

December 21, 1999

The Honorable David P. Boergers
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

**Re: California Independent System Operator Corporation
Docket No. ER00-_____ - _____
Amendment No. 24 to the ISO Tariff –
Revised Long-Term Grid Planning Process**

Dear Secretary Boergers:

Pursuant to Section 205 of the Federal Power Act (“FPA”), 16 U.S.C. § 824d, and Section 35.13 of the Commission’s regulations, 18 C.F.R. § 35.13, the California Independent System Operator Corporation (“ISO”)¹ respectfully submits for filing an original and six copies of an amendment (“Amendment No. 24”) to the ISO Tariff. Amendment No. 24 would revise portions of the ISO Tariff to implement the ISO’s revised long-term grid planning process. The revised grid planning process, which was approved by the ISO’s Board of Governors after extensive discussions with stakeholders, would do the following:

- Clarify the respective responsibilities of the ISO and Participating Transmission Owners and establish an appropriate leadership role for the ISO, as the Regional Transmission Organization (“RTO”), in system planning and expansion.

¹ Capitalized terms not otherwise defined herein are defined in the Master Definitions Supplement, ISO Tariff Appendix A, as filed August 15, 1997, and subsequently revised.

- Incorporate a competitive solicitation process to accord with the Final Rule Regarding Regional Transmission Organizations, where the Commission stated its “strong preference . . . for market-motivated investment actions.”² In this regard, the Commission reaffirmed the importance of ensuring that “the decision to invest is made in the best interests of the region, considering not only all the transmission options but also the generation and demand management alternatives to transmission construction.”³
- Provide that the ISO can become a Project Sponsor if, after satisfying certain notice requirements, no Market Participant steps forward to become the Project Sponsor of the project and ISO Governing Board approval is obtained.

Commission approval of these fundamental features of the ISO’s revised long-term grid planning process will ensure that the ISO satisfies the Commission’s requirements for an RTO that is empowered to ensure that the regional transmission system is expanded in a reliable and cost-effective manner.

I. BACKGROUND

Currently, Section 3.2 of the ISO Tariff establishes a process for coordination among the ISO, Participating Transmission Owners, and Market Participants regarding the planning and development of expansions and upgrades of the transmission grid. The ISO is proposing to modify that process to be more consistent with the standards the Commission explained in the *RTO Final Rule*. The Commission stated that an RTO must assume responsibility for planning necessary transmission additions and upgrades that will enable the RTO to provide efficient and reliable transmission service.⁴ The Commission also indicated, as noted above, that the RTO transmission planning process

² See Final Rule Regarding Regional Transmission Organizations, 89 FERC ¶ 61,285, slip op. at 487-90 (1999) (“*RTO Final Rule*”).

³ Notice of Proposed Rulemaking Regarding Regional Transmission Organizations, *FERC Statutes & Regulations, Proposed Regulations (CCH)* ¶ 32,541, at 33,703 (May 13, 1999) (“*RTO NOPR*”).

⁴ See *RTO Final Rule*, slip op. at 485-90; see also *RTO NOPR* at 33,751-53.

should assure customers and regulators that generation and demand-side alternatives to transmission expansion projects are given due consideration.⁵

Even before the *RTO NOPR* was initially proposed and the *RTO Final Rule* issued, the ISO commenced review of its long-term grid planning process. The purpose of the review was to determine if the ISO could develop a planning process that (i) clarified the respective roles of the ISO and the Participating Transmission Owners and established an appropriate leadership role in planning for the ISO as an RTO; (ii) provided for the cost-effective expansion of the transmission grid to maintain reliability and, where economical, relieve congestion, while (iii) relying upon a market-driven approach that would assure the development of proper price signals. The review began with three white papers that were issued starting in April 1998, followed by a proposal that was presented to the ISO Board in March 1999. A revised proposal was presented to stakeholders in April 1999 and numerous meetings and conference calls were held with stakeholders thereafter. Tariff language was developed and presented to stakeholders in the summer of this year, and that language was modified significantly based on stakeholder input during many conference calls and meetings, as well as through written comments.

The end result is the current proposal, which was approved by the ISO Board at its November 1999 meeting.⁶ The ISO believes that, working with stakeholders, it has developed a revised planning process that is fully consistent with the standards enunciated in the *RTO Final Rule*.

II. THE PROPOSED TARIFF REVISIONS

The revisions to the ISO Tariff to implement the long-term grid planning process are included in Sections 3.2 through 3.9 of the Tariff.⁷ The ISO and stakeholders have developed a two-part planning process. First, each year the ISO is to create an initial grid-wide transmission plan. That plan starts with initial input from the Participating Transmission Owners which will be analyzed, modified as needed, and combined into a single plan by the ISO, with extensive stakeholder input. Second, the ISO will then solicit competitive alternatives, including generation and demand-side projects, to the transmission expansion

⁵ See *supra* notes 2-3 and accompanying text.

