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Shaping a Renewed Future

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# **FERC Order 1000 Compliance - Interregional Requirements**

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## **Draft Final Proposal**

February 20, 2013

Market and Infrastructure Development

FERC Order 1000 Compliance – Interregional Requirements
Draft Final Proposal

Table of Contents

1 Executive Summary..... 4
2 Introduction ..... 5
3 Stakeholder process..... 6
3.1 ISO stakeholder process..... 6
3.2 Interregional Coordination Team stakeholder process ..... 8
3.3 Next steps ..... 10
4 Order 1000 interregional requirements ..... 11
4.1 Interregional coordination and joint evaluation..... 11
4.1.1 Interregional transmission planning coordination procedures ..... 11
4.1.2 Geographic scope..... 12
4.1.3 Joint evaluation..... 12
4.1.4 Data exchange..... 13
4.1.5 Transparency..... 13
4.1.6 Stakeholder participation ..... 13
4.1.7 Agreement ..... 14
4.2 Interregional cost allocation ..... 15
4.2.1 Common methods for interregional cost allocation..... 15
4.2.2 Eligibility for interregional cost allocation ..... 16
4.2.3 Principles for interregional cost allocation ..... 16
5 ISO’s existing interregional coordination..... 18
6 Proposal ..... 19
6.1 New definitions..... 20
6.1.1 Interregional transmission project..... 20

- 6.1.2 Planning region ..... 20
- 6.1.3 Relevant planning region ..... 20
- 6.2 Interregional coordination ..... 20
- 6.3 Interregional transmission project joint evaluation process ..... 21
- 6.4 Interregional cost allocation process ..... 22
- 7 Additional topics ..... 23
  - 7.1 The ISO’s avoided cost approach to assessing benefits of a proposed interregional transmission project<sup>23</sup>
  - 7.2 Selection of an interregional transmission project in the ISO regional transmission plan for purposes of interregional cost allocation ..... 25
- 8 Stakeholder comments ..... 26
  - 8.1 Common benefits assessment methodology ..... 26
  - 8.2 Path forward for selected interregional transmission projects ..... 26
  - 8.3 Timeframe for joint evaluation process ..... 27

## 1 Executive Summary

This draft final proposal is the product of collaboration between the ISO, ColumbiaGrid, Northern Tier Transmission Group, and WestConnect; henceforth referred to as the “planning regions”. The primary objective of this effort has been for the planning regions to jointly develop a proposal for Order 1000 interregional compliance and subsequently common tariff language for the planning regions, in time to make the Order 1000 compliance filings by April 11, 2013. Such filings must include a process for interregional transmission planning coordination and a methodology for allocating the costs of interregional transmission projects among the affected transmission planning regions.

To accomplish this, the ISO has followed an approach of simultaneously relying on two stakeholder processes. One is administered by the ISO and focuses on ISO stakeholder engagement and the second is jointly hosted by the planning regions and focuses on the entire Western Interconnection. Both processes issued a series of written proposals to stimulate discussion on several possible approaches to comply with Order 1000 interregional coordination and cost allocation requirements. To obtain stakeholder feedback, both processes included multiple stakeholder meetings and solicited written stakeholder comments.

The ISO believes that a consensus among the planning regions on a draft proposed approach for interregional coordination and cost allocation has been reached. Therefore, the purpose of this draft final proposal is threefold: (1) to convey the major elements of the draft proposed approach to the ISO’s stakeholders; (2) to recommend that the ISO adopt this draft proposed approach to Order 1000 interregional compliance; and, (3) to solicit input from ISO stakeholders on the draft proposed approach prior to Management’s proposal of the approach to the ISO Board of Governors at its meeting on March 20-21, 2013.

In brief, the proposed approach provides for an annual exchange of interregional information between the planning regions and an annual interregional coordination meeting open to stakeholders to discuss that information. The proposal provides for an interregional transmission project joint evaluation process that provides opportunity for interregional transmission project proposals to be submitted simultaneously to each planning region’s regional transmission planning process on a biennial timeframe. Lastly, the proposal provides for an interregional cost allocation process which includes a common methodology for allocating the costs of proposed interregional transmission projects.

This draft final proposal reflects the common approach developed through the collaborative effort of the planning regions. As such, the ISO is recommending that the draft final proposal be adopted by the ISO as a common approach among all planning

regions to comply with Order 1000 interregional coordination and cost allocation requirements. This draft final proposal also addresses additional topics that are either not addressed in the common approach or are topics specific to the ISO. Taken together, these represent the proposal that the ISO intends to present to the ISO Board of Governors at its meeting on March 20-21, 2013.

## 2 Introduction

On July 21, 2011, the Federal Energy Regulatory Commission (FERC) issued an order in Docket No. RM10-23-000, *Transmission Planning and Cost Allocation by Transmission Owning and Operating Public Utilities* (Order 1000).<sup>1</sup> On May 17, 2012, FERC issued an order on rehearing and clarification in the same docket (Order 1000-A).<sup>2</sup> Taken together, Order 1000 and Order 1000-A reform FERC's electric transmission planning and cost allocation requirements for public utility transmission providers.

Order 1000<sup>3</sup> builds on the reforms of FERC Order 890 with the objective of correcting perceived remaining deficiencies with respect to transmission planning processes and cost allocation methods. Accordingly, Order 1000 specifies certain requirements in two primary topic areas: (1) regional transmission planning and cost allocation; and, (2) interregional transmission planning coordination and cost allocation.

To comply with the first area—the *regional* requirements of Order 1000—the ISO worked with stakeholders through an earlier phase of this same initiative to develop a proposal for compliance and the necessary tariff amendments. The ISO proposal to meet the regional requirements was approved by the ISO Board of Governors at its September 13, 2012 meeting and the associated tariff amendments were filed with the FERC on October 11, 2012.

