

January 30, 2014

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, D.C. 20426

**Re: California Independent System Operator Corporation, Docket No.
ER14--_____
Competitive Transmission Improvements**

Dear Secretary Bose:

The California Independent System Operator Corporation (ISO) submits proposed tariff changes developed through a stakeholder process to clarify and enhance the ISO's transmission planning process. In particular, the tariff changes will implement process and policy enhancements to the project sponsor competitive selection process that takes place during phase 3 of the ISO's transmission planning process if eligible transmission solutions are identified and approved in phase 2. The Competitive Transmission Improvements stakeholder initiative began in September 2013 and the ISO governing board approved the proposed enhancements in December 2013. With these changes, the ISO seeks to further promote competition in the transmission planning process and to implement a mechanism to recover the costs of administering phase 3 of the process.

The process and policy enhancements proposed in this submittal address the following topics:

- 1) The need for a mechanism by which an approved project sponsor that is not a participating transmission owner can recover Commission-authorized transmission revenue requirements associated with projects under construction prior to the time that the facilities are turned over to ISO operational control;
- 2) Tariff clarification that an approved project sponsor that is not a participating transmission owner but that has existing transmission assets will be required to turn over to ISO operational control only the project it was selected to build;
- 3) The implementation of an application fee, up to a cap of \$150,000, that will enable the ISO to recover the costs of evaluating project sponsor applications, determining qualified project sponsors and selecting an approved project sponsor for each of the transmission solutions subject to the competitive solicitation;

4) Provisions in response to stakeholder requests that the ISO eliminate or clarify the tariff requirement that an approved project sponsor initiate siting approval within 120 days after selection; and

5) Provisions in response to stakeholder requests that the ISO clarify the standards set forth in section 24.5.2.1 that must be met by an approved project sponsor transferee if the ISO is to approve the assignment.

The ISO requests an effective date of April 1, 2014, for the proposed modifications, which will allow the ISO to implement them during Phase 3 of the 2013-2014 transmission planning cycle.

I. Introduction and Background

In 2010, the ISO reformed its transmission planning process to explicitly consider public policy requirements as a potential driver for transmission facilities and to afford both participating transmission owners and independent transmission developers nondiscriminatory opportunities to compete to finance, own and construct transmission facilities that the ISO found necessary for public policy or economic efficiency reasons.¹ Specifically, as part of the transmission planning process revisions, the ISO proposed, and the Commission approved, a third phase of the transmission planning process during which the ISO would open a bid window for all proposed project sponsors to submit applications for each transmission solution eligible for competitive solicitation. The Commission also approved ISO proposals for project sponsor qualification criteria and, should there be multiple qualified project sponsors for the same transmission facilities, criteria that the ISO would use to conduct a comparative selection evaluation of all qualified applicants to determine the approved project sponsor for each solution.

The opportunities for competition expanded when the ISO submitted, consistent with Order No. 1000 directives, proposed tariff revisions to eliminate certain remaining ISO tariff provisions granting a federal “right of first refusal” for incumbent participating transmission owners to build and own certain transmission facilities whose costs will be allocated regionally. On April 18, 2013, the FERC approved the ISO’s proposed tariff modifications addressing this issue.²

The first time that the ISO conducted the competitive solicitation process was for transmission solutions identified in the 2012-2013 planning cycle.³ Based on

¹ *California Indep. Sys. Operator Corp.*, 133 FERC ¶ 61,224 (2010), *order on reh’g*, 137 FERC ¶ 61,062 (2011) (RTPP Order).

² *California Indep. Sys. Operator Corp.*, 143 FERC ¶ 61,057 (2013). The ISO was directed to make a supplemental compliance filing modifying other tariff sections which was submitted on August 16, 2013.

³ The ISO identified three transmission solutions in the 2013-2013 planning cycle eligible for competition:

- Imperial Valley Policy Element, for which the selection report was issued on July 11, 2013;

experience with the process and discussions with stakeholders, the ISO identified additional improvements to clarify the process approved by the Commission and to help further level the playing field between participating transmission owners and other transmission developers. In particular, under the ISO's current tariff and transmission control agreement construct, a non-participating transmission owner selected as an approved project sponsor would have no existing tariff mechanism by which to recover Commission-approved operational costs (such as construction work in progress or "CWIP" and abandoned plant cost recovery) before the project was energized and turned over to ISO operational control. However, a participating transmission owner selected as an approved project sponsor would be able to recover these costs through its existing transmission revenue requirement and approved transmission owner tariff. The ISO concluded that this inability to recover Commission-approved pre-operational costs could be a barrier to participation in the competitive solicitation process.

Similarly, stakeholders expressed concern that the general tariff and transmission control agreement obligations requiring participating transmission owners to turn over all transmission facilities to ISO operational control might also apply to non-participating transmission owners with existing transmission facilities that are selected in the process. Although the ISO believed that the existing tariff provisions did not create such an obligation for approved project sponsors, uncertainty as to how the tariff would be interpreted could cause non-incumbent transmission owners to be reluctant to submit proposals in the competitive solicitation process.

Thus, the ISO initiated a stakeholder process to consider tariff modifications that would address these competitive solicitation topics. In addition, based on information about the time and resources needed to conduct a robust solicitation process, the ISO decided to propose an application fee and related true-up mechanism as part of this stakeholder process. As discussed in more detail below, the ISO and stakeholders developed other tariff modifications as well that respond to matters raised by stakeholders and add clarity to the competitive solicitation process.

II. The Competitive Transmission Improvements Stakeholder Initiative

The Competitive Transmission Improvements stakeholder initiative began on September 10, 2013, when the ISO posted an issue paper and straw proposal. The proposal was discussed during a web conference on September 20, with written comments submitted by fourteen parties on October 3. The ISO posted the draft final proposal on October 17 and held another web conference on October 29. Nine stakeholders submitted comments on the draft final proposal on November 12. The ISO

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- The Gates-Gregg Project, for which the selection report was issued on November 6, 2013;
 - Sycamore-Penasquitos 230 kV Line Element, which is still in the comparative selection process.
- (See <http://www.caiso.com/planning/Pages/TransmissionPlanning/2012-2013TransmissionPlanningProcess.aspx>)

made adjustments based on stakeholder feedback and presented its recommendations to the governing board for approval on December 19.

