUC and the CEC suggests an advanced timeline for consideration of these infrastructure needs. This is one concrete example of where specific policy actions may require a more accelerated timeframe for approval of policy-driven elements.
2. The ISO tariff now provides that if reliability projects or projects needed to maintain the feasibility of CRRs have economic or policy-driven benefits, they will be subject to the competitive solicitation process (Sections 24.4.6.2 and 24.4.6.4). Thus, smaller reliability “projects” that would have been eligible for approval acceleration under Section 24.4.10 could actually be “elements” which, if approved on an accelerated basis, would not have project sponsors until after the competitive solicitation. Under the current tariff language, a small reliability project with policy-driven benefits would not qualify for accelerated treatment because it would be an “element” if it had policy-driven benefits.

## 4 ISO Proposal

The ISO proposal is:

1. To amend section 24.4.10 (Transmission Plan Approval Process) to expand ISO management approval authority for capital costs of \$50 million or less to include transmission elements as well as projects.
2. To amend section 24.5.1 to provide for a separate and advanced competitive solicitation process for management approved elements (under \$50 million) ahead of the schedule set out for the annual competitive solicitation process following Board approval of the annual comprehensive transmission plan.

Proposed tariff language is set forth below. In addition, the ISO will propose modifications to the Transmission Planning Process Business Practices Manual to address the schedule for the accelerated competitive solicitation process and other stakeholder activities. Once implemented,

the ISO intends to follow a similar stakeholder process currently used for smaller projects that are eligible for accelerated management approval.

The ISO will identify such transmission elements at an earlier point during Phase 2 of the transmission planning process and will present these elements to stakeholders either during one of the normally scheduled stakeholder meetings for the transmission planning process, such as the second stakeholder meeting typically held in September or early October, or in a specially scheduled meeting or conference call. In advance of the meeting or call, the ISO will provide stakeholders with adequate information about the upgrades and additions, the need for urgency, and the alternatives being considered. Stakeholders will then have an opportunity to provide written comments following the meeting, and the ISO will consider these comments prior to presenting the proposed transmission element to management for approval.

If the transmission element is approved by management, the ISO will open the two month competitive solicitation window described in tariff section 24.5.1. The rest of the schedule for project sponsor selection and results postings will be provided to stakeholders by market notice. There are no other proposed changes to the transmission planning process.

## 5 Proposed Tariff Language

### 24.4.10 Transmission Plan Approval Process

The revised draft comprehensive Transmission Plan, along with the stakeholder comments, will be presented to the CAISO Governing Board for consideration and approval. Upon approval of the plan, all needed transmission addition and upgrade projects and elements, net of all transmission and non-transmission alternatives considered in developing the comprehensive Transmission Plan, will be deemed approved by the CAISO Governing Board. Transmission upgrade and addition projects and elements with capital costs of \$50 million or less can be approved by CAISO management ~~and~~. Such CAISO management approved projects may proceed to permitting and construction prior to Governing Board approval of the plan. Such CAISO management approved elements may be subject to a competitive solicitation process, consistent with Section 24.5, on an accelerated schedule that will allow the approved Project Sponsor to proceed to permitting and construction prior to Governing Board approval of the plan. Following Governing Board approval,

the CAISO will post the final comprehensive Transmission Plan to the CAISO website.

#### **24.5.1 Project Submissions**

According to the schedule set forth in the Business Practice Manual, in the month following CAISO Governing Board approval of the comprehensive Transmission Plan, the CAISO will initiate a period of at least two (2) months that will provide an opportunity for Project Sponsors to submit specific transmission project proposals to finance, own, and construct the transmission elements identified in the comprehensive Transmission Plan. For elements with capital costs of less than \$50 million that were approved by CAISO management before Governing Board approval of the comprehensive Transmission Plan, the two month period will be initiated following management approval of the element, and the Project Sponsor selection process will follow an accelerated schedule described in the Business Practice Manual. Such project proposals must include plan of service details and supporting information as set forth in the Business Practice Manual sufficient to enable the CAISO to determine whether the proposal meets the criteria specified in section 24.5.2.1 and 24.5.2.4. The project proposal will identify the authorized governmental body from which the Project Sponsor will seek siting approval for the project.