To comply with the second area—the *interregional* requirements of Order 1000—the ISO has worked with both its stakeholders and the planning regions within the Western Interconnection to develop and discuss potential approaches for compliance. The present draft final proposal is informed by comments from ISO stakeholders and discussions among the planning regions. The ISO believes that this draft final proposal is consistent with the draft final approach under consideration by the planning regions.

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<sup>1</sup> 136 FERC ¶61,051.

<sup>2</sup> 139 FERC ¶61,132.

<sup>3</sup> For purposes of convenience in this issue paper, the ISO will generally use the term “Order 1000” to refer to both orders collectively, unless otherwise noted.

To comply with the interregional requirements of Order 1000 the ISO must file the necessary tariff amendments with the FERC by April 11, 2013. This draft final proposal is intended to serve as the basis for that tariff language.

This remainder of this draft final proposal is organized as follows. Section 3 explains that the ISO has followed an approach of simultaneously relying on two stakeholder processes—its own and that of the planning regions—and describes these two processes in detail. Section 4 outlines the interregional requirements of Order 1000 that the planning regions must comply with. Section 5 describes the existing coordination that the ISO performs today on an interregional level. Section 6 discusses the common approach proposed by the planning regions to comply with Order 1000. Section 7 addresses additional topics that are either not addressed in the common approach or are topics of specific relevance to the ISO planning region. Lastly, section 8 highlights some specific issues raised by stakeholders.

### **3 Stakeholder process**

As noted earlier, the ISO has followed an approach of simultaneously relying on two stakeholder processes; one administered by the ISO for its stakeholders and the second jointly hosted by the planning regions. This section provides greater detail about the two stakeholder processes the ISO followed to develop the draft final proposal.

#### **3.1 ISO stakeholder process**

As ISO stakeholders are well aware, the ISO's conventional approach to developing policy proposals (for compliance filings or otherwise) is to rely on its subject matter experts to develop straw proposals for stakeholder consideration and comment. In developing the draft final proposal, the ISO relied on its conventional stakeholder approach while simultaneously working with the neighboring planning regions and their stakeholders.

The ISO kicked off its stakeholder process with the posting of an issue paper on September 17, 2012 in which the ISO identified and described the interregional requirements of Order 1000 and proposed a process to develop a compliance proposal. The ISO held a stakeholder web conference on September 25, 2012 to discuss the issue paper with stakeholders and solicit input. Written stakeholder comments were received on October 2, 2012. In their written comments, stakeholders indicated that the ISO's description of the interregional requirements of Order 1000 was indeed accurate and complete. Stakeholders also commented that in the effort to develop conceptual policies and procedures to address the interregional requirements of Order 1000, stakeholder representation should be comparable among the planning regions. After

considering this, the ISO asked its participating transmission owners to participate in the discussions with the other planning regions' representatives.

The ISO subsequently held a second stakeholder web conference on October 11, 2012 during which the ISO presented its initial ideas on a possible framework for interregional transmission planning coordination and an approach for developing a framework for interregional cost allocation. The ISO also briefed stakeholders on the formation of the Interregional Coordination Team (more on this in section 3.2. below) and discussions with the neighboring planning regions which had commenced by that point in time. Written stakeholder comments were received on October 18, 2012. In their written comments stakeholders acknowledged that this is a challenging effort that requires extensive coordination among the planning regions in a short period of time. Stakeholders expressed both appreciation and support for the level of stakeholder engagement proposed by the ISO and the other planning regions. Stakeholders also recommended that the ISO develop draft proposals as a basis for further stakeholder discussion. The ISO subsequently did this as described below.

On November 5, 2012 the ISO held a third stakeholder web conference during which the ISO presented two preliminary straw proposals—one on interregional planning coordination and another on interregional cost allocation. These two preliminary straw proposals represented a refinement of the ISO's initial thinking based on feedback the ISO had received from stakeholders following the October 11, 2012 stakeholder meeting and on discussions the ISO had with the planning regions through the Interregional Coordination Team. The ISO also provided an update during the web conference on the activities of the Interregional Coordination Team. Written stakeholder comments were due by November 21, 2012.

Based on stakeholder input and interregional discussions up to that point, the ISO continued to further refine its ideas on interregional planning coordination and cost allocation and combined them into its straw proposal posted on November 21, 2012. The ISO subsequently held a fourth stakeholder meeting on November 28, 2012 to discuss its proposals in detail with stakeholders. The ISO received written comments from stakeholders on December 5, 2012. Having an in depth discussion with stakeholders at that point benefitted the ISO's participation in discussions of the Interregional Coordination Team and the Interregional Coordination Team's development of its draft proposal for interregional coordination and cost allocation. This draft proposal was presented at the Interregional Coordination Team's interregional stakeholder meeting on December 19, 2012.

Throughout January and the first half of February the Interregional Coordination Team completed an intensive effort to complete development of a draft proposed approach for interregional coordination and cost allocation. During this period the ISO opted to not post another proposal of its own and instead, continued to work closely with the

Interregional Coordination Team to complete development of a draft proposed approach. It is this draft proposed approach that the ISO is proposing to use as its draft final proposal to meet Order 1000 requirements for interregional coordination and cost allocation.

The following table summarizes the activities discussed above.

Date	ISO Stakeholder Process
September 17	ISO posts issue paper
September 25	ISO stakeholder web conference
October 2	Stakeholder comments due to ISO
October 11	ISO stakeholder web conference
October 18	Stakeholder comments due to ISO
November 5	ISO stakeholder web conference
November 21	Stakeholder comments due to ISO
November 21	ISO posts straw proposal
November 28	ISO stakeholder meeting
December 5	Stakeholder comments due to ISO
February 20	ISO posts draft final proposal
February 27	ISO stakeholder web conference (1:00 – 4:00 pm)
March 7	Stakeholder comments due to ISO
March 20-21	ISO presents proposal to ISO Board of Governors
April 11, 2013	FERC filing

### 3.2 Interregional Coordination Team stakeholder process

Development of a proposal to meet the interregional coordination and cost allocation compliance requirements of Order 1000 requires extensive discussion with the neighboring transmission planning regions and their stakeholders. To provide a forum for these discussions the planning regions met on October 1, 2012 and formed the Interregional Coordination Team.