Following governing board approval, the ISO posted draft tariff language on December 23 and asked that comments be provided by January 6, 2014. Four stakeholders submitted comments on the proposed tariff language. A stakeholder call to discuss the proposed tariff language and comments was held on January 13. On January 30, 2014 the ISO posted the final tariff language that incorporated many of the changes suggested by stakeholders.⁴

III. Proposed Tariff Modifications

A. Recovery of Commission Approved Pre-Operational Revenues

Section 1241 of the Energy Policy Act of 2005 added a new section 219 to the Federal Power Act directing the Commission to establish incentive-based rate treatments that promote capital investment in reliable and economically efficient transmission and generation of electricity by promoting capital investment. In 2006, the Commission issued Order No. 679 to establish incentives to support the development of transmission infrastructure.⁵ These incentives include enhanced rate of return on equity, recovery of 100 percent of prudently incurred costs associated with abandoned transmission projects due to factors beyond the control of the utility, use of hypothetical capital structures, incentives to join a transmission organization, inclusion of 100 percent construction work in progress in rate base, accelerated depreciation used for rate recovery, and expensing pre-commercial operations costs associated with new transmission investment, among others.⁶

If a project is approved by the ISO in its transmission planning process, which is the case for projects open for bid in the competitive solicitation process, Order No. 679 establishes a rebuttable presumption that the project is eligible for rate incentives.⁷

⁴ <http://www.caiso.com/informed/Pages/StakeholderProcesses/CompetitiveTransmissionImprovements.aspx>

⁵ *Promoting Transmission Investment through Pricing Reform*, Order No. 679, 71 FR 43294 (Jul. 31, 2006), FERC Stats. & Regs. ¶ 31,222 (2006), *order on reh'g*, Order No. 679-A, 72 FR 1152 (Jan. 10, 2007), FERC Stats. & Regs. ¶ 31,236, *order on reh'g*, 119 FERC ¶ 61,062 (2007).

⁶ The Commission provided further guidance on the application of Order No. 679 in a November 2012 policy statement, *Promoting Transmission Investment Through Pricing Reform*, 141 FERC ¶ 61,129 (2012).

⁷ Order No. 679 states that each applicant must demonstrate that the facilities for which it seeks incentives satisfy the requirements of section 219 by either ensuring reliability or reducing the cost of delivered power by reducing congestion. The Order establishes a rebuttable presumption that a project is eligible for incentives under section 219 if it: (1) results from a fair and open regional planning process that considers and evaluates projects for reliability and/or congestion and is found to be acceptable to the Commission; or (2) has received construction approval from an appropriate state commission or state siting authority.

Accordingly, the ISO anticipates that approved project sponsors selected in the competitive solicitation process will have the opportunity to seek one or more rate incentives pursuant to Order No. 679.

Most of the rate incentives contemplated under Order No. 679 are not included in the transmission revenue requirement of the transmission owner until the new transmission facilities are turned over to the operational control of the ISO upon completion and incorporated in the transmission revenue requirement that is approved by FERC. However, two of these—inclusion of construction work in progress in rate base and recovery of abandoned plant costs—are unique in that they may be recovered prior to completion of the new transmission project or after abandonment of the project.

1. Construction Work In Progress

Order No. 679 allows utilities to include, where appropriate and approved by the Commission, 100 percent of prudently incurred transmission-related construction work in progress costs in rate base. The Commission determined that this rate treatment furthers the goals of section 219 by providing up-front regulatory certainty, rate stability, reduced interest expense, and improved cash flow, by reducing the pressures on an applicant's finances caused by investing in transmission projects with long lead times that can negatively affect cash flow and the ability of the project sponsor to attract capital at reasonable rates.

Typically the Commission may accept an applicant's proposal to recover 100 percent of construction work in progress in rate base conditioned upon the applicant fulfilling the Commission's requirements in a subsequent section 205 filing.

2. Abandoned Plant Cost Recovery

Order No. 679 also allows a utility to seek recovery of 100 percent of prudently incurred costs associated with a transmission project that is cancelled or abandoned for reasons outside the utility's control. The purpose of this incentive is to reduce the risk associated with potential solutions or other improvements to the transmission system. In Order No. 679 the Commission found that the abandonment incentive is an effective means of encouraging transmission development by reducing the risk of non-recovery of costs.

Typically, if the request is approved, an applicant's request for recovery of 100 percent of prudently incurred transmission-related costs associated with abandonment of a project is contingent upon a showing that the abandonment is a result of factors beyond the control of the applicant. This must be demonstrated in a subsequent section 205 filing for recovery of abandoned plant costs.

3. The ISO's Access Charge and a Participating Transmission Owner's Transmission Revenue Requirement.

All market participants withdrawing energy (i.e. loads and exports) from the ISO controlled grid pay access charges, either the transmission access charge or the wheeling access charge. In accordance with section 26 and Schedule 3 of Appendix F of the ISO tariff, the ISO's access charge is designed to recover the transmission revenue requirement of each participating transmission owner. Only participating transmission owners may recover their transmission revenue requirement through the ISO access charge and only costs associated with transmission facilities turned over to ISO operational control may be recovered through the access charge.

Consistent with the current tariff provisions, a participating transmission owner's transmission revenue requirement consists of total authorized annualized revenues associated with transmission facilities turned over to the operational control of the ISO. A participating transmission owner's transmission revenue requirement includes, for the purposes of construction work in progress and abandoned plant cost recovery, transmission facilities under construction that have been approved by the ISO and are to be turned over to the operational control of the ISO upon completion.

The ISO tariff defines a participating transmission owner as "a party to the Transmission Control Agreement whose application under section 2.2 of the Transmission Control Agreement has been accepted and who has placed its transmission assets and Entitlements under the CAISO's Operational Control in accordance with the Transmission Control Agreement." According to this definition, an approved project sponsor would not become a participating transmission owner until its eligible transmission assets are turned over to ISO operational control, and facilities cannot be turned over to ISO operational control until they have been energized and are in operation.

Thus, because only a participating transmission owner has a transmission revenue requirement, there is no current tariff mechanism by which an approved project sponsor has the ability to collect construction work in progress costs under the ISO tariff before the transmission facility is energized and turned over to ISO operational control. In the case of authorized abandoned plant costs, an approved project sponsor would be unable to recover such costs if the project ultimately was not completed.