**Attachment B – Memorandum to ISO Governing Board**  
**Tariff Amendment on ISO Management Approval for**  
**Policy-Driven and Economically-Driven Elements Costing \$50 Million or Less**  
**California Independent System Operator Corporation**  
**Fifth Replacement FERC Electric Tariff**  
**August 30, 2012**

# Memorandum

**To:** ISO Board of Governors

**From:** Keith Casey, Vice President of Market & Infrastructure Development

**Date:** July 5, 2012

**Re:** Decision on Approval of Transmission Elements less than \$50 Million

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*This memorandum requires Board action.*

## EXECUTIVE SUMMARY

To enable smaller transmission projects and elements that are identified through ISO studies as urgently needed to be advanced more quickly than the annual process set out in the tariff, Management is proposing that the Board approve a new category of projects that would be eligible for Management approval. Currently, the ISO tariff grants Management the authority to approve transmission projects needed for reliability that are anticipated to cost less than \$50 million and that are identified as needed during the annual transmission planning process. Management seeks to expand the current authority to include policy-and economically-driven projects as well as projects needed for long-term feasibility of congestion revenue rights. Under the tariff these types of project are considered “elements” subject to competitive solicitation, and Management proposes that the competitive solicitation process would apply to these Management-approved elements under \$50 million as well, but on a different timeline than competitive solicitations conducted for larger projects.

Accordingly, Management proposes the following motion.

***Moved, that the ISO Board of Governors approves the proposed policy change regarding approval of transmission elements estimated to cost less than \$50 million, as described in the memorandum dated July 5, 2012; and***

***Moved, that the ISO Board of Governors authorizes Management to make all necessary and appropriate filings with the Federal Energy Regulatory Commission to implement the proposed tariff change.***

## DISCUSSION AND ANALYSIS

In developing the revised transmission planning process filing during 2010, the ISO introduced a distinction between transmission “projects” and transmission “elements” identified as needed in the comprehensive transmission plan. The former term – “project” – includes both a specification of needed transmission facilities as well as identification of a specific entity that will build and own the facilities. The latter term – “element” – includes only the specification of needed facilities, based on the principle that the builder-owner would be determined through the newly-developed competitive solicitation process. At that time, the ISO did not review the tariff provision allowing Management approval of transmission projects under \$50 million to evaluate whether a similar framework for transmission “elements” should be developed for Management approval.

Since that time, however, the ISO has recognized that situations may arise where it is desirable to allow Management to approve transmission elements of less than \$50 million that would then proceed to a competitive solicitation process to determine who would build and own these transmission elements. In particular, given the relatively rapid pace of negotiation of bilateral contracts for renewable energy to meet the state’s 33 percent renewable portfolio standard mandate, earlier definitive approval of certain needed transmission upgrades could be critical to the commercial viability of some proposed renewable generating facilities. While the need for such elements would generally be determined through the ISO annual transmission planning studies, such needs could also arise from special ISO planning studies triggered by changed circumstances or external factors.

In addition, subsequent to the revised transmission planning process filing, FERC approved tariff provisions that potentially enable some reliability-driven transmission facilities to now be classified as “elements” for the sake of competitive solicitation, in which case earlier completion of the competitive solicitation may be warranted. These developments have led the ISO to consider extending the applicability of the Management approval provision to include transmission elements as well as projects.<sup>1</sup>

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<sup>1</sup> In compliance filings submitted on December 2, 2011, and February 16, 2012, in ER10-1401-000 *et seq.*, the ISO modified sections 24.4.6.2 and 24.4.6.4 such that reliability projects or projects needed to maintain the feasibility of long term congestion revenue rights that provide policy-driven benefits or a certain level of economic benefits will be subject to the competitive solicitation process. This tariff change creates the possibility that under-\$50 million transmission upgrades and additions that would have automatically had project sponsors and been eligible as “projects” for accelerated management approval would, going forward, be classified as “elements” to be subject to competitive solicitation, and as such would no longer be eligible for Management approval under the current tariff wording.

Therefore, to ensure that smaller and required projects and elements that are urgent can be advanced more quickly than the annual process set out in the tariff, the ISO proposes to amend the tariff to:

1. Enable Management approval of transmission elements (including reliability, policy-driven, economic and long-term congestion revenue rights feasibility elements) that are estimated to cost less than \$50 million.
2. Enable a separate competitive solicitation process for eligible elements that are estimated to cost less than \$50 million to proceed ahead of the timelines set out in the tariff for the annual competitive solicitation process, which would generally follow Board approval of the comprehensive transmission plan.

## **POSITIONS OF THE PARTIES**

Several stakeholders submitted comments calling for additional details regarding how the ISO would consult with stakeholders regarding the specifics of the proposed transmission additions or upgrades, prior to Management approving them. The ISO agrees that stakeholder consultation prior to Management approval is necessary and appropriate, and will use the existing transmission planning stakeholder process to provide opportunities for stakeholder review and comment.

