

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

**Transmission Planning Processes
Under Order No. 890**

Docket No. AD09-8-000

**INITIAL COMMENTS OF THE CALIFORNIA
INDEPENDENT SYSTEM OPERATOR**

On October 8, 2009 the Federal Energy Regulatory Commission (Commission) issued a Notice of Request for Comments (Notice) regarding the development and implementation of the Order 890 transmission planning process.¹ The Commission asked interested parties to submit comments on specific topics dealing with regional transmission planning and transmission infrastructure cost allocation. In response to a motion for extension of time by Edison Electric Institute, FERC issued a subsequent notice extending the comment date to November 23, 2009 and the reply comment date to December 18, 2009. The California Independent System Operator Corporation (ISO) hereby submits its initial comments in response to the Notice.

I. INTRODUCTION

According to the Notice, the Commission seeks comments regarding the issues raised by parties and addressed at technical conferences regarding Order 890, which were held in September 2009. The purpose of the technical conferences was to: 1) obtain input on the progress and benefits realized by each transmission provider's

¹ *Preventing Undue Discrimination and Preference in Transmission Service*, Order 890, FERC Stats. & Regs. ¶ 31,241 at P 418-602, *order on reh'g*, Order No. 890-A, FERC Stats & Regs. ¶ 31,261 (2007), *order on reh'g*, Order 890-B, 123 FERC ¶ 61,299, (2008) *order on reh'g*, Order 890-C, 126 FERC ¶ 61,228 (2009).

transmission planning process; 2) examine whether existing transmission planning processes adequately consider needs and solutions on a region-wide or interconnection-wide basis; and 3) explore whether existing processes are sufficient to meet challenges to the existing transmission system such as the integration of location-constrained resources, distributed resources and inter-regional facilities. The Commission now seeks specific responses to concerns expressed at the conferences, particularly with respect to whether additional transmission planning reforms are necessary to ensure that the rates, terms and conditions of transmission planning are just and reasonable or to eliminate any remaining opportunities for undue discrimination.

The ISO actively participated in the technical conference held in Phoenix on September 2, 2009 and provided input on several of these topics at that meeting. As noted at the conference, the ISO considers regional and sub-regional planning issues to be very important. Indeed, the ISO has commenced a major stakeholder initiative to address many of the issues raised in the Notice, and appreciates this opportunity to describe the steps that are being taken with respect to statewide and sub-regional planning.

II. COMMENTS

The Notice seeks comments on two general topics: Enhancing Regional Transmission Planning Processes and Allocating the Cost of Transmission. The ISO's comments will be organized according to these topics and the questions posed by the Commission in each category.

A. Enhancing Regional Transmission Planning Processes

- 1) *Are existing transmission planning processes adequate to identify and evaluate potential solutions to needs affecting the systems of multiple transmission providers? Should prospective transmission developers coordinate their projects in the interest of “right-sizing” facilities to make the best possible use of available corridors and minimize environmental impacts? If so, what process should govern the identification and selection of projects that affect multiple systems?*

The planning principles established in Order 890 provide sufficient flexibility for transmission providers and planning authorities to develop potential solutions that will address the needs of multiple transmission systems, whether in the context of existing transmission planning processes or through the creation of new processes that follow the Order 890 principles. For example, the 33% Renewable Portfolio Standards (RPS) transmission planning initiative launched by the ISO on September 15, 2009, envisions a new, separate, open and transparent process that provides for collaboration with other California transmission providers to effectively address the statewide infrastructure needed to achieve the ambitious renewable resource targets adopted by the state of California for load serving entities.²

The process contemplated by the ISO will begin with planning studies that are currently being conducted by the California Transmission Planning Group (CTPG), a statewide planning group made up of transmission providers, transmission planners and planning authorities in the State of California, including the ISO. It is anticipated that these studies will be informed, in part, by the data compiled by the Renewable Energy Transmission Initiative (RETI), a collaborative made up of representatives from governmental agencies, environmental interests, renewable generation developers,

² The link to 33% RPS web page is <http://www.caiso.com/242a/242abe1517440.html>

Indian tribes, transmission providers and others who considered the likely areas of renewable development based on economic and environmental considerations and identified likely transmission paths that would be needed to deliver energy from these potential renewable development areas.