⁶ Memoranda prepared for the ISO Board's October 1999 and November 1999 meetings, describing the stakeholder process and the key issues considered, are included as Attachment C.

⁷ Black-lined tariff sheets showing the proposed revisions are included as Attachment B.

projects proposed in the initial plan for the purpose of assuring the continued reliable operation of the ISO Controlled Grid in accordance with Applicable Reliability Criteria and the ISO's planning criteria (reliability related projects). The ISO will then review the submissions and develop a final plan that includes the mix of transmission expansion projects and competitive alternatives that best satisfies, in a cost-effective manner, the ISO's planning requirements.

A. Development of Initial Plans

Consistent with the current ISO Tariff, the new long-term grid planning process relies on Participating Transmission Owners initially to develop annual transmission expansion plans that cover a five-year period. The proposed revisions provide greater definition of the ISO's role in coordinating the planning activities of the Participating Transmission Owners, ensuring that the plans they produce are adequate and complete, and creating an integrated regional transmission plan on the basis of the Participating Transmission Owners' plans, with necessary modifications. Attachment D includes ISO Planning Procedure P-104, which details certain of the requirements the Participating Transmission Owners must satisfy in the development of their annual plans. Revised Section 3.2.1.1 requires the ISO, after requiring Participating Transmission Owners to perform any necessary studies and soliciting and evaluating comments from Market Participants and other stakeholders, to include in the initial integrated transmission plan projects that (i) conform to Applicable Reliability Criteria and other applicable criteria and standards; (ii) are cost-effective; and (iii) are required for the continued reliable and efficient expansion and operation of the ISO Controlled Grid.

In addition, under Sections 3.3 and 3.4, any entity will have the opportunity to serve as the Project Sponsor for transmission expansion projects that, while not necessary for reliability, are economically justified because they would reduce transmission congestion or produce other economic benefits. A Project Sponsor may commit to support the costs of an economically-driven project or have it included in a Participating Transmission Owner's initial plan upon a determination, made through alternative dispute resolution procedures, if necessary, that the proposed project is economically justified and that its costs will, to the extent practicable, be recovered from entities that will receive the economic benefits.

The ISO may serve as the Project Sponsor of an economically driven transmission project, but only if no other Project Sponsor steps forward after the ISO has provided public notice of the basis of its conclusion that the project is

economically beneficial (which conclusion may be reviewed through the ISO Tariff's alternative dispute resolution procedures).

B. Competitive Solicitation of Alternatives

To ensure, consistent with the *RTO Final Rule*, that consideration is given to generation and demand-based alternatives to the transmission expansion projects in the initial integrated transmission plan, as well as to other transmission options, the revised long-term grid planning process provides for the explicit consideration of such alternatives. Revised Section 3.2.2 calls for the ISO to solicit proposals for alternatives to projects included in the initial integrated transmission plan to meet reliability needs. If the ISO determines that a project proposed in response to the solicitation can satisfy the reliability needs of the ISO in a more cost-effective manner than the transmission expansion project included in the initial plan, in accordance with screening and evaluation criteria specified in the solicitation, the ISO will include the alternative in the final integrated plan, rather than the initially proposed project.

Several aspects of the competitive solicitation process should be noted:

- First, the competitive solicitation process will not apply to economically driven projects, which are governed by Section 3.4; or to projects required to interconnect new generators with the ISO Controlled Grid, which are governed by Section 5.7. The grid planning process presumes that the economic signals provided by the ISO's Congestion Management protocols will be sufficient, in most instances, to encourage Project Sponsors to step forward with proposals for economically driven projects, making a competitive solicitation process for those projects unnecessary. In addition, Section 3.2.3.1 of the proposed language specifically provides for an expedited planning and approval process for projects needed in the near term to ensure the reliable operation of the grid. Expedited projects would not be subject to the competitive solicitation process. The ISO anticipates that such projects would be necessary to address unexpected load growth, equipment failure, and other system anomalies. Attachment C includes ISO Planning Procedure P-103, which provides further detail concerning the expedited planning process.