The Interregional Coordination Team in turn created two workgroups—one on transmission planning coordination and a second on cost allocation. Since the initial formation meeting in October, the Interregional Coordination Team and its workgroups

have met on a regular basis to develop a proposed approach for interregional coordination and cost allocation. As was established through its mission statement and principles, the Interregional Coordination Team strove to develop common interregional tariff language among all four planning regions. However, at this point it is important to emphasize that a crucial starting assumption made by the Interregional Coordination Team was that the planning regions’ regional Order 1000 methodologies and processes (*i.e.*, those that were filed with FERC by October 11, 2012) would be approved by FERC without modification. To assume otherwise would make unmanageable the effort by the planning regions to develop a common approach to Order 1000 interregional coordination and cost allocation. This approach was widely articulated throughout the entire stakeholder process and as such, forms the basis on which Order 1000 interregional compliance will be achieved.

The Interregional Coordination Team held an interregional stakeholder meeting on November 7, 2012 followed by an interregional stakeholder web conference on November 16, 2012. During these stakeholder meetings the Interregional Coordination Team discussed initial ideas and options for interregional planning coordination and cost allocation. The Interregional Coordination Team received written comments from stakeholders on November 21, 2012.

In December the Interregional Coordination Team developed a draft proposal regarding interregional coordination and cost allocation for presentation at an interregional stakeholder meeting on December 19, 2012. Following the stakeholder meeting, the Interregional Coordination Team received written comments from stakeholders on January 7, 2013.

In January the Interregional Coordination Team further developed its proposed approach to Order 1000 interregional coordination and cost allocation and presented it at a third interregional stakeholder meeting on January 30, 2013. The Interregional Coordination Team received written comments from stakeholders on February 6, 2013.

In early February the Interregional Coordination Team continued to refine its common framework and proposed approach. By mid-February the planning regions reached a broad consensus on the proposed approach, recommending that it be used to prepare draft tariff language which could be utilized by the planning regions in their or their transmission providers filing on April 11, 2013.

The following table summarizes the activities described above.

Date	ICT Stakeholder Process
November 5-16	ICT posts documents
November 19	ICT stakeholder meeting

Date	ICT Stakeholder Process
November 21	Stakeholder comments due to ICT
December 11-18	ICT posts documents
December 19	ICT stakeholder meeting
January 7	Stakeholder comments due to ICT
January 14-28	ICT posts documents
January 30	ICT stakeholder meeting
February 6	Stakeholder comments due to ICT

The ISO has posted a link to the Interregional Coordination Team's website on the following webpage:

<http://www.caiso.com/informed/Pages/StakeholderProcesses/FERCOrderNo1000Compliance-Phases1-2.aspx>

### 3.3 Next steps

The ISO believes that a consensus among the planning regions on a proposed approach for interregional coordination and cost allocation has been reached. Therefore, the ISO has prepared this draft final proposal to accomplish three things: (1) to convey the major elements of this proposed approach for interregional coordination and cost allocation to its stakeholders; (2) to recommend that the ISO adopt the proposed approach to meet its Order 1000 interregional compliance requirements; and, (3) to solicit stakeholder comments prior to taking the draft final proposal to the ISO Board of Governors at its meeting in March.

Accordingly, the ISO will hold a stakeholder web conference on February 27, 2013 to discuss this draft final proposal and obtain stakeholder feedback. The ISO is requesting that stakeholders submit their written comments by close of business on March 7, 2013 to [FO1K@caiso.com](mailto:FO1K@caiso.com).

The ISO will present this proposal along with stakeholder comments to its Board of Governors at the March 20-21, 2013 meeting.

Commensurate with current ISO practices, the ISO will post draft tariff language for stakeholder review and comment that will reflect this draft final proposal and include, as appropriate, common tariff language prepared by the planning regions.

## 4 Order 1000 interregional requirements

The purpose of this section is to reiterate the interregional requirements of Order 1000 that were previously provided in the ISO's September 2012 issue paper in this initiative. The ISO's proposal for complying with these requirements is described later in section 6 and section 7.

### 4.1 Interregional coordination and joint evaluation

FERC Order 1000 requires each public utility transmission provider, through its regional transmission planning process, to establish interregional transmission planning coordination procedures with each of its neighboring transmission planning regions. FERC is not requiring the creation of a distinct interregional transmission planning process to produce an interregional transmission plan, nor is it requiring the formation of an interregional transmission planning entity.<sup>4</sup> Rather, FERC envisions the interregional transmission planning coordination to occur through the respective regional transmission planning process of each region. These requirements are discussed in more detail below.

#### 4.1.1 Interregional transmission planning coordination procedures

Order 1000 requires each public utility transmission provider, through its regional transmission planning process, to establish procedures with each of its neighboring transmission planning regions for the purpose of coordinating and sharing the results of each regional transmission plan to identify and jointly evaluate possible interregional transmission facilities that could address the individual needs identified in each region's transmission plans more efficiently or cost-effectively than separate regional transmission facilities.<sup>5</sup> The procedures must describe the type of transmission studies that will be conducted to evaluate conditions on their neighboring systems for the purpose of determining whether interregional transmission facilities are more efficient or cost-effective than regional facilities.<sup>6</sup> Order 1000 neither requires nor prohibits consideration of public policy or economically driven transmission as part of interregional transmission coordination; however, such considerations are required through each entity's regional transmission planning process.<sup>7</sup> FERC further clarified in Order 1000-A that consideration of transmission needs driven by public policy requirements is an essential part of the evaluation of an interregional transmission

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<sup>4</sup> Order 1000 at Paragraph 399.

<sup>5</sup> Order 1000 at Paragraphs 393 and 396.

<sup>6</sup> Id. Paragraph 398.