The purpose of CTPG is to consider renewable-related transmission needs on a comprehensive, statewide basis and, *inter alia*, to identify potential joint transmission projects that can take advantage of existing corridors, avoid unnecessary duplication and redundancy and be optimally sized to provide reliable and cost effective access to renewable resources needed by load serving entities throughout California. The ISO anticipates that CTPG will develop a conceptual statewide study that can be used by the participants in this collaborative effort for this purpose. Once potential joint projects are identified, the ISO intends to use the CTPG study as the starting point for a process by which it will approve those transmission projects whose cost will be included in the ISO's transmission access charge and which will reliably and cost effectively support achievement of the 33% RPS goal. Thus, the ISO's objective is to base its own project approvals for achieving the 33% RPS target on a holistic, integrated statewide plan developed in conjunction with the CTPG.

The ISO's 33% RPS process, as described in more detail below, will be parallel to and separate from its existing transmission planning process, but will be coordinated with that process through key linkages and will be conducted in accordance with the Order 890 planning principles regarding transparency, openness and stakeholder input. The CTPG elements of this process, though still under development, should follow these principles as well. The ISO does not, however, anticipate at this time that the

CTPG will itself approve specific projects or make project cost-allocation decisions. Rather, such decisions will remain the responsibility of each transmission provider for those projects that will be under its operational control, or in the case of joint projects, the responsibility of those transmission providers participating in the project. The ISO believes that this approach will facilitate sufficient coordination to enable regional approaches for meeting transmission needs expeditiously without requiring the participating transmission providers to develop the institutional infrastructure that would be needed to decide project approvals and cost allocation.

The ISO's proposed 33% RPS process will be structured in three phases. The first phase will begin with a stakeholder process conducted in parallel with the development of the CTPG statewide transmission study. At the conclusion of Phase I, the ISO will present the conceptual CTPG statewide study to the ISO Board of Governors for informational purposes.

The second phase of the process will start by providing a time period during which interested parties can comment on the conceptual statewide plan and suggest additional or alternative transmission solutions to the conceptual transmission lines identified in the CTPG statewide study, including potential interstate projects. The ISO, in collaboration with CTPG, will use this input to further refine the transmission solutions from the conceptual statewide study. To provide the linkage mentioned above between the ISO's other transmission development activities and the new 33% RPS process, as additional inputs to this evaluation phase, the ISO will incorporate any transmission upgrades approved within its regular transmission planning process as well as Network Upgrades that will be constructed pursuant to the ISO's large

generation interconnection process (*i.e.*, LGIP) The transmission elements needed to achieve 33% RPS by 2020 will comprise the ISO renewable resource transmission plan that will be presented to the ISO Governing Board for approval and, in consultation with CTPG, will comprise the ISO portion of the final statewide renewable resource transmission plan.

Following Board approval of the plan, for the third phase of the 33% RPS process the ISO will open a request window to solicit the submission of specific transmission projects that meet the needs identified in the ISO 33% RPS plan developed in the second phase. Once all project proposals have been submitted, the ISO will facilitate collaboration between project sponsors if multiple parties submit projects designed to meet the same infrastructure need. Project sponsors will then be designated for each transmission element, and the ISO Board will approve the projects on either a final or conditional basis, depending on the project ranking. The ISO's renewable transmission plan will be updated annually to reflect any new developments that would, for example, support final approval of a project proposal that was previously approved conditionally.

Thus, the three -phase process proposed by the ISO will involve collaboration between neighboring transmission providers and balancing authority areas. The CTPG and the ISO's 33% RPS initiative are prime examples of study processes aimed at facilitating sub-regional planning within the Order 890 framework. The ISO intends to file a tariff amendment with the Commission in February 2010 to implement its 33% RPS process. The ISO urges the Commission to allow the ISO to develop this proposal through its stakeholder process and not use the instant proceeding to prejudge, prescribe

or limit the contents of that that filing. In light of the lengthy time periods necessary to obtain permits and other siting approvals, the ISO hopes to quickly approve several major transmission projects by the first quarter of 2011 under the process described above. The Commission should not take any actions to delay these efforts.