- Second, the ISO's screening and evaluation criteria for competitive alternatives will be designed to ensure that the ISO pays no more than is necessary to encourage developers of generation or demand-side projects ("non-wires" projects) to locate them where they can relieve reliability needs on the transmission system. The ISO would expect that contracts with regard to non-wires projects would typically be of limited duration (*i.e.*, no more than five years), so that the payments to the project's developer would not exceed the savings realized by deferring the transmission project for that period, rather than the full cost of the transmission project. The ISO is mindful of concerns that payments made to influence the location of non-wires projects should be limited to the amounts necessary to establish true locational signals and not to subsidize investment capital. This will avoid giving subsidies to Market Participants that do not reflect the reliability benefit the projects provide to the ISO Controlled Grid. The ISO will not enter into contracts with regard to non-wires projects where the payment provisions are based on the ISO underwriting the capital required for the project to compete in the market. The ISO believes that market signals alone (*i.e.*, capacity and energy prices) are sufficient to attract capital into the California market. However, the ISO also believes that it is appropriate to provide incentives for the developers of otherwise viable non-wires projects to locate their projects in areas where they can help the ISO to meet its reliability-based requirements concerning the transmission grid, the satisfaction of which cannot be ensured based on market (*i.e.*, transmission congestion price) signals alone. In addition, while the ISO's proposal does provide for the recovery of these non-wires or locational payments through transmission rates, the ISO believes that its proposal is fully consistent with both the principles of unbundling and of cost causation. Under the ISO's proposal, energy will continue to reflect the cost of market generation, while transmission owners and customers will continue to pay the true cost of transmission service.
- Third, Revised Section 3.7 specifies that costs incurred by the ISO under a contract with regard to a non-wires project will be recovered from the Participating Transmission Owner in whose service area the project is located (who otherwise would have built the transmission project displaced by the non-wires alternative). Section 3.7.2 further specifies that the Participating Transmission Owner will in turn recover the payments as a transmission-related expense under the

Transmission Revenue Balancing Account in its Transmission Owner Tariff (or an alternative approved by the Commission or, for non-jurisdictional entities, the Local Regulatory Authority). The ISO believes that these provisions appropriately recognize that the locational payments with regard to non-wires projects are made in recognition of reliability benefits provided to the ISO Controlled Grid. In addition, the ISO Board recognized that it was appropriate to provide reasonable assurances of cost recovery to Participating Transmission Owners, who would otherwise be at risk for the recovery of these payments, from which they have no opportunity to profit. The proposed tariff language also provides that the ISO and non-wires project sponsors will file each contract with the Commission, either under Section 205 of the Federal Power Act, if the Project Sponsor is a jurisdictional entity, or for informational purposes if the Project Sponsor is a non-jurisdictional entity. Under this procedure, the Commission and all Market Participants can ensure that non-wires related transmission costs are just and reasonable and that the grid is expanded in a cost-effective manner.

The ISO believes that its revised planning process appropriately establishes the ISO as the lead party fully responsible for developing and coordinating long-term grid planning. The two-part process that is proposed will assure that the selection of projects will be market-driven and will result in the cost-effective development of a reliable transmission grid. Accordingly, the planning proposal is fully consistent with the standards established by the Commission in the *RTO Final Rule*.

III. EFFECTIVE DATE

The ISO respectfully requests that the Tariff revisions included in this filing be made effective on February 19, 2000, or sixty days after filing. The ISO notes that it has proceeded with the development of an integrated transmission plan for the year 2000 in a manner described in the proposed revisions, which the ISO believes also satisfies the more general provisions currently included in the ISO Tariff. In order to proceed in a timely manner with the solicitation of competitive alternatives to transmission expansion projects, Commission approval of the proposed revisions is required. If the Commission is unable to approve the revisions by the proposed effective date, the ISO and the Participating Transmission Owners will proceed with the development of transmission plans in accordance with the current ISO Tariff provisions.

IV. NOTICE AND SERVICE OF DOCUMENTS

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

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V. SUPPORTING DOCUMENTS

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

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| Attachment A | Revised Tariff Sheets |
| Attachment B | Black-lined Tariff provisions showing revisions relating to long-term grid planning |
| Attachment C | Memoranda prepared for the ISO Governing Board's October 1999 and November 1999 meetings, describing the stakeholder process and the key issues considered regarding long-term grid planning |
| Attachment D | Draft ISO Planning Procedures P-103 and P-104, applicable to the expedited planning process and the Participating Transmission Owner annual assessment process |
| Attachment E | A draft Notice of this filing, suitable for publication in the Federal Register |

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A computer disk containing the draft Notice of Filing is also included. In addition, an extra copy of this filing is enclosed to be date-stamped and returned to our messenger. If there are any questions concerning this filing, please contact the undersigned.

Respectfully submitted,

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ATTACHMENT A

ATTACHMENT B

ATTACHMENT C

ATTACHMENT D

ATTACHMENT E

