

Memorandum

To: Board of Governors
From: Armando Perez, Vice-President, Planning and Infrastructure Development
Gary DeShazo, Director, Regional Transmission - North
Date: October 9, 2007
Re: Briefing on FERC Order No. 890 Transmission Planning Process

This memorandum does not require Board action.

EXECUTIVE SUMMARY

The Federal Energy Regulatory Commission (FERC) issued Order No. 890 to amend regulations and the *pro forma* open access transmission tariff (OATT) initially adopted in landmark Order Nos. 888 and 889. Among other things, Order No. 890 requires all transmission providers to amend their existing OATTs to implement a coordinated, open and transparent transmission planning process that complies with nine planning principles specified in the order or, alternatively, demonstrate that their existing process is consistent with or superior to the requirements in the order. In this regard, Order No. 890 acknowledges that ISOs and RTOs already have approved transmission planning processes that are significantly more open and transparent than traditional, vertically-integrated utility transmission providers and emphasizes FERC's intent is not to re-open prior approvals. Nevertheless, each ISO or PTO, as a transmission provider, is required to make an Order No. 890 demonstration.

The CAISO's existing tariff provisions governing its Transmission Planning Process are largely consistent with or superior to the Order No. 890 requirements. Nevertheless, the CAISO is utilizing the Order No. 890 compliance process to refine, clarify, and better document elements of its recently implemented, more proactive Transmission Planning Process, which is intended to ensure, over both short- and long-term planning horizons, a reliable, economically efficient transmission system that also facilitates achievement of State policy objectives. The CAISO is currently conducting a stakeholder process regarding Order No. 890 compliance. Following the stakeholder process, the refinements and clarifications to the Transmission Planning Process will be memorialized in amendments to the CAISO Tariff, which will be presented for Board of Governors review at the December 2007 meeting, with specific implementation details that do not constitute "rates, terms and conditions" of transmission service under the Federal Power Act to be included in a Business Practices Manual in a manner consistent with other business processes under MRTU. The CAISO anticipates submitting its Order No. 890 compliance demonstration to FERC on December 21, 2007.

The CAISO's refined Transmission Planning Process constitutes a necessary compliment to the significant contribution MRTU will make toward development of robust competitive electricity markets in California. However, it should be emphasized that any changes to the CAISO's Transmission Planning Process resulting from Order No. 890 compliance will not have any impact on system specification or the implementation schedule for MRTU.

Overview of Order No. 890 Transmission Planning Principles

Order No. 890 sets forth nine principles against which the transmission planning process of all transmission providers will be measured. Those principles are:

1. Coordination – This principle requires that transmission providers create a voluntary forum for transmission customers and interconnected neighbors to provide input at the early stages of development of the transmission providers' transmission plan.
2. Openness – This principle requires that transmission planning meetings be open to affected parties and that mechanisms be put into place to manage confidential information.
3. Transparency – This principle requires the disclosure of basic criteria, assumptions, and data that underlie the transmission plans as well as the status of upgrades identified in transmission plans. Knowledgeable third parties should be able to "replicate" the results of planning studies.
4. Information Exchange – This principle requires the development of a schedule and guidelines for the submittal of information from affected parties on a uniform basis.
5. Comparability – This principle requires that the transmission plan treat similarly situated entities equally.
6. Dispute Resolution – This principle requires that the transmission provider implement a dispute resolution process that address both procedural and substantive issues that arise from the transmission planning process.
7. Regional Participation – This principle requires that the transmission provider coordinate with interconnected systems to share system plans to ensure simultaneous feasibility, use consistent assumptions and data where possible, and potentially identify system enhancements that could relieve congestion or integrate new resources.
8. Economic Planning Studies – This principle requires that the transmission planning process consider not only infrastructure to maintain reliability, but also to enhance the economic efficiency of the transmission system. In order to do so, the transmission provider must, at a minimum, identify and publish instances of "significant and recurring" congestion.
9. Cost Allocation – This principle is not intended to replace current cost allocation rules, but rather requires transmission providers to establish cost allocation rules for projects that do not fit under existing structures.

CAISO Activities to Address Order No. 890 Compliance

In the summer of 2005, the CAISO began to transform its existing transmission planning efforts into a "new" CAISO Transmission Planning Process. This new Transmission Planning Process shifted focus from separate, but reconciled PTO plans, to a unified CAISO transmission plan for the entire CAISO Control Area. The process for developing the new CAISO transmission plan is proactive, open, participatory, and transparent and better integrates the respective expertise of the CAISO, PTO's, and state regulatory agencies to ensure reliable, economically efficient, and non-discriminatory use of the transmission system in an environmentally sensitive manner. Much of the CAISO's current transmission planning practices already satisfy FERC's nine planning principles and, therefore, the CAISO's Order No. 890 compliance efforts will primarily involve documenting and clarifying its Transmission Planning Process. For instance, in this regard, the CAISO will specifically set forth obligations to engage stakeholders early in the development of the transmission plan to address adoption of study objectives, assumptions, and methodology.