- 2) *Are there adequate opportunities for stakeholders to participate in planning activities that span different regions, including, for example, those undertaken pursuant to bilateral agreements?*

The ISO's 33% RPS initiative should include opportunities for stakeholder input and participation as the statewide plan is developed and finalized. The proposal includes an ISO stakeholder process that will be held in parallel with the efforts of CTPG during the initial study process leading up to the conceptual statewide plan, as well as during the evaluation of the transmission elements that will be needed to achieve the 33% targets. Stakeholder opportunities for participation in the ISO's 33% RPS process will be similar to those provided in the ISO's transmission planning process.

- 3) *Is there adequate coordination among planning entities to provide consistency in the data, assumptions and models being used in planning studies?*

The ISO, as a member of the Renewable Energy Transmission Initiative (RETI) in California, has made every effort to assimilate the data and assumptions used as part of the RETI analysis for consideration within the ISO's transmission planning process. For example, the ISO prepared and posted a conceptual 33% transmission plan in September 2009 which was based on RETI data. The ISO further hopes to collaborate with the newly formed CTPG in a manner that fosters consistency across data sets (including those of RETI, the ISO and each of the respective CTPG members). As explained in the next section, the ISO believes that the more consistent and transparent

the data and assumptions used up front are, the better the chance that stakeholders will understand and support the plans and projects that result from the studies. It will also be easier to analyze and justify transmission that spans across regions if the underlying data is consistent in all the jurisdictions that are part of evaluating the transmission in question.

- 4) *Will the interconnection-wide processes adopted pursuant to funding opportunities under the American Recovery and Reinvestment Act of 2009 result in an ongoing process for jointly identifying and evaluating alternatives to solutions identified in transmission plans developed through existing sub-regional and regional planning processes? Will the scope and function of these interconnection-wide planning activities be sufficient to help address the concerns identified above? How will planning activities conducted on an interconnection-wide basis be integrated into the development of sub-regional and regional transmission plans and vice versa?*

The ISO has committed to participate in the WECC proposed interconnection-wide planning effort which is responsive to the ARRA Funding Opportunity Announcement (FOA) for the western interconnection. At this stage, it is difficult to predict the ultimate outcome of the WECC effort, but there are features of the WECC proposal addressing the FOA that hold some promise to help bring increased coordination and regional consensus to transmission plans.

The ISO suggests that the key to an effective interconnection-wide process (or any regional transmission planning process) lies in the degree to which parties can operate from common and transparent data sets and achieve consensus with regard to assumptions and scenarios used during the process. Additionally, the ability to involve a broad range of stakeholder groups and, thereby, help educate interested parties (especially environmental stakeholders and regulators in charge of permitting) about the planning process itself, the transmission plans, and the need for the projects that

result from plans should help mitigate opposition in the permitting arenas and may result in cost allocation solutions that would otherwise prove difficult or impossible absent the inclusion and education of these stakeholders.

Notwithstanding the positive features and promise of a fruitful interconnection-wide planning process, the ISO notes that the timeframe for planning is relatively short if the states in the West are to meet the challenging RPS and GHG goals in a timely manner, as well as providing for load growth and grid reliability and economic needs. The ISO agrees with the objective of “right sizing” lines, attempting to develop joint projects where possible and optimizing plans across regions where appropriate. However, the real barrier to transitioning from “plan” to “approved project” lies in the permitting processes which vary from state to state and also involve various federal agencies. The ISO urges FERC, DOE, Department of Agriculture (U.S. Forest Service) and Department of the Interior (BLM) to accept the invitation from WECC to be involved in the “Scenario Planning Steering Group” contained in WECC’s interconnection-wide planning proposal currently before the U.S. Department of Energy. The involvement of the federal agencies is critical both to ensure that environmental processes can best be coordinated with the respective state permitting requirements in as timely a manner as possible, and also to allow the agencies to inform and advise on other subjects such as cost allocation and, as appropriate, help to ensure consistency in data and accounting of demand response and other resources across states and regions.

Finally, to reiterate statements the ISO made at FERC’s Order 890 technical conference in Phoenix, Arizona earlier this year, the ISO believes that it is appropriate,

albeit controversial, for the federal government to play a backstop role in permitting in order to ensure that the transmission infrastructure necessary to ensure reliability, meet load growth and accommodate environmental goals is in place in a cost effective and timely manner. While the ISO believes that it is in the best interest of all states and the Western region as a whole to utilize existing permitting authorities, it is nonetheless appropriate for Congress to enlist (or states to agree) on a safeguard provision to allow the federal government to act when the states cannot or will not act within a reasonable, to be specified period of time.