<sup>7</sup> Id. Paragraph 401.

project, not as part of interregional transmission planning coordination, but rather as part of the relevant regional transmission planning process.<sup>8</sup> This may mean that for a candidate interregional transmission project, each affected planning region would need to consider the public policy benefits of the project relative to its region.

#### 4.1.2 Geographic scope

Order 1000 indicates that interregional transmission planning coordination would occur between public utility transmission providers in two neighboring transmission planning regions.<sup>9</sup> Order 1000 does not require joint evaluation of the effects of a new transmission facility proposed to be located solely in a single transmission planning region as that is the purpose of regional transmission planning processes.<sup>10</sup>

#### 4.1.3 Joint evaluation

Order 1000 requires the development of procedures to identify and jointly evaluate interregional transmission facilities that are proposed to be located in neighboring transmission planning regions.<sup>11</sup> These procedures should enable regional differences in data, models, assumptions, planning horizons, and criteria to be identified and resolved for purposes of jointly evaluating the proposed project.<sup>12</sup> To trigger the procedure under which the public utility transmission providers, acting through their regional transmission planning processes, will jointly evaluate interregional transmission projects, an interregional transmission project developer must first propose its transmission project in the regional transmission planning processes of each of the neighboring regions in which the facility is proposed to be located. This joint evaluation must be conducted in the same general timeframe as, rather than subsequent to, each transmission planning region's individual consideration of the proposed transmission project.<sup>13</sup> By "same general timeframe" FERC envisions a timeline that enables the interregional transmission planning coordination procedures to review and evaluate information developed through the regional transmission planning process while also allowing the regional transmission planning process to review and use information developed in the interregional transmission coordination procedures.<sup>14</sup> However, Order

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<sup>8</sup> Id. Paragraph 500.

<sup>9</sup> Id. Paragraph 419.

<sup>10</sup> Id. Paragraph 416.

<sup>11</sup> Id. Paragraph 435.

<sup>12</sup> Id. Paragraph 437.

<sup>13</sup> Id. Paragraph 436.

<sup>14</sup> Id. Paragraph 439.

No. 1000 does not require adjacent transmission planning regions to align the timelines of their regional transmission planning processes.<sup>15</sup>

#### 4.1.4 Data exchange

Order 1000 requires that each public utility transmission provider's interregional transmission planning coordination procedures provide for the exchange of planning data and information at least annually.<sup>16</sup>

#### 4.1.5 Transparency

Order 1000 requires public utility transmission providers, either individually or through their transmission planning region, to maintain a website or e-mail list for the communication of information related to interregional transmission planning coordination procedures.<sup>17</sup>

#### 4.1.6 Stakeholder participation

Order 1000 requires that stakeholders have a meaningful opportunity to provide input into the development of interregional transmission planning coordination procedures before those procedures are submitted to the FERC in a public utility transmission provider's compliance filing.<sup>18</sup> Order 1000-A further requires that each public utility transmission provider must describe how its regional transmission planning process will enable stakeholders to provide meaningful and timely input with respect to the consideration of interregional transmission facilities. This should include an explanation of how stakeholders and transmission developers can propose interregional transmission facilities for the public utility transmission providers in neighboring transmission planning regions to evaluate jointly.<sup>19</sup>

To facilitate stakeholder involvement, Order 1000 requires that the analyses undertaken and determinations reached by neighboring transmission planning regions in the identification and evaluation of interregional transmission facilities be made transparent.<sup>20</sup> Order 1000-A clarifies that this transparency is subject to appropriate confidentiality protections and Critical Energy Infrastructure Information (CEII)

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<sup>15</sup> Id. Paragraph 441.

<sup>16</sup> Id. Paragraph 454.

<sup>17</sup> Id. Paragraph 458.

<sup>18</sup> Id. Paragraph 466 and reaffirmed by Order 1000-A, paragraph 518.

<sup>19</sup> Order 1000 at Paragraph 522.

<sup>20</sup> Id. Paragraph 465.

requirements.<sup>21</sup> Order 1000-A further clarifies that stakeholders will have the opportunity to provide input with respect to the consideration of interregional transmission facilities when these facilities are being considered in the regional transmission planning process—in other words, stakeholders’ primary opportunity to participate in the consideration of interregional transmission facilities is through participation in the regional transmission planning process.<sup>22</sup> This provision seems consistent with an important principle of Order 1000, on which the ISO had sought clarification and Order 1000-A provided. Specifically, in order for a candidate interregional transmission project to be approved for cost allocation through the interregional cost allocation method, it must be selected in the regional transmission planning processes of each of the affected regions.

In Order 1000-A, FERC states that it is not requiring face-to-face meetings for interregional transmission planning coordination. In the Order, FERC recognizes that much of interregional coordination would occur through sharing computer modeling results regarding the effects and benefits of a proposed interregional transmission facility. FERC also expressed the concern that requiring face-to-face meetings for interregional transmission planning coordination with all stakeholders attending would be a cumbersome process that could necessitate significant expense and travel time to multiple neighboring regions by the large number of stakeholders in each region.<sup>23</sup>

#### 4.1.7 Agreement

As discussed above, Order 1000 requires that the public utility transmission providers in each pair of neighboring transmission planning regions, working through their regional transmission planning processes, must develop the same language to be included in each provider’s tariff that describes the interregional transmission planning coordination procedures for the particular pair of regions. The Order also requires each set of interregional procedures to include a formal procedure to identify and jointly evaluate transmission facilities that are proposed to be located in both transmission planning regions.<sup>24</sup> Order 1000 neither requires nor prohibits these procedures to be reflected in an interregional transmission planning coordination agreement.<sup>25</sup>

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<sup>21</sup> Id. Paragraph 520.

<sup>22</sup> Id. Paragraph 519.

<sup>23</sup> Id. Paragraph 519.

<sup>24</sup> Id. Paragraph 478.

<sup>25</sup> Id. Paragraph 475.

## 4.2 Interregional cost allocation

This section describes the interregional cost allocation requirements of Order 1000 and offers a straw proposal for compliance with these requirements.

