

**Principles for Resolution of Issues  
on Proposal for a Third Category of Transmission**

The California Municipal Utilities Association (“CMUA”) submits these Principles to resolve issues surrounding the CAISO proposal to create a Third Category of transmission to interconnect renewable resources, and various rate and cost allocation issues related thereto.

If the CAISO determines to move forward on its currently proposed schedule with Board action in October, CMUA believes it is unlikely that all necessary issues will be resolved. This is not because the issues are insurmountable. Indeed the discussions among stakeholders and CAISO Staff have been productive. However, the discussions to date have not involved enough detail to enable all parties to assess and take positions on this matter. Therefore, these Principles include a proposal to avoid litigation or hearing by means of a formal settlement process at the Federal Energy Regulatory Commission.

In addition, CMUA wants the CAISO to be clear that these Principles are an attempt at a practical solution to this issue. Our members generally agree with portions of the Market Surveillance Committee Opinion that state that treating interconnection costs of certain renewable generation technologies differently may inappropriately skew investment decisions in favor of certain renewable energy technologies to the detriment of other renewable energy technologies. It also potentially and inappropriately shifts costs among load serving entities depending upon the renewable resources they select to meet renewable portfolio goals. However, CMUA and its members are willing to seek a practical compromise.

**Principles**

Tariff Filing, Not Petition for Declaratory Order, is Preferred.

As indicated in stakeholder comments, CMUA favors a Tariff filing, not a Petition for Declaratory Order. This is because a Tariff filing will contain the necessary detail to enable market participants to understand how this proposal will affect them.

CAISO Staff has explained that the CAISO does not wish to spend the resources necessary for a Tariff filing unless it gets some general policy guidance from FERC. CMUA appreciates this realistic concern. However, CMUA believes that the necessary policy guidance may not be helpful or even forthcoming unless some specific details are included in any filing regardless of its procedural form. Also, counting backward from the 2010 renewable goal target date, if the CAISO is serious about getting facilities built, it cannot afford a multi-stage FERC process on the front end. At bottom, no matter what procedural route the CAISO takes, staff resources will have to be expended before November 2007, i.e. while the CAISO is focused on MRTU implementation.

Thus, CMUA urges the CAISO to reconsider its position and file a Tariff amendment that would necessarily include specific aspects of the proposal clearly spelled out. However,

we are willing to work within the current procedural plans if the items below are included in the Petition for Declaratory Order.

#### Cap on Impact on High Voltage Transmission Access Charge (“TAC”) and Sunset

In the Revised White Paper, the CAISO proposed a cap on the affect of individual projects on the TAC. There was no overall cap of Third Category projects and consequent affects on the TAC. In theory the increase could be infinite, and in practice very large.

It is CMUA’s understanding that transmission projects don’t appear in the revenue requirement of the TAC until they are operational and put into service. This creates a bit of a conundrum since transmission facilities have a long planning and construction lead times. Therefore, instead of percentage caps, CMUA proposes that projects that meet the Third Category requirements be approved by the CAISO no later than January 1, 2010. This comports with the timing of renewable resource goals. This will still include facilities that go into service beyond the initial renewable target goals, but it is widely reported that “flexible” compliance will be necessary in any event. CMUA proposes that the total overall increase to the TAC revenue requirement for those facilities shall not exceed \$85 million at any one time. This does not equate to \$85 million of facilities, because generation developers will theoretically be picking up “going forward” costs.

This is not a negligible number and would amount to a 12-15% increase in TAC revenue requirements at any one time based on CMUA’s understanding of the current High Voltage TAC revenue requirement. If the promise of new generators coming on line is realized, this should be a reasonable number.

In summary, CMUA believes this cap is a reasonable consumer protection measure that still leaves significant dollars for Third Category transmission investment.

#### Binding Contractual Commitments

In prior stakeholder comments, CMUA took the position that at least 75% of the capacity of an area with renewable resources must be contractually committed under financially binding commitments between developers and load serving entities prior to rolling in any costs of facilities into the TAC. After discussions with other stakeholders and CAISO Staff, CMUA is willing to move this number to 50%. CMUA remains concerned that one unintended consequence of the proposal of and limiting exposure for renewable generation developers to “going forward” costs is to create an incentive for the generators to be the last ones in the queue. This will also increase the bargaining power of renewable generator developers who will know that load serving entities have many millions of dollars sunk in Third Category facilities and will want to build out the areas as quickly as possible. This incentive for generators to delay in order to avoid as much interconnection cost exposure as possible should be the subject of further discussion either at the CAISO or in formal FERC Settlement Procedures.

No Other Transmission Incentives

The stated purpose of this policy is facilitated interconnection of deliverable renewable resources. This should not be a vehicle for incentive rate packages for transmission owners. To decrease the incentive for generators to delay in order to avoid interconnection costs, the depreciation or amortization of these Third Category facilities must not be accelerated. Also, the builder of the facilities, whether it be an investor-owned, public agency, merchant transmission owner, must not be allowed to seek incentive rates of return or other favorable rate treatments.

Interconnection of Thermal Units

Thermal units should be allowed to interconnect to the relevant facilities in a non-discriminatory manner, and should bear their full pro rata share of the costs of facility.

Wires Only Policy

The CAISO should affirm in any FERC filing that this is a “wires only” policy and that it will not support the inclusion of generation costs in the TAC.

Proposal for Formal Settlement Procedures at FERC

CMUA remains concerned that the detail necessary for resolution of this matter is still forthcoming. CMUA is particularly concerned, as stated above, about the incentives for generation development delay that will increase risk to consumers and also jeopardize achieving renewable energy goals. As such, CMUA proposes that the CAISO state its preference to FERC that this issue be set for formal settlement procedures, with a specific end date to avoid undue delay.

Thank you for your consideration of these Principles.