- 5) *How are reliability impact studies aligned with economic-based evaluations of sub-regional or regional projects and assessments of projects needed to satisfy renewable energy standards? If not aligned, how can reliability assessments and economic evaluations be aligned in order to better identify options that meet regional needs?*

The ISO's transmission planning to date has identified the following objectives as separable elements of the planning assessment: reliability; economic benefits; and generator interconnection (*i.e.*, LCRIF). This approach generally identifies one (or more) of these objectives as primary for a particular project or set of project alternatives. The ISO's TEAM analysis provides a framework for economic assessment. As the ISO faces the need to meet RPS goals and reliably and effectively integrate renewable resources, planning assessments will require, *inter alia*, comparison of competing transmission projects that provide access to alternative renewable zones, and possibly the evaluation of operational, renewable integration, and reliability benefits, *e.g.*, providing additional access to pumped storage capability needed for renewable integration. This will require newer assessment methodologies that are still evolving.

When a project is needed for reliability reasons, as well as to support renewable integration and possibly provide economic benefits, then the first step in the assessment should be to locate and size the project to meet reliability goals and any related operational objectives, and then to evaluate any further changes to the project size to address renewable integration requirements and economic benefits.

Where a Location Constrained Resource Interconnection Facility (LCRIF) or a network facility is being developed for the primary purpose of interconnecting and improving access to renewables, then the decision on location and sizing will be motivated by a range of possible factors, the most notable of which will be commercial interest in the renewable zones under considerations. In that regard, if there is not sufficient commercial interest in a zone, then the project may not sufficiently support achievement of a 33% RPS goal or may not achieve sufficient capacity utilization to justify its cost. Other factors could include the potential capacity and potential energy of renewable resources in particular zones, the supply cost functions of the renewable resources in particular zones that are alternatives to each other, the integration costs of the renewable resources in particular zones, the projected cost of the planned transmission facility, whether and to what extent the planned transmission facility provides additional reliability and economic benefits to the CAISO Controlled Grid, and whether the facility would create a risk of stranded costs.³ The ISO is currently evaluating how to mix these considerations to address large-scale transmission planning to achieve California's 33% RPS policy goal, as noted above.

³ Some of these criteria were adopted by the ISO to evaluate the projected costs and benefits of transmission facilities to support location constrained resource interconnection. See ISO Tariff, section 24.1.3.

6) *How should merchant and independent transmission projects be treated for the purposes of regional transmission planning?*

The Notice asks the following questions regarding the treatment of merchant and independent transmission projects for purposes of regional transmission planning:

- Should they be required to participate in the planning process and, if so, at what point must they engage in the planning process?
- Do rights of first refusal for incumbent transmission owners unreasonably impede the development of merchant and independent transmission? If so, how can this impediment be addressed?
- Are there other barriers to the development of merchant and independent transmission in the transmission planning process?
- Should similar assumptions regarding resource availability be used for generation owned by the transmission owner and the merchant or independent developers?

The CAISO believes that a carefully tailored, not overly broad, right of first refusal mechanism for existing participating transmission owners (“PTOs”) with a service territory in which they have an obligation to provide service to end use customers is appropriate. If these PTOs were not members of an ISO or RTO, they could build new transmission projects to serve their load by simply obtaining a certificate of public convenience and necessity from their state regulatory commission or applicable local regulatory authority. They would not encounter the competition to build transmission projects that would result from being a member of an ISO or RTO that does not have a right of first refusal for incumbent PTOs. Thus, the absence of a right of first refusal mechanism would serve as an inappropriate and potentially significant disincentive for such transmission owners to join ISOs and RTOs. Not providing for a right of first refusal would result in unfair and unduly discriminatory treatment of PTOs that are participating members of an ISO or RTO.

Also, under the CAISO tariff, these PTOs have obligations to build certain facilities found to be needed by the ISO.⁴ A right of first refusal complements the obligation to build as an effective way to ensure that needed transmission will be built. Imposing an obligation to build on a PTO without including a right of first refusal is unreasonable considering the treatment of third parties that do not have an obligation to build. These entities can build transmission on a voluntary basis. Thus, compared to PTOs with an obligation to build, they can be more selective regarding the projects they seek to build. In essence, they could propose to build only the more desirable transmission projects, leaving the less desirable projects to be constructed by the PTOs.