Order 1000 requires the development of cost allocation methods for regional and interregional transmission facilities in connection with its planning reforms.<sup>26</sup> The ISO addressed cost allocation for regional facilities in its October 11, 2012 compliance filing. The objective of the interregional cost allocation effort is to specify how the cost of an interregional project will be allocated among the regions, in which the project is located, i.e., to whose facilities the project is interconnected. Once an interregional transmission facility is proposed to be located in the ISO planning region and is selected in the ISO regional transmission plan for purposes of cost allocation, the ISO will use its FERC-approved regional cost allocation method to allocate its share of the interregional project costs to its participants. The other planning regions will, similarly, use their FERC-approved regional cost allocation methods to allocate their shares of the costs of an interregional project. Thus, the interregional cost allocation method developed will not question nor consider any potential modifications to the FERC-approved methods each of the regions uses to recover its shares of the costs of an interregional project from its participants.

### 4.2.1 Common methods for interregional cost allocation

Order 1000 requires a public utility transmission provider in a transmission planning region to have, together with the other providers in its own region and a neighboring transmission planning region, a common method or methods for allocating the costs of a new interregional transmission facility among the beneficiaries of that transmission facility in the two neighboring transmission planning regions in which the facility is located.<sup>27</sup> A group of three or more transmission planning regions within an interconnection, or all of the transmission planning regions within an interconnection, may agree on and file a common method or methods for allocating the costs of a new interregional transmission facility. However, such multiregional provisions among more than two neighboring transmission planning regions are not required.<sup>28</sup> The cost allocation method or methods used by the pair of neighboring transmission regions to allocate costs between the two regions can differ from the cost allocation method or methods used by each region to allocate the cost of a new interregional transmission

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<sup>26</sup> Id. Paragraph 549.

<sup>27</sup> Id. Paragraph 578.

<sup>28</sup> Id. Paragraph 578, footnote 448.

facility within that region.<sup>29</sup> Within an RTO or ISO, the RTO or ISO would develop an interregional cost allocation method or methods with its neighbors on behalf of its public utility transmission providers.<sup>30</sup>

#### 4.2.2 Eligibility for interregional cost allocation

Order 1000 states that an interregional transmission facility must be selected in both of the relevant regional transmission plans for purposes of cost allocation in order to be eligible for interregional cost allocation pursuant to an interregional cost allocation method.<sup>31</sup> Public utility transmission providers in a transmission planning region will not be required to accept allocation of the costs of an interregional transmission project unless their region has selected such transmission facility in the regional transmission plan for purposes of cost allocation.<sup>32</sup> Order 1000-A clarifies that each transmission planning region will determine for itself whether to select in its regional transmission plan for purposes of cost allocation an interregional transmission facility that extends partly within its regional footprint based on the information gained during the joint evaluation of an interregional transmission project.<sup>33</sup>

#### 4.2.3 Principles for interregional cost allocation

Order 1000 requires that the interregional cost allocation method or methods used by a pair of neighboring transmission regions must be consistent with the interregional cost allocation principles.<sup>34</sup> Each public utility transmission provider must show that its cost allocation method or methods for interregional cost allocation are just and reasonable and not unduly discriminatory or preferential by demonstrating that each method satisfies the six principles.<sup>35</sup>

Principle #1 – The costs of a new interregional transmission facility must be allocated to each transmission planning region in which that facility is located in a manner that is at least roughly commensurate with the estimated benefits of that facility in each of the transmission planning regions.<sup>36</sup>

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<sup>29</sup> Id. Paragraph 578.

<sup>30</sup> Id. Paragraph 583.

<sup>31</sup> Id. Paragraphs 400 and 444.

<sup>32</sup> Id. Paragraph 443.

<sup>33</sup> Id. Paragraph 512.

<sup>34</sup> Id. Paragraph 578.

<sup>35</sup> Id. Paragraph 603.

<sup>36</sup> Id. Paragraph 622.

Principle #2 – A transmission planning region that receives no benefit from an interregional transmission facility that is located in that region must not be involuntarily allocated any of the costs of that transmission facility.<sup>37</sup>

Principle #3 – If a benefit-cost threshold ratio is used to determine whether an interregional transmission facility has sufficient net benefits to qualify for interregional cost allocation, this ratio must not be so large as to exclude a transmission facility with significant positive net benefits from cost allocation (i.e., it may not exceed 1.25).<sup>38</sup>

Principle #4 – Costs allocated for an interregional transmission facility must be assigned only to transmission planning regions in which the transmission facility is located. If a third transmission planning region benefits but the facility is not located there, costs cannot be assigned to that third region unless they voluntarily reach agreement with the two regions in which the line is located.<sup>39</sup> Order 1000-A added that allowing one region to allocate costs unilaterally to entities in another region would effectively impose an affirmative burden on stakeholders to actively monitor transmission planning processes in numerous other regions in which they could be identified as beneficiaries and thus be subject to cost allocation.<sup>40</sup>

Principle #5 – The cost allocation method and data requirements for determining benefits and identifying beneficiaries for an interregional transmission facility must be transparent with adequate documentation to allow a stakeholder to determine how they were applied to a proposed interregional transmission facility.<sup>41</sup>

Principle #6 – The public utility transmission providers located in neighboring transmission planning regions may choose to use a different cost allocation method for different types of interregional transmission facilities, such as transmission facilities needed for reliability, congestion relief, or to achieve public policy requirements. Each cost allocation method must be set out clearly and explained in detail.<sup>42</sup>

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<sup>37</sup> Id. Paragraph 637.

<sup>38</sup> Id. Paragraph 646.

<sup>39</sup> Id. Paragraph 657.

<sup>40</sup> Id. Paragraph 503.

<sup>41</sup> Id. Paragraph 668.

<sup>42</sup> Id. Paragraph 685.

## 5 ISO's existing interregional coordination

In considering the requirements discussed in Section 4.1, it is helpful to describe the existing coordination that the ISO performs on an interregional level. This existing interregional coordination is described in the following paragraphs.