More fundamentally, it is important to emphasize that the ISO expects to use these new provisions infrequently, and only under limited circumstances. In particular, for an upgrade or addition to be advanced ahead of the rest of the annual comprehensive transmission plan:

- The need must be urgent for the approval to be advanced;
- There must be a high degree of certainty and comfort with the nature of the upgrades from a planning and engineering perspective, such that the upgrades could not conflict with other projects or alternatives being considered in the comprehensive plan. If, for example, the ISO could not demonstrate that the upgrades can be advanced without creating a possible conflict with the rest of the transmission plan, the ISO would not propose to accelerate the approval process; and
- The scope of the upgrades or additions is limited by the \$50 million cost ceiling.

Given the limitations stated above and the expectation that the new provisions would be used infrequently, the ISO would provide general guidelines for stakeholder consultation in the Transmission Planning Process Business Practices Manual, so that in any given

situation the ISO would have the flexibility to conduct a stakeholder consultation that best fits the nature of the facilities needed and the factors driving the need. The ISO also proposes to include details about the accelerated competitive solicitation process in the Business Practice Manual.

## **MANAGEMENT RECOMMENDATION**

Management requests Board approval of the proposed policy change regarding approval of transmission elements with an estimated cost of less than \$50 million as described in this memorandum. The modifications will ensure that smaller and required projects and elements that are urgent can be advanced more quickly than through the annual process. Therefore, Management proposes to amend the tariff to:

1. Enable management approval of transmission elements (including reliability, policy-driven, economic and long-term congestion revenue rights feasibility elements) that are estimated to cost less than \$50 million; and
2. Enable a separate competitive solicitation process for eligible elements that are estimated to cost less than \$50 million to proceed ahead of the timelines set out in the tariff for the annual competitive solicitation process, which would generally follow Board approval of the annual comprehensive transmission plan.

**Attachment C – Clean Tariff**

**Tariff Amendment on ISO Management Approval for**

**Policy-Driven and Economically-Driven Elements Costing \$50 Million or Less**

**California Independent System Operator Corporation**

**Fifth Replacement FERC Electric Tariff**

**August 30, 2012**

#### **24.4.10 Transmission Plan Approval Process**

The revised draft comprehensive Transmission Plan, along with the stakeholder comments, will be presented to the CAISO Governing Board for consideration and approval. Upon approval of the plan, all needed transmission addition and upgrade projects and elements, net of all transmission and non-transmission alternatives considered in developing the comprehensive Transmission Plan, will be deemed approved by the CAISO Governing Board. Transmission upgrade and addition projects and elements with capital costs of \$50 million or less can be approved by CAISO management and may proceed to permitting and construction prior to Governing Board approval of the plan. Such CAISO management approved projects or elements may be subject to a competitive solicitation process, consistent with Section 24.5, on an accelerated schedule that will allow the approved Project Sponsor to proceed to permitting and construction prior to Governing Board approval of the plan. CAISO management may expedite approval of a project or element ahead of the approval process for other projects or elements with capital costs of \$50 million or less if: (1) there is an urgent need for approval of the project or elements ahead of the schedule established in the Business Practice Manual; (2) there is a high degree of certainty that approval of the upgrade or addition will not conflict with other projects or elements being considered in Phase 2; and (3) the need to accelerate a project or element is driven by the CAISO's study process or by external circumstances. CAISO management shall brief the CAISO Governing Board at a regularly-scheduled or special public session prior to approving projects or elements costing \$50 million or less and conducting the competitive solicitation, if appropriate. Following Governing Board approval, the CAISO will post the final comprehensive Transmission Plan to the CAISO website.

#### **24.5 Transmission Planning Process Phase 3**

##### **24.5.1 Project Submissions**

According to the schedule set forth in the Business Practice Manual, in the month following CAISO Governing Board approval of the comprehensive Transmission Plan, the CAISO will initiate a period of at least two (2) months that will provide an opportunity for Project Sponsors to submit specific transmission project proposals to finance, own, and construct the transmission elements identified in the comprehensive Transmission Plan. For elements with capital costs of \$50 million or less that were

approved by CAISO management before Governing Board approval of the comprehensive Transmission Plan, the two month period will be initiated following management approval of the element, and the Project Sponsor selection process will follow an accelerated schedule described in the Business Practice Manual. Such project proposals must include plan of service details and supporting information as set forth in the Business Practice Manual sufficient to enable the CAISO to determine whether the proposal meets the criteria specified in section 24.5.2.1 and 24.5.2.4. The project proposal will identify the authorized governmental body from which the Project Sponsor will seek siting approval for the project.

**Attachment D – Marked Tariff**

**Tariff Amendment on ISO Management Approval for**

**Policy-Driven and Economically-Driven Elements Costing \$50 Million or Less**

**California Independent System Operator Corporation**

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