The ISO recognizes that the Commission previously has expressed concerns about a right of first refusal mechanism. For example, the Commission has suggested that a right of first refusal could create the possibility of discrimination by self-interested transmission owners favoring their own generation, as well as the possibility of conflicts that could reduce reliability. *Southwest Power Pool, Inc.*, 127 FERC 61,171 at P 43 (2009) (“SPP”). The ISO notes, however, that if a project is intended to interconnect or provide for the deliverability of new generation, it is handled through the Large Generator Interconnection Process (“LGIP”) which imposes an obligation for the PTO to build, not through the transmission planning process. The Commission’s concerns are also mitigated by the fact that the ISO or RTO -- not the PTO -- will ultimately make the determination of whether a project is needed for reliability, economic, or RPS reasons; so, there should not be any discrimination concerns. Also, ISOs and RTOs already have the authority to modify proposals made by PTOs and third parties (or to adopt alternative projects) to ensure that cost effective and reliable

⁴ See ISO Tariff Section 24.1.2

projects are built. If a project does not meet the Commission-approved criteria set forth in the ISO or RTO tariff, a project will not be approved. ISOs and RTOs are responsible for reliability and are subject to NERC Reliability Standards; they will not be approving projects that do not ensure reliability consistent with the Reliability Standards. Under these circumstances, it is not reasonable to suggest that reliability will be sacrificed if there is a carefully tailored right of first refusal mechanism in place.

The Commission has also expressed concern that a right of first refusal potentially could preclude third-parties from constructing lower cost or superior transmission facilities or upgrades. *Id.* The ISO believes that a carefully crafted and transparent right of first refusal would allay these concerns and not chill the development of needed transmission. For example, the Commission approved SPP's narrow right of first refusal mechanism. As indicated above, ISOs and RTOs have the ability to modify projects submitted in the request window. If a PTO submitted a project that might not be the "superior" project, the ISO or RTO would be able to modify the project and approve the revised, superior project rather than the project originally proposed by the PTO. Thus, the right of first refusal does not eliminate an ISO's or RTO's ultimate ability to ensure that the superior project is approved and constructed.

With respect to cost issues, there is no way to guarantee that the submitted project that has the lowest cost estimate at the time it is submitted will actually turn out to be the cheapest project. Project sponsors could simply submit "low-ball" cost estimates for the sole purpose of getting their projects approved, and even if actual construction costs end up being significantly higher, the ISO or RTO will have little

ability (or flexibility) to approve a competing project at that point. A right of first refusal avoids placing the ISO in the position of having to evaluate competing projects based on potentially spurious cost estimates. Moreover, because the particular details of transmission projects are highly prescribed by the ISO, it is unclear that a third party transmission provider could build a project cheaper than the incumbent PTO. In any event, the Commission always has the ability to conduct prudence reviews if it believes that a PTO's project costs are unreasonably high. Also, as discussed above, PTOs with an obligation to build could be at a competitive disadvantage vis-à-vis projects sponsors that are selectively building projects as the latter would tend to only bid on the most attractive projects.

The Commission should let each ISO and RTO that desires to have a right of first refusal mechanism develop a mechanism tailored to the specific circumstances in its region. The Commission should not prohibit right of first refusal mechanisms and should not be overly proscriptive in dictating the specific design of any right of first refusal mechanism in this proceeding. The ISO agrees that any such mechanism should not be overly broad and should be clearly stated and transparent in the tariff. The Commission should give ISOs and RTOs the authority to develop mechanisms that effectively balance all of the interests and concerns at play. For example, SPP's right of first refusal mechanism includes a 90-day window wherein an incumbent transmission owner is required to commit or decline to build, or offer an alternative solution. There are numerous other possibilities for a carefully crafted right of first refusal mechanism. Also, in instances where there are competing projects, the transmission planning process might include an express opportunity for the ISO or

RTO to facilitate a collaborative effort among PTOs and project sponsors to determine whether there is any interest and/or synergies in jointly developing a project(s). The Commission should allow this matter be addressed in individual ISO and RTO stakeholder processes and not prescribe generic requirements in this proceeding that do not reflect the specific circumstances and processes in each region.