Order 1000 builds on the reforms of FERC Order 890 with the objective of correcting perceived remaining deficiencies with respect to transmission planning processes, in particular for interregional transmission planning coordination and cost allocation. Throughout the development of its revised transmission planning process in 2010, the ISO understood the interregional planning expectations behind Order 890 and endeavored to incorporate certain aspects of an interregional requirement within its tariff. For example, Phase 1 of the transmission planning process is designed to *“develop and complete the Unified Planning Assumptions and Study Plan and, in parallel, begin development of a conceptual statewide plan”*<sup>43</sup>. Moreover, section 24.2 (c) of the ISO tariff states that the ISO's planning process shall:

*“Seek to avoid unnecessary duplication of facilities and ensure the simultaneous feasibility of the CAISO Transmission Plan and the transmission plans of interconnected Balancing Authority Areas, and otherwise coordinate with regional and sub-regional transmission planning processes and entities, including interconnected Balancing Authority Areas, in accordance with Section 24.8”.*

In Phase 1 of its planning process, the ISO uses WECC base cases<sup>44</sup> and considers *“planned facilities in interconnected Balancing Authority Areas”*<sup>45</sup> in developing its Unified Planning Assumptions and Study Plan.

In Section 24.4.4, the ISO tariff envisions the development of a Conceptual Statewide Plan in coordination with other planning regions including interconnected Balancing Authority Areas (BAAs):

*“Beginning in Phase 1, the CAISO will develop, or, in coordination with other regional or sub-regional transmission planning groups or entities, including interconnected Balancing Authority Areas, will participate in the development of a conceptual statewide transmission plan that, among other things, may identify potential transmission upgrade or addition elements needed to meet state and federal policy requirements and directives. The conceptual*

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<sup>43</sup> ISO Tariff at Section 24.2

<sup>44</sup> Id. at Section 24.3.1(a)

<sup>45</sup> Id. at Section 24.3.1(l)

*statewide transmission plan will be an input into the CAISO's Transmission Planning Process. The CAISO will post the conceptual statewide transmission plan to the CAISO Website and will issue a Market Notice providing notice of the availability of such plan. In the month immediately following the publication of the conceptual statewide transmission plan, the CAISO will provide an opportunity for interested parties to submit comments and recommend modifications to the conceptual statewide transmission plan and alternative transmission elements, including potential interstate transmission lines and proposals for access to resources located in areas not identified in the conceptual statewide transmission plan, and non-transmission elements".*

In addition to these provisions of the ISO's transmission planning process, historically other interregional oriented efforts have existed within the Western Interconnection such as WECC's "Project Coordination Review Process" and the Transmission Expansion Planning Policy Committee (TEPPC). The ISO actively participates in both. The ISO is an active participant and contributor to TEPPC's annual congestion study and Regional Transmission and Expansion Planning (RTEP) efforts and utilizes the data bases from these efforts in its own economic planning studies as part of its planning process.<sup>46</sup>

The ISO, as a recognized subregional planning group by TEPPC, was also a founding member of the Subregional Coordination Group (SCG). The goals and responsibilities of the SCG are to (1) facilitate transmission infrastructure planning among the SCG members, and (2) develop the Foundational Transmission Projects List for transmittal to TEPPC. The SCG remains actively engaged in the planning efforts across the western interconnection.

In addition, the ISO has and continues to participate in the activities of the California Transmission Planning Group (CTPG), and has drawn on the coordination through those efforts in developing the ISO conceptual statewide transmission plans. As envisioned by our tariff, the ISO engaged with the CTPG to anticipate opportunities for regional coordination between all transmission providers in California.

## 6 Proposal

The planning regions have reached consensus on a proposed approach which the ISO believes is consistent with the interregional coordination and cost allocation requirements of Order 1000 (described in section 4). The ISO is recommending that the proposed interregional coordination approach developed by the planning regions and

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<sup>46</sup> ISO Tariff Section 24.3.4

discussed below be adopted by the ISO to comply with Order 1000 as a common approach among the planning regions.

## **6.1 New definitions**

In the process of developing a common approach among the planning regions to comply with the interregional requirements of the order, new terminologies were needed to clarify coordination concepts among the planning regions; as such, some new definitions became necessary. While the ISO introduced a definition for an interregional transmission project in its straw proposal, the planning regions continued to refine the definition based on discussions within the Interregional Coordination Team as well as from comments received through the Interregional Coordination Team's own stakeholder process. As a result, by early February the planning regions reached consensus on new definitions that would be utilized in the development of common tariff language among the planning regions. For purposes of this ISO draft final proposal three definitions are introduced below.

### **6.1.1 Interregional transmission project**

An interregional transmission project means a proposed new transmission project that would directly interconnect electrically to existing or planned transmission facilities in two or more planning regions and that is submitted into the regional transmission planning processes of all such planning regions in accordance with certain submission requirements (described below in section 6.4).

### **6.1.2 Planning region**

A planning region means each of the four Order 1000 planning regions within the Western Interconnection: California Independent System Operator, ColumbiaGrid, Northern Tier Transmission Group, and WestConnect.

### **6.1.3 Relevant planning region**

A relevant planning region means, with respect to an interregional transmission project, the planning regions that will be directly interconnected electrically with such an interregional transmission project. However, it is no longer considered a relevant planning region once it determines that such an interregional transmission project will not meet any of its regional transmission needs.

## **6.2 Interregional coordination**

The planning regions are proposing an annual exchange of interregional information and an annual interregional coordination meeting open to stakeholders to discuss that information. The annual interregional coordination meeting will be held in February and

each planning region will provide notice of the meeting to its stakeholders in accordance with its regional transmission planning processes. Each of the planning regions will participate in the annual interregional coordination meeting and the meeting will be open to stakeholders.