4. Tariff Modifications Permitting Pre-Operational Cost Recovery

In the September 10 straw proposal, the ISO suggested that the cost recovery mechanism for construction work in progress and abandoned plant costs be specifically addressed both with tariff language and in a pro-forma agreement for use between the ISO and approved project sponsors. The ISO proposed that this pro-forma agreement would establish the obligations, roles and responsibilities of the approved project sponsor, including reporting requirements so that the ISO can proactively monitor the

status of approved facilities and take the necessary actions if projects are not on schedule. The ISO noted that the agreement might overlap the Transmission Control Agreement once the approved project sponsor enters into it and the transmission facilities have achieved commercial operation.

In the comments submitted on October 3, stakeholders supported the ISO proposal with some suggestions for modifications. Stakeholders recommended that the opportunity to recover costs associated with approved projects prior to completion should not be limited to construction work in progress and abandoned plant costs, consistent with cost recovery opportunities for participating transmission owners. They noted that the cost recovery mechanism should be described in the tariff and not in the approved project sponsor agreement. One stakeholder stated that the agreement should contain language requiring the approved project sponsor to refund monies collected through the access charge if the Commission subsequently denies recovery of abandoned plant costs and should include provisions restricting the sale of the project unless the new entitlement holder becomes a participating transmission owner. In the draft final proposal, the ISO agreed to confine the cost recovery mechanism to tariff language, and to make many of the other changes proposed by stakeholders. The approved project sponsor agreement would contain the other provisions described in the straw proposal.

Consistent with these representations, the ISO proposes changes to tariff section 26; appendix F, section 3; a new definition (“Approved Project Sponsor Tariff”); and modifications to several other definitions. In section 26.1 the ISO added subject headings, removed some language no longer needed in the tariff and added language describing the construct for approved project sponsors to recover pre-operational revenues approved by the Commission.

Specifically, section 26.1(a) generally describes an approved project sponsor’s revenue recovery opportunity and section 26.1(b) addresses the allocation of these revenues between regional and local access charges. Because a non-participating transmission owner approved project sponsor would seek recovery for local transmission facilities only under the very limited circumstances described in section 24.4.10⁸, the ISO originally proposed that costs associated with local facilities be recovered through the approved project sponsor’s regional revenue requirement. However, two stakeholders noted that the ISO has an existing process for allocating local transmission facility costs to the participating transmission owner with a service territory and with which the facility would interconnect, and the ISO agreed to incorporate this allocation in 26.1(b) as well as appendix F, schedule 3, section 5.2.

⁸ By definition, local transmission facilities are financed, constructed and owned by participating transmission owners and are not subject to the competitive solicitation process except as described in section 24.4.10.

Changes were also made to the definitions and other sections of appendix F, schedule 3, consistent with this concept.

The ISO's proposed tariff modifications address the concerns of two stakeholders that the pre-operational revenue recovery mechanism be equally applicable to participating transmission owners and those who are approved project sponsors but not yet participating transmission owners. It is also clear that only approved project sponsors are entitled to an approved project sponsor tariff, addressing the concern that only project sponsors selected in the competitive solicitation process be entitled to cost recovery. While the tariff reflects that revenues recovered through the regional or local transmission revenue requirement must be Commission-approved, the ISO did not agree with one stakeholder that there be a requirement put in the tariff that the approved project sponsor seek a declaratory order for such recovery.

Finally, the ISO agrees with stakeholder comments that the approved project sponsor agreement should contain a provision that requires it to refund monies collected through the access charge if the Commission subsequently denies recovery of abandoned plant costs. As the ISO explained to stakeholders, an approved project sponsor agreement is currently being negotiated with the Imperial Irrigation District ("IID") for the Imperial Valley Element, and that agreement will be filed for approval with the Commission as soon as possible. Because the Imperial Valley Element must be completed by mid-2015, there was not sufficient time to engage in a stakeholder process to develop a pro forma agreement. Nonetheless, the ISO hopes to use much of the IID agreement as a template and, during conference calls, the ISO held out the possibility of a later stakeholder process to take comments and suggestions for a pro forma agreement.

B. Non-Participating Transmission Owners with Existing Facilities

In the initial straw proposal, the ISO stated its belief that existing tariff language adequately addressed the issue as to whether an approved project sponsor that became a new participating transmission owner upon completion of the project would be required to turn over to ISO operational control all existing transmission facilities and entitlements, or just the project which was subject to the competitive solicitation process. The ISO noted that in accordance with tariff section 4.3.1, a new participating transmission owner is required to turn over operational control of all facilities and entitlements that (1) satisfy the Commission's functional criteria for determining what transmission facilities should be placed under the ISO's operational control, (2) satisfy the criteria adopted by the ISO governing board identifying facilities for which the ISO should assume operational control, and (3) are the subject of mutual agreement between the ISO and participating transmission owners.

However, some stakeholders expressed concern that current tariff provisions lacked clarity with respect to the disposition of the existing transmission assets when an

approved project sponsor becomes a participating transmission owner. Because many different transmission developers with existing facilities located throughout the United States (or elsewhere) might seek to participate in the competitive solicitation process, and the ISO seeks to maximize participation in the process, the ISO sought stakeholder comment on further clarification, either in the tariff or by agreement.

Stakeholders expressed strong support for this proposal. Stakeholders agreed that while the current tariff provides an approach for new participating transmission owners with existing facilities, further clarification to eliminate actual or perceived uncertainty would provide benefits to the competitive solicitation process.

The ISO determined that adding a paragraph to tariff section 4.3.1.3 would provide clarification on this point. The tariff proposal states that any approved project sponsor that was not a participating transmission owner as of April 1, 2014, will be required to turn over to ISO operational control only its rights and interests in the regional transmission facility it was selected to construct and own in the competitive solicitation process. There were no objections to this proposed tariff language when presented to stakeholders, and IID – a non- participating approved project sponsor with a project to be placed in service in 2015 – strongly supported this approach.

