

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

**California Independent System            )       Docket No. ER12-2552-000  
Operator Corporation                    )**

**ANSWER OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR  
CORPORATION TO MOTION OF THE CALIFORNIA DEPARTMENT OF WATER  
RESOURCES TO INTERVENE AND COMMENTS**

The California Independent System Operator Corporation (ISO) files this answer to the motion of the California Department of Water Resources State Water Project (SWP) to intervene and comments submitted in this proceeding in response to the ISO's submittal on August 30, 2012 of an amendment to the ISO tariff authorizing management to approve policy-driven or economically-driven elements costing \$50 million or less. SWP is the only party to submit comments regarding this filing.

**I.       INTRODUCTION**

This tariff amendment filing proposes modifications to Sections 24.4.10 and 24.5.1 allowing policy-driven or economically-driven elements with capital costs of \$50 million or less to be approved by ISO management and proceed to siting and construction ahead of ISO Board of Governor approval of the transmission plan. Currently, Section 24.4.10 permits management to approve "projects" costing \$50 million or less, which includes reliability upgrades or additions or upgrades necessary to maintain the feasibility of long term congestion revenue rights but does not include policy-driven or economically-driven "elements." Because policy-driven or economically-driven elements are subject to a competitive solicitation process, the ISO also proposed modifications to Section 24.5.1 that allow the competitive solicitation for

such elements to be initiated following management approval. The proposed tariff language provides that there will be a two month open window for submission of policy-driven or economically-driven projects, but other details for an accelerated competitive solicitation will be set forth in the Business Practice Manual for Transmission Planning.

As explained in the transmittal letter, the provision in Section 24.4.10 allowing management approval of projects costing \$50 million or less predated the transmission planning revisions (“RTPP”) that the ISO proposed on June 4, 2010 and which were approved by the Commission on December 16, 2010. With RTPP, the ISO introduced the policy-driven transmission category and adopted a competitive solicitation process for selecting project sponsors to finance, own, and construct policy-driven or economically-driven “elements”, transmission upgrades, or additions the ISO finds to be needed but without approved project sponsors. However, Section 24.4.10 (renumbered) was not modified as part of RTPP. The ISO is now in the midst of the third planning cycle (2012/2013) under RTPP and has become aware that there may be circumstances under which a smaller policy-driven or economically-driven element should be approved by management ahead of transmission plan approval by the Board. Therefore, the ISO has proposed to address this tariff discrepancy for possible implementation in the current planning cycle.<sup>1</sup>

Throughout the stakeholder process, parties generally supported the ISO’s proposal and submitted comments that, for the most part, the ISO incorporated into the proposed tariff language. The ISO’s attempt to address the few stakeholder concerns raised during the initiative is evidenced by the lack of comments and protests to this tariff amendment filing. On the other hand, SWP did not file comments at either stage

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<sup>1</sup> Transmittal letter, page 4.

of the ISO's stakeholder proceeding, nor did SWP actively participate at all during the process.<sup>2</sup> Thus, the ISO had no opportunity to respond to SWP's concerns until now. Nonetheless, the matters raised by SWP in two brief paragraphs do not seriously dispute the reasonableness of the proposed tariff amendments and should not give rise to further changes to sections 24.4.10 and 24.5.1.

## **II. ARGUMENT**

SWP states that certain aspects of the filing require "clarification," first asking whether the projects and elements referred to in section 24.4.10 will be high voltage, or "regional" projects under Order 1000. This issue is being addressed in the ISO's Order 1000 regional compliance stakeholder initiative and has no relevance to this submission. Draft tariff language with proposed modifications to section 24.4.10 has been posted three times in that stakeholder process, and the ISO invites SWP to review those postings.<sup>3</sup> The ISO will describe these tariff changes in detail in its October 11, 2012 Order 1000 regional compliance filing. As noted in the transmittal letter, there will be some modifications to both sections as part of the ISO's Order 1000 regional compliance filing.

For the purposes of this filing, however, Section 24.4.10 applies to all transmission upgrades or additions that are under the ISO's operational control, which includes high voltage facilities (200kV and above) and low voltage facilities (below 200kV). Consistent with other provisions of the tariff, the costs of high voltage facilities under the ISO control are recovered from all ISO ratepayers through the ISO's high

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<sup>2</sup> According to ISO records, SWP representatives attended the first telephone conference call held on June 7, 2012, but not the second call held on June 28, 2012 during which the ISO addressed other stakeholder comments and concerns.