Prior to the annual interregional coordination meeting, an annual interregional information exchange will take place in which each planning region will make available to each of the other planning regions information relating to transmission needs in each planning region. This annual interregional information may include a planning region's study plan or underlying information that would typically be included in a study plan such as base case identification, planning study assumptions and study methodologies. This annual interregional information may also include a planning region's initial study reports (or system assessments) and regional transmission plan. This annual interregional information will be subject to applicable confidentiality and critical energy infrastructure information restrictions under each planning region's regional transmission planning process.

Each planning region's most recent annual interregional information (which, as previously mentioned, includes information relating to transmission needs in each planning region) will provide a foundation for discussions at the annual interregional coordination meeting. For example, based on this annual interregional information, these discussions may include the identification and preliminary discussion of interregional solutions that may meet regional transmission needs in each of two or more planning regions more cost effectively or efficiently. In addition, updates on the status of interregional transmission projects being evaluated or previously included in regional transmission plans may also be discussed.

### **6.3 Interregional transmission project joint evaluation process**

Upon examination of the processes in each planning region, the Interregional Coordination Team determined that while the timelines of the regional transmission planning processes among the planning regions are not in exact alignment, there are sufficient similarities through which some adjustment would enable interregional coordination to be successfully achieved. The planning regions agreed that proposed interregional transmission projects could be submitted simultaneously to each planning region's regional transmission planning process provided that a two-year joint evaluation cycle was adopted by all of the planning regions.

To trigger joint evaluation by the relevant planning regions, a proponent must submit the interregional transmission project into the regional transmission planning process of each relevant planning region no later than March 31<sup>st</sup> of any even-numbered calendar year. If the proponent of an interregional transmission project is seeking to connect to a transmission facility owned by multiple transmission owners in more than one planning

region, the proponent must submit the interregional transmission project to each such planning region. The proponent must include in its submittal to each relevant planning region a list of all planning regions to which the interregional transmission project is being submitted.

A proponent need not request interregional cost allocation to have its interregional transmission project jointly evaluated by the relevant planning regions. However, a proponent may request interregional cost allocation by requesting such cost allocation from each relevant planning region in accordance with its regional transmission planning process and must include a list of all planning regions in which interregional cost allocation is being requested.

For each properly submitted interregional transmission project, the joint evaluation by the relevant planning regions will commence in the calendar year of the submittal or the immediately following calendar year. This provides the flexibility necessary to align the respective timelines of each planning region's regional transmission planning process. The relevant planning regions will confer regarding the data and projected costs of the submitted interregional transmission project as well as the study assumptions and methodologies to be used in evaluating the project, and will seek to resolve any differences that may affect evaluation of the project. Each relevant planning region will also provide stakeholders an opportunity to participate in the joint evaluation in accordance with its regional transmission planning process.

If a relevant planning region determines that an interregional transmission project will not meet any of its regional transmission needs, it will notify the other relevant planning regions of such and thereafter have no obligation to participate in the joint evaluation (due to it no longer being a relevant planning region). Each relevant planning region will, under its regional transmission planning process, determine if an interregional transmission project is a more cost effective or efficient solution to one or more of its regional transmission needs.

#### **6.4 Interregional cost allocation process**

For each properly submitted interregional transmission project requesting interregional cost allocation, the relevant planning regions will confer regarding the assumptions and inputs to be used by each relevant planning region for purposes of its regional cost allocation methodology's benefits determination, each planning region's regional benefits resulting from the interregional transmission project, if any, and the cost assignment to each relevant planning region. Each relevant planning region will seek to resolve with the other relevant planning regions any differences that may affect a relevant planning region's analysis.

Each relevant planning region will provide stakeholders an opportunity to participate in the interregional cost allocation process in accordance with its regional transmission planning process.

Each relevant planning region will determine its regional benefits, stated in dollars, resulting from an interregional transmission project and calculate its assigned pro rata share of the projected costs of the project, stated in a fixed dollar amount, equal to its share of the total benefits multiplied by the projected costs of the project. Each relevant region will share this information regarding what its cost allocation would be if it were to select the interregional transmission project in its regional transmission plan for purposes of interregional cost allocation.

Each relevant region is to perform its interregional cost allocation activities in the same general time frame as its joint evaluation activities.

In cases where all of the relevant planning regions select an interregional transmission project in their regional transmission plan for purposes of interregional cost allocation, each relevant planning region will apply its regional cost allocation methodology to the projects costs of the interregional transmission project assigned to it.

In cases where at least two, but fewer than all, of the relevant planning regions select the interregional transmission project in their regional transmission plan for purposes of interregional cost allocation, the remaining relevant regions will reevaluate whether (without the participation of the non-selecting relevant planning region) the project remains selected in its regional transmission plan for purposes of interregional cost allocation.

If the interregional transmission project remains selected in its regional transmission plan, a relevant planning region will apply its regional cost allocation methodology to the projects costs assigned to it.

## **7 Additional topics**

In this section the ISO addresses additional topics that are either not addressed in the common approach (previously described in section 6) or are topics of specific relevance to the ISO planning region. In either case, the topics discussed here are a part of the ISO proposal for compliance along with the common approach described in the previous section.

### **7.1 The ISO's avoided cost approach to assessing benefits of a proposed interregional transmission project**

The ISO proposes to assess the benefits of a proposed interregional transmission project to the ISO planning region in terms of the cost of needed regional transmission

upgrades that could be eliminated or deferred from its regional transmission plan if the proposed interregional project were built.

To assess the benefits of a proposed interregional transmission project, the ISO would perform its regional assessment consistent with established regional planning methodologies and assumptions and without the proposed interregional transmission project. The results of this regional assessment will form the basis for that year's draft comprehensive transmission plan and would include new additions and upgrades to meet the ISO's system needs identified by the assessment. The results of this system assessment forms the benchmark comprehensive transmission plan against which all interregional transmission project proposals would be compared.