C. The Project Sponsor Application Deposit and Fee

This proposal feature sparked the most discussion among stakeholders, with a wide range of opinions expressed regarding the various options proposed by the ISO. As noted above, over the past few years the ISO has made significant tariff revisions in order to promote competition in the transmission planning process and now has gained experience in the administration of a competitive solicitation process that provides an opportunity for project sponsors to submit proposals to finance, own, and construct facilities subject to competitive solicitation identified in the comprehensive transmission plan. Under this process the ISO carries out multiple resource-intensive tasks, including (1) determining whether a project sponsor meets certain qualification criteria, (2) determining whether a project sponsor's proposal meets certain proposal qualification criteria, and (3) selecting an approved project sponsor.

The ISO views these tasks as a significant undertaking that requires an extensive commitment of internal resources. In addition, the tariff requires the ISO to retain a consultant to assist it in the selection of an approved project sponsor, at substantial additional cost. This workload is likely to increase with each successive annual transmission planning process cycle because more transmission solutions will be subject to competitive solicitation under the ISO's Order No. 1000 transmission planning framework than under the process that was in effect for the 2012-2013 process cycle.

Thus far the ISO has been funding this significant incremental workload and cost without a corresponding increase in its operations budget (i.e., through the board-approved grid management charge paid by scheduling coordinators using the ISO's

markets). However, the ISO believes that project sponsors should bear the costs of the individual applicants competing to build and own specific transmission solutions. For example, the ISO notes that resources seeking to interconnect to the ISO grid via the generator interconnection process pay fees to support processing their applications and conducting the necessary studies, and now pay fees to process modifications for their projects. Furthermore, similar application deposits and fees have also been approved by the Commission for the Midcontinent Independent System Operator (“MISO”), Tampa Electric Company (“Tampa”) and the Southwest Power Pool (“SPP”), as discussed in more detail below.

1. Application Deposit and Fee in the Straw Proposal

The ISO first proposed, in the September 10 straw proposal and issue paper, that each project sponsor be required to provide an application deposit in the amount of \$100,000 to be applied as a pool of funds to pay for actual costs incurred by the ISO to perform and administer the competitive solicitation process. If the amount required to pay actual costs is determined to be greater than \$100,000 per application, then each project sponsor would be obligated to provide the additional amount. Conversely, if the amount required to pay actual costs was determined to be less than \$100,000, then each project sponsor would be refunded the unused balance of its deposit, with interest.⁹

The ISO also indicated that it was considering whether approved project sponsors should bear the actual costs incurred by the ISO to ensure that the project is on track for completion. These tasks would include negotiating an agreement with the approved project sponsor, monthly project status review, change management if applicable, coordination of commissioning activities, and coordination with existing participating transmission owners.

Stakeholder comments on this initial proposal ran the gamut from complete opposition to an application deposit of any amount, to support for the proposal with modifications. Some parties expressed concern that charging an application fee could discriminate against non-incumbents because participating transmission owners could recover such costs in ISO access charge rates, which non-incumbents would be unable to do. Others argued that because the competitive solicitation process benefits ratepayers as well as project sponsors, they should share in paying the costs.

Stakeholders sought clarification as to the actual cost basis for the proposed \$100,000 deposit; some suggested that the fee should be based only on the ISO’s external costs and others proposed a cap. Some parties supported establishing an application fee for the competitive solicitation, but argued that the ISO needs to provide

⁹ Interest is based on the interest that the ISO receives on the deposit, not based on the federal rate in 18 CFR 35.19(a).

some clarity regarding how it will calculate costs associated with evaluating bid proposals and that the fee should be supported by enough detail to show its cost basis. A large number of stakeholders encouraged the ISO to evaluate its solicitations on an ongoing basis to ensure that the initial application fee remains appropriate. Finally, almost all stakeholders opposed the notion that the fee should include the ISO's actual costs of negotiating an agreement with the approved project sponsor and monitoring the project once the approved project sponsor had been selected.

2. Modified Application Deposit and Fee in the Draft Final Proposal

Based on stakeholder feedback and precedent from other jurisdictions, the ISO proposed to retain the application fee concept but with the modifications described in the draft final proposal and approved by the governing board. The application deposit and fee will capture the costs of qualifying applicants and selecting an approved project sponsor from among multiple applicants, but will not capture the costs of negotiating the agreement and monitoring the project after the project sponsor has been selected.

As set forth in proposed tariff section 24.5.6, each project proposal will be required to include an application deposit of \$75,000. If the pro rata amount required to pay actual costs of the validation, qualification and selection process for each solution is determined to be greater than \$75,000 per application, then each project sponsor would be obligated to provide the additional amount up to a cap of \$150,000. Conversely, if the pro rata amount required to pay actual costs was determined to be less than \$75,000, then each project sponsor would be refunded the unused balance of its deposit, with interest.¹⁰ The deposit will be applied as a pool of funds to pay for costs incurred by the ISO, or third parties at the direction of the ISO, as applicable, to perform and administer the competitive solicitation process and to communicate with applicants with respect to their proposal applications.

The ISO proposes to make refunds as follows: (1) following the ISO's qualification decisions, to the extent the ISO finds a project sponsor to be unqualified for the project, the ISO will make its refund within 75 days after the qualification decision; and (2) for qualified project sponsors, the ISO will make refunds within 75 days after the approved project sponsor is selected. The ISO will publicly post an accounting of the total costs incurred in determining the qualified project sponsors for each solution and in selecting the approved project sponsor from among the qualified project sponsors for each solution.

As described in the draft final proposal, the application fee of \$75,000 with a cap of \$150,000 is based on the internal and external expenditures incurred by the ISO for recent competitive solicitations conducted by the ISO. Estimated expenditures for the

¹⁰ Interest is based on the interest that the ISO receives on the deposit, not based on the federal rate in 18 CFR 35.19(a).

Imperial Valley Policy Element competitive solicitation were slightly more than \$200,000 which included the evaluation of two project sponsor applicants (approximately \$100,000 per applicant). Expenditures for the Gates-Gregg 230 kV Line competitive solicitation ran approximately \$280,000 which included the evaluation of five project sponsors (approximately \$56,000 per applicant). In addition, it is estimated that the expenditures for the ongoing evaluation of the Sycamore-Penasquitos 230 kV Line Element will run approximately \$275,000 which includes the evaluation of four project sponsors (approximately \$68,700 per applicant).

Also, the Gates-Gregg 230 kV Line and the Sycamore-Penasquitos elements only involve construction of single lines with no substations, so these solicitations do not reflect all of the comparative analysis that might occur with a more complex, multi-facility proposal (including substations). On the other hand, the Imperial Valley Policy Element included a 230 kV line and collector substation.