<sup>3</sup> <http://www.caiso.com/Documents/FERC%20order%201000%20compliance%20phase%201%20-%20tariff%20language>

voltage charge. The costs of low voltage facilities are recovered from the customers of participating transmission owners with service territories. The modifications being proposed in this proceeding do not impact, in any way, the ISO's existing cost allocation methodology or existing rights of first refusal.

The proposed section 24.4.10 modifications provide that the ISO management may expedite approval of projects or elements costing \$50 million or less, before management approval of such projects or elements, under certain specific circumstances: 1) there must be an urgent need for the project or element ahead of the schedule for approval set forth in the BPM; 2) the ISO has a high degree of certainty that the project or element will not conflict with other transmission upgrades or additions that will be identified at a later point in the process; and 3) the need for the project or element is driven by the ISO's internal study process or external circumstances. This aspect of the tariff permits the ISO management to approve a project or element during Phase 2 of the transmission planning process but ahead of the schedule for approval of other small projects or elements. The conditions for this expedited approval were added to the tariff, upon collaboration with stakeholders, because the ISO does not intend to use this expedited process very often and only under in particular situations.<sup>4</sup>

SWP has asked for clarification as to the "external circumstances" which could trigger expedited approval and whether these circumstances are limited to information from the California Public Utilities Commission (CPUC) or the California Energy Commission (CEC).<sup>5</sup> The ISO responds that, consistent with the tariff language, "external circumstances" is not limited to communications from the CPUC or the CEC,

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<sup>4</sup> Transmittal letter, page 5.

<sup>5</sup> SWP comments, page 2.

although the ISO did identify, as an example, a joint letter from these agencies that addressed a particular need potentially requiring expedited action. The proposed criteria is intentionally broad because the need for expedited approval may come from a variety of sources: participating transmission owners, independent transmission developers, market participants, state agencies and other policy-makers. Both the need for the project or element, and the need for expedited approval, will be vetted with stakeholders either at a regularly scheduled stakeholder meeting or a special conference or meeting. SWP opines that the tariff should be clarified in this regard, but has proposed no language providing such clarification nor demonstrated that the ISO's proposed language is not reasonable.

SWP also asked about accelerating the competitive solicitation process; specifically questioning whether "acceleration" means "bypassing ordinary Board approval" or "something else." If the ISO understands SWP's question, the answer is "both." The proposed tariff language is intended to allow the ISO to hold a competitive solicitation at any point before Phase 3 (which begins after the Board approves the transmission plan) and after management approval of the element. The tariff language also allows the ISO to establish a more accelerated schedule for the competitive solicitation process itself in the BPM. In other words, the ISO may propose, through the BPM change management process, to shorten the competitive solicitation timeframe to reflect the more limited scope of an element with capital costs of \$50 million or less, and also to account for the likelihood that there will be fewer project sponsors submitting proposals. The modification to section 24.5.1 captures these points by stating that the two month opportunity for project sponsors to submit proposals will begin "following

management approval,” which could be at any point during Phase 2, and then providing that the selection process will follow an accelerated schedule, clearly indicating that the solicitation timeframe could be shortened. The ISO notes that the language proposed for section 24.5.1 was included in both the straw proposal and the draft final proposal, but SWP did not request clarification or suggest other language at that time.<sup>6</sup>

Finally, SWP questions the tariff provision requiring that the ISO Board be briefed about projects or elements recommended for management approval, arguing that since the projects/elements are being presented to the Board, they should simply be approved by the Board at that time. SWP has missed the point of the Board briefing, which was to provide a means by which stakeholders could present concerns about management recommendations *before* management approval. The purpose of the tariff provision in the first place was that for small projects, which sometimes could be as many as 30-40 and are almost always needed for reliability purposes, there was no need for the Board to be apprised of-and consider for approval- each project individually and the reason it was needed. These functions can, and still will be, performed by executive management, who might not approve a project or element even if the Board has been briefed and no stakeholders have expressed concern. Once again, SWP has posed a question but presented no valid reason that the suggested tariff language should be rejected. Just because the ISO could have taken a different approach, as SWP suggests, and proposed that the Board approve the projects/elements, rather than being briefed, does not mean that the proposed tariff language is unjust or unreasonable.

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<sup>6</sup> See transmittal letter, Attachment A, Draft Final Proposal, page 6.

### III. CONCLUSION

SWP's questions do not provide a basis for the ISO to consider additional modifications to sections 24.4.10 and 24.5.1, and the Commission should approve the ISO's submission without change.

Respectfully submitted,

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September 27, 2012

## CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon the parties listed on the official service lists in the above-referenced proceedings, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, California this 27<sup>th</sup> day of September 2012.

*Anna Pascuzzo*  
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