7) *Is the interconnection queue process hindering the ability to plan the transmission system to integrate new generation? Would any reforms to the Commission's interconnection procedures support efficient planning of the transmission system?*

The ISO made substantial changes to its large generator interconnection process (LGIP) with the implementation of its generation interconnection process reform (GIPR) in Docket No. ER08-1317. These modifications enabled the ISO to evaluate the reliability and deliverability Network Upgrade requirements of generator interconnection requests on a “cluster” basis, rather than serially. The GIPR has allowed the ISO to address the backlog of renewable projects in its generation queue, and further modifications to the process have been proposed as experience is gained.⁵

Location-constrained resources were also addressed with the ISO's innovative financing mechanism, known as Location Constrained Resource Interconnection Facility (LCRIF). This category of generation interconnection allows the transmission owner of the system to which the generation will be connected to “upfront fund” the interconnection facility if certain objective criteria are met. The costs of the facility will then be reimbursed by the generators on a going forward basis. This financing mechanism was intended to provide options for generation resources located great distances from load centers that might otherwise be unable to obtain timely funding for

⁵ For example, the ISO recently proposed amendments to the financial security requirements.

generation interconnection facilities that are not recovered through the ISO transmission access charge.

Finally, the ISO's newly proposed 33% RPS transmission process addresses the issue of coordination between the LGIP and the proposed RPS evaluation process by providing a mechanism by which so-called "enhanced network upgrades" that are sized for multiple renewable generation projects in different queue clusters would be evaluated and approved before being identified in an interconnection agreement (*i.e.*, Large Generator Interconnection Agreement or LGIA). In other words, this mechanism would allow Network Upgrades to be sized beyond the minimum network upgrades reflected in an executed LGIA(s), based on expected generation to be developed in an area. The ISO intends to make every effort to streamline the development and approval of transmission upgrades and additions required to achieve the state RPS and GHG goals, whether this infrastructure has been identified in the usual transmission planning process, the 33% RPS process or the LGIP.

8) *Should there be consistency in the way transmission providers treat demand resources, such as demand response, energy efficiency and distributed storage, in the transmission planning process? Are there preferred methods of modeling or otherwise accounting for demand resources in the planning process? Does the planning process investigate transmission needs at fine enough granularity to identify beneficial demand resource projects?*

The ISO recognizes the importance of these issues and has identified an initiative that it expects to commence in the near future to address them. The initiative will be aimed at enabling project developers to offer energy efficiency, demand response or other alternatives in lieu of proposed transmission projects. The barrier to overcome in California, and likely elsewhere, lies in the fact that there are multiple jurisdictions and regulatory authorities involved with approving transmission projects

versus energy efficiency versus demand response versus other distributed resources. For example, in California the California Public Utilities Commission (CPUC) approves demand response and energy efficiency goals and programs for its jurisdictional load serving entities (LSEs). The CPUC is also the permitting authority for transmission projects to be built by CPUC-jurisdictional PTOs. The California Energy Commission (CEC) performs load forecasts which account for the amount of demand response and energy efficiency to be subtracted from the net short demand for LSEs (*i.e.*, gross demand minus owned supply resources). This net short, in turn, becomes the target for the CPUC jurisdictional LSEs and the ISO to meet for purposes of resource adequacy and local capacity requirements, respectively. This illustrates the complexity of analyzing and choosing the preferred alternative should such an analysis occur. The objective is worth the complexity, however, given the potential cost savings and greenhouse reduction that might occur. The solution likely lies in a coordinated regulatory approach which may or may not warrant future action by FERC.

9) *Are existing dispute resolution procedures in transmission provider tariffs adequate to address disputes that arise in the planning process?*

The ISO tariff contains a dispute resolution procedure that is part of its Order 890 process and will be applicable to the proposed 33% RPS process. At this time there does not appear to be a need to revise or augment that procedure.

B. Allocating the Cost of Transmission

The Notice states that the Commission's best remaining opportunity to eliminate barriers to new transmission construction may be to provide greater certainty in its policies for allocating the cost of new transmission facilities, particularly for facilities that cross multiple transmission systems. The Notice seeks comment on whether existing cost allocation practices may create a disincentive to invest in new transmission, and if so, how they might be changed. The Notice also seeks comment on whether the Commission should pursue generic reform in the area of cost allocation, or rather should continue to address cost allocation issues as they arise on a case by case basis. The Notice requests responses to the following questions.