The ISO believes that its proposal takes into account most of the suggestions and concerns raised by stakeholders. For example, the proposed cap incorporates the notion that some actual costs will be shared with ratepayers if the cap is exceeded. The ISO has based the deposit and cap on the actual costs incurred in two competitive solicitations and the estimated costs from a third currently underway. The ISO will provide accountings of the costs incurred for all future competitive solicitations, and will, in the process, review costs to ascertain whether the deposit, cap and fee structure reasonably align with the process. The ISO found that, at this time, there was no cost basis to support the suggested tiered application fee approach.

Contrary to stakeholder suggestions, the ISO is not proposing a separate fee for qualification and selection, but rather one deposit to cover costs incurred to perform and administer all aspects of the competitive solicitation process. The ISO believes that adding a two-step invoicing and payment process would add delay to the overall process by requiring separate invoicing for all project sponsors who were qualified, allowing sufficient time for payment, and then re-starting the comparative selection analysis only after all of the project sponsors had remitted their fees. The ISO has attempted to bridge the gap by proposing a separate refund opportunity after the qualification process is completed.

Stakeholders expressed much more support for the deposit fee and cost cap described in the draft final proposal than the earlier ISO recommendation. Most parties voiced targeted concerns about the deposit details and not the overall concept.¹¹ At least one stakeholder objected to the cap on actual expenses, arguing that project

¹¹ LS Power stated that its objections to the deposit were based on its position that the qualification and selection process should be completely separate, and not on the reasonableness of the deposit itself. The ISO believe these objections relate to aspect of the ISO's approved planning process that are not modified by the ISO's filing.

sponsors should pay for all of the costs incurred by the ISO in administering the competitive solicitation. The ISO believes its proposal provides a fair balance of allocating some costs to project sponsors while providing sponsors with assurances that the costs of participating in the solicitation will be limited by a reasonable cap. The CPUC staff took a different position, stating that the deposit should be \$50,000 and that ISO's market ratepayers should be responsible for the rest of the costs. As explained above, the ISO believes an application fee of \$75,000 with a cap of \$150,000 is more appropriate based on actual data from recent planning cycles.

MidAmerican Transmission maintained that the fee should apply only to external costs, and that applicants should be provided an opportunity to withdraw if costs are estimated to be very high for a particular solicitation process which would provide further certainty for prospective applicants.¹² The ISO believes its proposal for a cap provides sponsors with an appropriate level of certainty. Other stakeholders encouraged the ISO to continue to review its costs and make adjustments to the application deposit and fee arrangement once it has further knowledge of actual costs, and the ISO has agreed to do so.

Finally, stakeholders continued to question whether charging a deposit discriminates against non-participating transmission owners who would have no opportunity to recover such fees from ratepayers in the event that they are not selected in the process. The ISO disagrees with those stakeholders that argue that the application fee process is unduly discriminatory. As discussed below, the Commission has approved the establishment of application fees for transmission project sponsors in MISO, SPP, and Tampa Electric *et al.* and did not find such a fee to be unduly discriminatory.

Furthermore, it is highly speculative to assume that incumbent participating transmission owners who lose a competitive solicitation would automatically be permitted by the Commission to recover the application fee in rates. The ISO believes that such a request would be a case of first impression, and it may be that the Commission would require such costs to be borne by shareholders (such as other promotional, lobbying, and advertising costs that benefit shareholders).

Notably, the ISO tariff defines the transmission revenue requirement as “the total annual *authorized revenue requirements associated with transmission facilities and Entitlements turned over to the Operational Control of the CAISO* by a Participating TO.”¹³ Further, the tariff states that “[w]here the need for a transmission addition or upgrade is determined by the CAISO, the cost of the transmission addition or upgrade shall be borne by the Participating TO *that will be the owner of the transmission addition*

¹² The ISO believes that the cap provides this certainty. Project sponsors will be aware, when they choose to submit an application, that the application fee could be as high as \$150,000.

¹³ ISO tariff appendix A (definition of Transmission Revenue Requirement) (emphasis added).

*or upgrade and shall be reflected in its Transmission Revenue Requirement.*¹⁴ A participating transmission owner *not* selected in the competitive solicitation process would *not* be turning the project facilities over to ISO operational control, making it difficult to argue that the application is associated with rate base for which revenues will be recovered through the ISO's access charges.

3. Precedent from Other ISOs and Transmission Utility Providers

The ISO's proposed application deposit and fee structure is reasonable and consistent with similar fees recently approved by the Commission for MISO,¹⁵ Tampa Electric Company *et. al.*¹⁶ and SPP¹⁷, as discussed in this section.

For example, MISO proposed a competitive solicitation application fee equal to 1% of the estimated cost of the project for which the project sponsors were being evaluated, not to exceed \$500,000. At the end of the process there would be a true-up with interest paid on any deposit amounts to be refunded. The Commission approved the application fee in concept, but found that MISO had failed to provide sufficient information justifying the level of the deposit fee beyond a reference to the MISO generation interconnection deposits of \$250,000.

Because MISO provided no evidence that the costs required to evaluate a generator interconnection were comparable to those necessary to conduct a competitive solicitation, the Commission found the proposed fee level could constitute a barrier to entry. The Commission ordered MISO to (1) clarify how it would calculate the cost it will incur to evaluate bid for purposes of refunding a bidder's deposit; and (2) clarify whether or not disqualified applicants must wait until after the selection of a project sponsor before they get their refund, because these factors could lead to uncertainty as to whether a transmission developer should submit a bid. Based on discussions with stakeholders, in its 120-day compliance filing, MISO revised the application fee to \$100,000 with a true-up of any shortfall at the end of the process and interest paid on any refunded amounts.

Tampa Electric Co. *et al.* proposed a one-time \$50,000 fee for outside consultants to review a non-incumbent transmission developer's qualifications, as a one-time event for each transmission developer. Unexpended amounts would be refunded. For transmission developers proposing a Cost Effective and/or Efficient Regional Transmission Solution (CEERTS) project for evaluation in the regional transmission planning process, Tampa Electric Co., *et. al.* proposed charging a

¹⁴ ISO tariff section 24.14.2 (emphasis added).