Other major areas to be specifically addressed either through tariff amendments or in the BPM, include:

- Open Season – Under current CAISO practice, information from stakeholders affecting transmission service and proposed transmission projects affecting the CAISO control area can be submitted to the CAISO at any time during the planning cycle. The CAISO proposes to change this by the establishment of an “open season” during which certain types of transmission information and projects, most notably “economic” transmission projects, must be submitted to the CAISO for review. The creation of an open season will allow for a more coherent consideration of relevant information and projects during the planning cycle, permitting an appropriate assessment of competing alternatives to resolve the same transmission related problem. The proposed Open Season will span a timeframe from January 1 through October 31 of each annual planning cycle.
- Obligation to Sponsor and Construct Projects - The CAISO Tariff currently includes provisions governing the PTOs’ obligation to construct transmission upgrades and additions. Nevertheless, the CAISO intends to utilize the Order No. 890 compliance effort to clarify the obligation of PTOs and other parties to propose transmission additions and upgrades. A necessary element of a “proactive” planning process is the ability of the CAISO to dictate to market participants, subject to other regulatory approvals, the need to develop additional transmission infrastructure to ensure that the specifically identified need is met in a timely manner. The CAISO intends to continue its current practice in which the PTOs with “service territories” will have the primary obligation to ensure system reliability, while projects to enhance the economic efficiency, including to preserve the feasibility of Long-term Congestion Revenue Rights, may be advanced by any project sponsor.
- Coordination of Planning Studies and Planning Functions – The CAISO’s transmission planning function includes the administration of procedures to interconnect generation to the CAISO Controlled Grid, the performance of resource adequacy related studies, and the assessment of resources, including those needed to meet state Renewable Portfolio Standard goals. One of the core objectives of the CAISO’s Transmission Planning Process is to coordinate these functions. Accordingly, the CAISO intends to utilize the Order No. 890 process to describe how the CAISO intends to use these various sources of information in its Transmission Planning Process, such as how Locational Constrained Resource Interconnections will fit into the overall Large Generator Interconnection Process, or how state-driven renewable efforts, i.e., the Renewable Energy Transmission Initiative, will be integrated into CAISO study plans. As a general matter, the CAISO intends to inject these various inputs into the Transmission Planning Process during the development of study plans and assumptions to ensure their consideration during the development of the annual transmission plan.
- Economic Planning Studies – The CAISO has long recognized, and incorporated, the need to plan the transmission system to enhance economic efficiency and market competitiveness. Projects, such as the Palo Verde-Devers #2 500 kV line, were approved to promote economic efficiency. Order No. 890 now recognizes the importance of this obligation and requires all transmission providers to publish information regarding “significant and recurring” congestion to send signals to market participants where transmission development should take place. The adoption of locational marginal prices under MRTU will inherently provide the market with significant transmission pricing information. However, the CAISO also intends to define “significant and recurring” congestion and publish this information. This information will be used by the CAISO to identify the scope of Economic Planning Studies, which will apply the CAISO’s “TEAM” methodology to provide preliminary assessments of the economic viability of resolving the congestion through a conceptual transmission plan. It is the intent of the CAISO for this information to provide a foundational framework upon which project proposals can be submitted into the planning process through the open season.

- Regional Coordination – Ensuring regional coordination is an important objective of Order No. 890. The CAISO will enhance its existing provisions regarding coordination within the WECC by including specific requirements to exchange information with sub-regional planning groups and, in their absence, directly with interconnected neighbors. The CAISO is currently pursuing a bifurcated approach. First, the CAISO’s Transmission Planning Process itself offers an open, transparent, and structured opportunity for interconnected neighbors to exchange planning information and objectives. Second, the CAISO is participating in the development of the California Sub-Regional Planning Group (CSPG), which hopes to encompass most of the transmission systems in California. Through either of these means, the CAISO would satisfy the requirement in Order No. 890 that transmission providers coordinate with neighboring systems to ensure simultaneous feasibility of their respective plans and assess the possibility of efficiencies through mutual cooperation.

- Alternative Dispute Resolution (ADR) process – The CAISO Tariff contains an Order No. 890 compliant ADR process. However, given the potential importance of study inputs in study outcomes and the significant involvement of stakeholders in the creation and identification of base cases and study inputs for the planning cycle, a more expedited ADR process was requested by stakeholders to address disputes arising during this aspect of the Transmission Planning Process. At present, this expedited process applies only to disputes arising from development of the Transmission Planning Process study plan and assumptions, not to decisions regarding proposed projects or requests for studies. The proposed expedited ADR process involves forwarding stakeholder comments on the study plan and assumptions to an objective third-party who will provide the CAISO with recommendations for potential changes to the study plan and assumptions. To the extent the CAISO does not adopt the recommendations of the third-party consultant, the CAISO will be required to explain its reasoning. This approach is taken because prior to completing the studies, it is impractical to determine which assumptions will be material in the ultimate determination included in the CAISO’s transmission plan. As such, the value of this expedited process to stakeholders is that it provides a better record for subsequent ADR proceedings should the disputed assumptions actually be material in the study outcome. The third party will be selected through formal input from Scheduling Coordinators.

Stakeholder Outreach and Compliance Schedule

Date	Activity
September 14	Post initial draft of Transmission Planning Process BPM
September 28	Comments due on initial draft of BPM
October 3	Conference call with stakeholders re BPM
October 12	Post second draft of Transmission Planning Process BPM and draft tariff modifications
October 19	Comments due on second draft BPM and draft tariff modifications
October 23	FERC Technical Conference
November 8	Post third draft of Transmission Planning Process BPM and second draft tariff modifications
November 15	Comments due on third draft of Transmission Planning Process BPM and second draft tariff modifications
November 29	Conference call with stakeholders re BPM and tariff modifications
December 12-13	Board of Governors meeting
December 21	File compliance materials with FERC