- 1) To the extent that a lack of up-front certainty about cost allocation is inhibiting transmission development, describe the relative impact of this concern on specific projects and as it relates to other impediments to development.*

For new transmission facilities developed by the ISO's PTOs and determined by the ISO to be needed to serve the ISO's customers, the ISO tariff provides for the allocation of the costs of these facilities to all ISO transmission ratepayers in accordance with their use of the transmission system. The primary lack of up-front certainty with regard to cost allocation pursuant to this construct is the issue of whether the transmission developer can demonstrate the need for its project to serve ISO customers. This is an inherent uncertainty in the transmission development process and is not a function of the ISO's cost allocation mechanism. The ISO tariff sets forth criteria for the demonstration of the need for a new transmission project, and the ISO is currently engaged in a stakeholder process in an attempt to develop yet another

criterion for demonstrating project need in conjunction with the 33% RPS transmission planning initiative. At this time, the ISO does not foresee that any changes to reduce the uncertainties regarding demonstration of need would require associated changes to its cost allocation provisions. Likewise, modification of cost allocation provisions would not obviate the requirement for a transmission project developer to demonstrate the need for its project to the ISO.

- 2) *Should processes be established to help stakeholders address cost allocation matters over larger geographic regions? What is an appropriate scope for those regions? Should they align with the regions for which planning is conducted?*

The ISO supports consideration of processes for addressing cost allocation matters over larger geographic regions. The ISO does not have any particular proposal to offer at this time.

- 3) *Are there regional cost allocation methodologies outside RTOs, and broader regional cost allocation within RTOs, that should be considered or established? If so, how should this be done?*

As discussed in response to the first question on this topic, the ISO tariff fully addresses the matter of allocation of costs of development of new transmission facilities by ISO participating transmission owners for projects that are shown to be needed. As discussed in response to the second question, the ISO supports consideration of processes for addressing cost allocation matters over larger geographic regions, but does not have a specific proposal to offer at this time.

- 4) *Should each transmission provider hold an open season solicitation of interest for needed transmission projects identified through the transmission planning process in order to assist in cost allocation determinations?*

The ISO tariff current provides for a “request window” by which the ISO considers proposals for needed transmission projects. As discussed in response to the first question on this topic, the ISO tariff also fully provides for cost allocation with regard to transmission projects accepted through this request window, so long as the transmission developer is accepted as an ISO participating transmission owner. The ISO’s transmission planning process also allows for merchant project sponsors to propose projects that they intend to fund themselves, without relying on the ISO’s cost allocation provisions. The ISO has no position whether this or any other form of “open-season solicitation of interest” should be adopted by other transmission providers.

- 5) *How can the customers that benefit from a particular facility be determined? Is there a preferred method? Should the method vary depending on the nature of the facility?*

For transmission projects that span larger geographic regions the benefits accruing to each region can differ significantly. Most notably, if the transmission project is primarily intended to facilitate the import of energy from one region to another, the exporting region may contest the project on the grounds that it provides no benefits to its ratepayers. However, such a perspective ignores the potential benefit that the project can bring to the exporting region in terms of providing job and economic growth opportunities to the exporting region from increased generation development and production. In the end, it will be difficult and contentious to agree on a common framework for assessing customer benefits by region and then attempting to allocate

costs commensurate with each region's benefits. To help facilitate such evaluations, and with the expectation that there will be growing needs and opportunities to develop projects that span multiple transmission providers, the ISO believes it would be beneficial for the Commission to establish guidelines identifying the various factors that should be considered in estimating benefits accruing to the various regions. One possible approach could be to conduct another round of regional technical workshops with the express purpose of developing a framework for such evaluations.