The assessment of an interregional transmission project proposal will be performed under the same methodologies and assumptions used in the regional assessment. The merits of the interregional transmission project proposal, if any, will be based on the impact the proposal has on the performance of the ISO's system and whether any transmission network proposals identified in the regional planning assessment would either be deferred or eliminated were the proposed interregional transmission project developed in place of the regional solutions. To be clear, this correctly infers that an interregional transmission project proposal will be assessed using the same resource and network assumptions used to determine the regional solutions. The results of the interregional transmission project assessment will be compared to the regional assessment to determine first, if the interregional transmission project proposal is needed and second, to determine what regional transmission solutions would be "displaced" by the proposed interregional transmission project. It is the costs of these "displaced" facilities that define the avoided cost associated with the proposed interregional transmission project. If more than one interregional transmission project were proposed in a given planning cycle, the ISO would perform a scenario as described above for each proposed interregional project, one at a time, in order to determine an avoided cost for each such project.

The ISO proposes to use the capital cost to compare a proposed interregional project against projects that can be eliminated from the regional transmission plan. The capital costs would be estimated using industry standard practices for project cost estimation.

Using capital cost would not be appropriate for the avoided cost of a project in the regional plan that is only deferred, since that project ultimately would need to be built. In such instances the objective would be to estimate the cost savings from postponing the construction of the project in the regional plan for as many years as it could be postponed.

## **7.2 Selection of an interregional transmission project in the ISO regional transmission plan for purposes of interregional cost allocation**

For the ISO, selecting an interregional transmission project in its regional transmission plan for purposes of interregional cost allocation means that one or more regional solutions to address the same regional transmission need are eliminated or deferred. This makes the ISO dependent on the interregional project getting built to ensure that the identified regional transmission need is met. After the two-year joint evaluation process, a selected interregional transmission project would be placed in the ISO transmission plan for approval by the ISO Board and the eliminated or deferred regional transmission solution(s) would not. However, to ensure that the identified need is actually met in a timely manner, the ISO will need to continually assess the progress of a selected interregional project against the timing of the ISO's regional transmission needs. If a selected interregional transmission project is not making satisfactory progress, the ISO would have no choice but to "de-select" it and return to the previously identified regional solution and proceed with phase 3 of the TPP.

The ISO and the other planning regions hold the similar view that Order 1000 encompasses the process leading up to and including project selection and cost allocation, but not beyond that point. This is why the common approach described in section 6 does not address steps beyond project selection and is why this topic is addressed here in section 7 instead. Once an interregional transmission facility has been selected in the regional transmission plans of all relevant planning regions, the ISO proposes that the ISO and the other relevant planning region(s) and the potential project sponsor would meet to address project implementation issues, including but not limited to, project financing, ownership and construction, operational control, scheduling rights and other matters.

This, however, raises the question of who is the "potential project sponsor" of a selected interregional transmission project. The ISO and the other planning regions agree that this question is beyond the scope of Order 1000 compliance. Submitting an interregional transmission project proposal would not establish an exclusive right to build that project should it be selected by the relevant regions for purposes of interregional cost allocation. Instead, this and other such project implementation issues would be resolved through subsequent negotiations amongst the relevant regions once a project is selected by two or more relevant regions.

## 8 Stakeholder comments

### 8.1 Common benefits assessment methodology

Some stakeholders have expressed the view that there should be a common methodology used by the planning regions for assessing the benefits of interregional transmission projects rather than relying on the respective regional methodology of each planning region. Although the order does require a common methodology for interregional cost allocation, it does not require a common benefits assessment methodology. The ISO believes that a common benefits assessment methodology is neither necessary nor desirable for the following four reasons. First, as mentioned previously, a significant starting assumption agreed to by the planning regions in developing a common compliance proposal was that each planning region's regional compliance filing (i.e., the October 11, 2012 filings) would be accepted by FERC and that this includes each planning region's respective methodology for assessing benefits. Second, an equally significant starting assumption agreed to by all four planning regions was that the interregional requirements of Order 1000 are intended as an additional layer of process on top of the foundational regional transmission planning processes. As such, material changes to those underlying regional transmission planning processes are unnecessary. Third, consideration of material changes to the underlying regional transmission planning processes would make it impossible to develop a common compliance proposal and still meet the April 11, 2013 filing deadline. Fourth, the method for calculating avoided cost must be the same applied to the avoided upgrades as applied to the proposed interregional project, to ensure that the interregional project is compared on an equal basis to the eliminated or deferred projects in the regional plan.

### 8.2 Path forward for selected interregional transmission projects

Some stakeholders have expressed concern about the lack of a defined path forward for selected interregional transmission projects—specifically, uncertainty about how and whether a selected interregional transmission project will actually get built and the effects that that may have on reliability. The ISO holds the same concern but believes that the steps needed to move beyond selecting an interregional transmission project for purposes of interregional cost allocation are beyond the scope of Order 1000.

Nevertheless, as discussed in section 7.2 above, the ISO proposes that once an interregional transmission project has been selected in the regional transmission plans of all relevant planning regions, the ISO and the other relevant planning region(s) and the potential project sponsor would meet to address project implementation issues, including but not limited to, project financing, ownership and construction, operational control, scheduling rights and other matters.

Also discussed in section 7.2 above, the ISO will continually assess the progress of a selected interregional project against the timing of the ISO's regional transmission needs. If a selected interregional transmission project is not making satisfactory progress, the ISO would have no choice but to "de-select" it and return to the previously identified regional solution and proceed with phase 3 of the TPP.

### **8.3 Timeframe for joint evaluation process**

Some stakeholders have requested more detail on the relevant milestones in the joint evaluation process for interregional transmission projects. This draft final proposal responds to this request by clarifying in sections 6.2 and 6.3 that: (1) an annual interregional coordination meeting will occur in February; (2) a proponent must submit its interregional transmission project into the regional transmission planning process of each relevant planning region no later than March 31<sup>st</sup> of any even-numbered calendar year; (3) the joint evaluation by the relevant planning regions will commence in the calendar year of the submittal or the immediately following calendar year (this is to provide the flexibility necessary to align the respective timelines of each planning region's regional transmission planning process); and, (4) the planning regions will endeavor to accomplish the joint evaluation in a two-year timeframe.