¹⁵ *Midwest Indep. Transmission Sys. Operator*, 142 FERC ¶ 61,215 at PP 300-01 (2013).

¹⁶ *Tampa Elec. Co., et. al.* 143 FERC ¶ 61,254 at PP 147-49; PP 171-72 (2013).

¹⁷ *Southwest Power Pool*, 144 FERC ¶ 61,059 at PP 230, 242-44 (2013).

separate deposit of \$100,000 for each \$10 million of project cost, to be capped at a maximum deposit of \$500,000. This deposit would be used to cover both internal cost and out-of-pocket costs incurred by the regional planner to evaluate the project sponsor's project. The costs would be trued up at the end of the process.

The Commission approved the one time qualification fee with the requirements that (1) interest be paid on refunded amounts, (2) the filing parties provide a description of which costs the deposit will be applied to, how they will be calculated, and an accounting of the actual costs to which the deposit is applied.

The Commission also approved the separate CEERTS project study fee in concept but found that the filing parties had failed to provide justification of the level of the fee and the step function aspect of the proposal. Among other things, the Commission directed Tampa Electric Co. *et al.* to: (1) clarify why the full deposit would be required at the initial stages of the project review process rather than once a project is selected in the regional plan; (2) provide an accounting to each transmission developer describing the costs the deposit would be applied to, how those costs will be calculated, and an accounting of the actual costs incurred to which the deposit is applied; and (3) pay interest on refunded amounts.

Finally, SPP proposed a separate qualifications application fee to be applied only to non-incumbents. The application fee was equal to the amount of the SPP annual membership fee. SPP proposed to post the amount of the qualifications application fee on its website as part of the application form. The fee was intended to offset SPP's costs of processing such qualification applications.

The Commission found the fee might be unduly discriminatory because both incumbents and non-incumbents submit qualifications applications, and directed SPP to either impose the charge on both incumbents and non-incumbents or explain why it is not unduly discriminatory to charge non-incumbents this fee, but not incumbents.

SPP also proposed a separate deposit for both incumbents and non-incumbents participating in the competitive solicitation to compensate SPP for the costs of the solicitation. SPP proposed that the level of the fee would be set at the level of SPP's estimate of what participation in the competitive solicitation would cost. At the end of the process each participant would receive an invoice for additional payments or receive a refund based on the reconciliation of the deposits collected and the actual costs incurred.

The Commission found that Order No. 1000 expressly permits transmission planning regions to require additional procedural protections such as the posting of deposits. However, the Commission found that SPP had not provided enough information to justify the proposed fee, had not specified a precise dollar amount or a formula for determining the amount of the fee, and therefore a transmission developer did not have sufficient information to assess whether or not to submit a bid. The

Commission also imposed all of the information, calculation, accounting, and interest requirements it had imposed on MISO and the Florida parties.

The ISO's proposed application fee meets all of the Commission's directives in the MISO, SPP and Tampa cases. The level of the proposed deposit and cost cap is consistent with the ISO's actual costs of evaluating project sponsor qualifications and selecting an approved project sponsor. The ISO proposes to charge both incumbents and non-incumbents who submit applications, and will refund deposit amounts within a set period of time and with interest at the rate that the ISO collects on these funds. The cost cap provides certainty and the level of the deposit does not constitute a barrier to participation. Finally, the ISO will continuously evaluate its costs and the application deposit and fee structure.

D. Other Issues

In the course of this proceeding, stakeholders raised, for the ISO's consideration, several other issues related to the competitive solicitation process. Regarding these issues, the ISO agreed to propose tariff modifications to two sections that would address these concerns. Other proposals will be considered in upcoming stakeholder consultations.

1. The Requirement to Initiate Siting Approval within 120 Days

Both SCE and PG&E argued that the existing tariff provision in sections 24.5.3.4 and 24.5.3.5, requiring the approved project sponsor to initiate the siting process within 120 days of selection, was onerous and unworkable. Although the ISO had clarified, in language set forth in the business practice manual, that this tariff section did not require submission of a complete siting application with the agency undertaking environmental siting review, these stakeholders nonetheless argued that the tariff provisions created uncertainty and should be modified.

During the stakeholder process the ISO agreed to remove this requirement and instead to address permitting and siting in the approved project sponsor agreement. The ISO proposed that approved project sponsors would be required to enter into the agreement within 120 days of selection notification, and this language has been added to sections 24.5.3.4 and 24.5.3.5. Stakeholders supported this revision, although LS Power suggested that a shorter time period might be appropriate. The ISO explained that negotiating the details of the agreement, even if based on a future *pro forma* agreement, could require 120 days, and that approved project sponsors have 120 days to provide the construction plan required in section 24.6.1. After this informed discussion, the ISO believes that this 120-day period for entering into the approved project sponsor agreement will keep the project moving along, which was the intent of the siting approval requirement, and allow the approved project sponsor to develop its construction plan which would include the detail required for the agreement, and it is a reasonable substitute.

2. Requirements for Transferees of Approved Project Sponsors

Current tariff section 24.6 provides that approved project sponsors shall not “sell, assign or otherwise transfer” the project without the ISO’s written consent. During the stakeholder process, SCE submitted that any project transferee should be held to the same standards that the ISO used for the approved project sponsor selection. These standards are embodied in the qualification and selection criteria, and in particular would include the approved project sponsor’s commitment to adhere to a binding cost cap. LS Power also recommended that the ISO add to section 24.6 a statement that the ISO’s project transfer approval will not be unreasonably withheld.

Accordingly, and with the assistance of stakeholders during the tariff drafting process, the ISO has added the language requested by LS Power to section 24.6 and also proposes that a project transferee be required to: 1) meet the qualification criteria; 2) agree to honor any binding cost cap agreed to by the approved project sponsor; 3) agree to meet the selection factors relied upon by the ISO in selecting the approved project sponsor; and, 4) assume all of the rights and responsibilities set forth in the approved project sponsor agreement.

IV. **Communications**

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. **Service**

The ISO has served copies of this transmittal letter, and all attachments, on the California Public Utilities Commission, the California Energy Commission, and all parties with effective Scheduling Coordinator Service Agreements under the ISO Tariff. In addition, the ISO is posting this transmittal letter and all attachments on the ISO website.