For facilities that will be within the ISO balancing authority area and will be placed under the ISO's operational control, rather than provide for the identification of particular customers that benefit from a particular transmission facility, the ISO tariff provisions on transmission planning and transmission cost allocation are based on the premise that all ISO customers benefit from transmission facilities that are determined by the ISO to be needed pursuant to the need tests set forth in the ISO tariff. While the benefits for any particular project may favor one region over another (e.g., northern California versus southern California), in other cases, the reverse may be true. Moreover, the regional benefits of a transmission project may vary significantly within a year or under different system conditions (e.g., summer versus winter, drought year and high summer loads versus wet year and moderate summer loads). Sorting out all these potential scenarios to ultimately arrive at a cost allocation for the transmission project will likely prove to be an extremely contentious and drawn out process. Given these challenges, the ISO considers its approach to be a reasonable and appropriate manner of addressing the issue of customer benefits from transmission facilities. The bottom line remains, however, that the ISO operates an integrated transmission system

that benefits all customers by allowing the ISO to provide reliable and economically efficient service to such customers. The ISO has no position whether this approach should be adopted by other transmission providers, in particular multi-state transmission providers.

- 6) *Should costs for base upgrades needed for existing reliability or economics be allocated differently than excess capacity expected to be needed for later-developed resources? Should the allocation of costs for certain projects take into account the risk of under-subscribed “right sized” lines? If so, how should costs be re-allocated over time as such lines become subscribed by new customers?*

In the responses to the questions regarding the topic of transmission planning above, the ISO has discussed its efforts and initiatives to address the issue of the sizing of new transmission facilities in relation to potential “excess capacity” associated with “right-sized” lines. The ISO will be addressing the issue of the allocation of costs associated with such potential “excess costs” in its policy initiatives. In addition, the ISO notes that it has successfully addressed the analogous issue for certain cases of generator interconnection costs in its FERC-approved LCRIF provisions. The ISO proposes that the Commission permit this matter to be addressed by individual ISOs and RTOs.

- 7) *Should cost allocation mechanisms continue to differ based on whether a project is deemed necessary based on reliability and adherence to approved reliability standards versus economic considerations?*

As discussed in response to the first question on this topic, the ISO tariff allocates all costs of transmission projects that are determined to be needed to all ISO transmission ratepayers, regardless of whether the project is determined to be needed

based on reliability or economic considerations. The ISO considers this approach to be reasonable and appropriate, but the ISO has no position on whether this approach should be adopted by other transmission providers.

8) *Should the determination of beneficiaries of a transmission facility include generators as well as loads?*

The ISO tariff provisions regarding transmission planning and transmission cost allocation do not currently allocate costs of new transmission facilities to generators. The ISO would have no objection to consideration of a process for determination of generators as beneficiaries of a transmission facility – and associated allocation of a portion of transmission facility costs to generators. The ISO does not have any particular proposal to offer at this time.

9) *Should benefits be recalculated over time? Would recalculations negatively affect usage decisions?*

As the ISO tariff does not allocate transmission costs based on identification of benefits to particular sets of customers, the ISO does not consider this question to be applicable to its circumstances. The ISO has no position on this question to the extent it may pertain to other transmission providers.

10) *How should non-quantifiable costs or benefits be identified, factored in or otherwise weighted?*

Regardless of how the cost of a transmission project are allocated, non-quantifiable costs or benefits of a project can be significant and ought to be considered in evaluating the merits of a particular transmission project. Such consideration can be

particularly helpful in choosing among competing projects. For example if two competing projects address the same local reliability need at approximately the same cost, but one of them provides additional, broader reliability benefits that are not easily quantified, this fact should be allowed to have a bearing on the final decision. To the extent competing projects have multiple non-quantifiable benefits or costs, one can develop formal ranking methodologies to score each project on each category and determine the aggregate ranking of each. This information could then be considered along with all other quantifiable benefits and costs. However, since such approaches are more of an art than science, they should be viewed with caution and used primarily for deciding among otherwise comparable competing projects.

III. CONCLUSION

The ISO appreciates this opportunity to provide information on the important transmission planning issues raised in the Notice, and intends to continue with its efforts to work with neighboring balancing authorities and other regions in the Western Interconnection to address the challenges presented by environmental policy initiatives. As described in these comments, in early 2010 the ISO will submit its 33% RPS transmission planning process to the Commission for approval. It is possible that this planning framework could inform the collaborative efforts of other regions and serve as a model for achieving state or regional initiatives that require substantial transmission infrastructure investment by multiple interconnected transmission providers.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of this document upon all parties listed on the official service list compiled by the Secretary in the above-captioned proceeding, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated this 23rd day of November, 2009 at Folsom, California.

/s/ Anna Pascuzzo

Anna Pascuzzo