VI. **Attachments**

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

Attachment A	Final Draft Proposal
Attachment B	Memorandum to ISO Governing Board
Attachment C	Clean Tariff Sections
Attachment D	Blacklined Tariff Sections

VII. Conclusion

For the foregoing reasons, the ISO respectfully requests that the Commission accept the proposed tariff modifications that will: 1) provide an opportunity for approved project sponsors to recover Commission approved pre-operational costs through an approved project sponsor tariff; 2) clarify that approved project sponsors with existing transmission facilities are required to turn only the project subject to the competitive solicitation process over to ISO operational control; 3) institute an application deposit and fee for project proposals in the competitive solicitation process; 4) remove the requirement that approved project sponsors initiate siting approval within 120 days of selection; and 5) clarify the conditions under which the ISO will approve approved project sponsor transfers or assignments.

Respectfully submitted,

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Attachment A – Final Draft Proposal
Competitive Transmission Improvements Tariff Amendment
California Independent System Operator Corporation
January 30, 2014



California ISO
Shaping a Renewed Future

Competitive Transmission Improvements

Draft Final Proposal

October 17, 2013

Table of Contents

1	Executive summary	4
2	Introduction	4
3	Stakeholder process and next steps	5
4	Recovery of FERC authorized transmission revenue requirements prior to becoming a PTO.....	6
4.1	FERC transmission rate incentives	6
4.1.1	CWIP	7
4.1.2	Abandoned plant	8
4.2	Relationship between the ISO access charge and a PTO’s transmission revenue requirement	8
4.3	September 10 straw proposal	9
4.4	Stakeholder comments	10
4.5	Draft final proposal	11
5	Non-PTO approved projects sponsors with existing transmission assets	12
5.1	September 10 straw proposal	12
5.2	Stakeholder comments	12
5.3	Draft final proposal	13
6	Project sponsor application deposit	13
6.1	September 10 straw proposal	14
6.2	Stakeholder comments	15
6.3	Applicable precedent	17
6.3.1	Midcontinent Independent System Operator	17
6.3.2	Tampa Electric Company, et al	17
6.3.3	Southwest Power Pool (“SPP”)	18
6.4	Draft final proposal	19
7	Other issues raised by stakeholders	21
7.1	The requirement to initiate siting and other approvals	21
7.2	Requirements for the transferee of an approved project sponsor	21

7.3 Removing the collaboration tariff provisions 22

7.4 Efficiency enhancements in the competitive solicitation process..... 22

Competitive Transmission Improvements

Draft Final Proposal

1 Executive summary

The ISO launched this stakeholder process in September 2013 when it posted an issue paper and straw proposal on September 10 in which several improvements were proposed to further support competition in the ISO transmission planning process. One proposed change would create a mechanism by which approved project sponsors who are not a participating transmission owner can recover their FERC authorized transmission revenue requirement associated with projects under construction and prior to the time that the facilities are turned over to ISO operational control. A second proposed change would clarify that approved project sponsors who are not a participating transmission owner, but who have existing transmission assets, are only required to turn over to ISO operational control the project they were selected to build. Taken together, these two proposed changes are intended to help provide nondiscriminatory opportunities for incumbents and non-incumbents alike. A third change proposed in the September 10 paper would impose a project sponsor application deposit as a means to mitigate costs incurred by the ISO to perform and administer the competitive solicitation process and manage any potential agreements with approved project sponsors.

The ISO held a stakeholder web conference on September 20 to discuss the September 10 issue paper and straw proposal. The ISO received written comments from stakeholders on October 3. Stakeholder feedback indicates general support for the first two features of the ISO's proposal and the third feature raised the most discussion. Based on this feedback, the ISO is proposing to move forward with all three proposed changes while making some modification to its proposal regarding the third feature.

Following publication of this draft final proposal, the ISO will hold a stakeholder web conference on October 29. Written stakeholder comments are due November 12. The ISO intends to present this proposal to the ISO Board of Governors at its meeting scheduled for December 18-19.

2 Introduction

The ISO supports the FERC's stated goals of promoting competition in the transmission planning process.

Just a few years ago the ISO reformed its transmission planning process to explicitly consider public policy requirements as a potential driver for transmission facilities and afford both incumbent and non-incumbent transmission developers nondiscriminatory opportunities to compete to build transmission facilities that the ISO finds are needed for public policy or economic efficiency reasons.

More recently in its Order No. 1000 compliance filing, the ISO expanded on these changes and proposed tariff revisions to further promote competition in the transmission planning process. The ISO proposed to eliminate from the ISO tariff the remaining provisions that grant a federal “right of first refusal” for incumbent participating transmission owners to build and own certain transmission facilities whose costs will be allocated regionally. These changes reflect a significant “scaling-back” of participating transmission owners’ existing right of first refusal to build all transmission facilities needed for reliability or to maintain the simultaneous of long-term congestion revenue rights (“CRRs”). On April 18, 2013, the FERC approved these changes.

In this paper the ISO is proposing three changes to further promote competition in the transmission planning process. First, the ISO proposes to create a mechanism by which non-PTO approved project sponsors that have no existing rate recovery mechanism can recover their FERC authorized transmission revenue requirement (e.g., construction work-in-progress in rate-base and abandoned plant) associated with transmission projects under construction and prior to the time that the facilities are turned over to the operational control of the ISO. Second, the ISO proposes to clarify that non-PTO approved project sponsors with existing transmission assets are only required to turn over to ISO operational control the project they were selected to build. Third, to mitigate costs incurred by the ISO to perform and administer the competitive solicitation process, the ISO proposes to impose a project sponsor application deposit.

3 Stakeholder process and next steps

Following the release of this draft final proposal, the ISO will hold a stakeholder web conference on October 29 to discuss the draft final proposal and solicit final stakeholder comments. The ISO is requesting written stakeholder comments by November 12. The ISO’s proposal will be presented to the ISO Board of Governors at its December 18-19 meeting.

Table 1 provides a summary of this stakeholder process.

Table 1 – Stakeholder process schedule

Date	Milestone
September 10	Post issue paper and straw proposal
September 20	Stakeholder web conference

Date	Milestone
October 3	Stakeholder comments due by 5:00pm
October 17	Post draft final proposal
October 29 (1:00-3:00)	Stakeholder web conference
November 12	Stakeholder comments due by 5:00pm
December 18-19	ISO Board meeting
Early 2014	FERC filing

4 Recovery of FERC authorized transmission revenue requirements prior to becoming a PTO

4.1 FERC transmission rate incentives

Section 1241 of the Energy Policy Act of 2005 (“EPAAct 2005”) added new section 219 to the Federal Power Act (“FPA”) directing the FERC to establish incentive-based rate treatments that promote capital investment in reliable and economically efficient transmission and generation of electricity by promoting capital investment. In 2006, FERC issued Order Nos. 679 and 679-A to establish incentives to support the development of transmission infrastructure.¹ These incentives include enhanced rate of return on equity (“ROE”), recovery of 100 percent of prudently-incurred costs associated with abandoned transmission projects due to factors beyond the control of the utility, use of hypothetical capital structures, incentives to join a transmission organization, and inclusion of 100 percent construction work-in-progress (“CWIP”) in rate base, accelerated depreciation used for rate recovery, and expensing pre-commercial operations costs associated with new transmission investment, among others.

Most of these rate incentives are not included in the transmission revenue requirement of the transmission owner until the new transmission facilities are turned over to the operational control of the ISO upon completion and incorporated in the transmission revenue requirement that is approved by FERC. However, two of these—inclusion of CWIP in rate base and recovery of abandoned plant—are unique in that they may be recovered prior to completion of the new transmission project or after abandonment of the project.

¹ For purposes of convenience in this paper, the ISO will generally use the term Order No. 679.

To be eligible for these incentives, the subject project must have been vetted and approved by the ISO in its transmission planning process.²

Typically an applicant will file a petition for declaratory order requesting FERC approval of certain incentive rate treatments for its proposed project under FPA section 219 and Order No. 679. FERC reviews such requests for incentives on a case-by-case basis. The ISO anticipates that approved project sponsors similarly may seek incentive rate authority once selected in the ISO's competitive solicitation process.

4.1.1 *CWIP*

In Order No. 679, FERC established a policy that allows utilities to include, where appropriate, 100 percent of prudently-incurred transmission-related CWIP in rate base. FERC stated that this rate treatment will further the goals of FPA section 219 by providing up-front regulatory certainty, rate stability, reduced interest expense, and improved cash flow, by reducing the pressures on an applicant's finances caused by investing in transmission projects. Order 679 allows inclusion of 100 percent CWIP in rate base and expensing pre-commercial operations costs associated with new transmission investment because of the long lead times required to plan and construct new transmission can negatively affect cash flow and the ability of the sponsor to attract capital at reasonable prices. Traditional rate recovery mechanisms would not allow a utility to recover the costs of construction until the project is placed into service. Without CWIP in rate base, all of an applicant's borrowing costs would be accrued over several years and then capitalized after the new project goes into service, along with a return of the investment cost through depreciation expense. Such a process would increase an applicants' customers' bills more significantly than if the FERC were to allow inclusion of CWIP in rate base. Permitting a utility to recover CWIP in rate base allows investors to receive a return on their investment before the project is placed into service thereby increasing the attractiveness of these investments. Further, recovery of CWIP in rate base may facilitate financing and improve coverage ratios used by rating agencies to determine credit quality and debt ratings.

Typically FERC may accept an applicant's proposal to recover 100 percent of CWIP in rate base conditioned upon the applicant fulfilling FERC's requirements for CWIP inclusion for the project in a subsequent section 205 filing.

² Order No. 679 states that each applicant must demonstrate that the facilities for which it seeks incentives satisfy the requirements of section 219 by either ensuring reliability or reducing the cost of delivered power by reducing congestion. The Order establishes a rebuttable presumption that a project is eligible for incentives under section 219 if it: (1) results from a fair and open regional planning process that considers and evaluates projects for reliability and/or congestion and is found to be acceptable to the FERC; or (2) has received construction approval from an appropriate state commission or state siting authority. FERC will consider incentive requests for projects that are still undergoing consideration in a regional planning process, but may make any requested incentive rate treatment contingent on the project being approved under the regional planning process.

4.1.2 *Abandoned plant*

Under Order No. 679, the FERC allows applicants to seek recovery of 100 percent of prudently-incurred costs associated with a transmission project that is cancelled or abandoned for reasons outside the applicant's control. The purpose of this incentive is to reduce the risk associated with potential upgrades or other improvements to the transmission system. The ability to recover the costs of abandoned plant is an important consideration when applicants evaluate investment opportunities with significant risk associated with factors beyond their control, such as generation developers' decisions to develop or terminate the development of the potential generation resources that drove the need for the line in the first place (e.g., it may be uncertain whether renewable generation resources connecting to a transmission project will ultimately be developed) or difficulty obtaining state or local siting approvals (e.g., some projects may require multiple approvals involving multiple regulatory jurisdictions which can increase the possibility that a project may be subject to forced abandonment). In Order No. 679 the FERC found that the abandonment incentive is an effective means of encouraging transmission development by reducing the risk of non-recovery of costs.

Typically, if the request is approved, FERC would conditionally grant an applicant's request for recovery of 100 percent of prudently-incurred transmission-related costs associated with abandonment of a project, provided that the abandonment is a result of factors beyond the control of the applicant, which must be demonstrated in a subsequent FPA section 205 filing for recovery of abandoned plant.

4.2 **Relationship between the ISO access charge and a PTO's transmission revenue requirement**

All market participants withdrawing energy (i.e. loads and exports) from the ISO controlled grid pay access charges, either the transmission access charge or the wheeling access charge.

In accordance with Section 26 and Schedule 3 of Appendix F of the ISO Tariff, the ISO access charge is designed to recover each Participating Transmission Owner's ("PTO") transmission revenue requirement. Only PTOs may recover their transmission revenue requirement through the ISO access charge. Under the ISO tariff, a PTO is defined as "a party to the Transmission Control Agreement whose application under section 2.2 of the Transmission Control Agreement has been accepted and who has placed its transmission assets and Entitlements under the CAISO's Operational Control in accordance with the Transmission Control Agreement."

Each PTO's transmission revenue requirement is the total annual FERC authorized revenue requirement associated with transmission facilities turned over to the operational control of the ISO by the PTO, including projects under construction that are to be turned over to the operational control of the ISO upon completion (this latter point is relevant in the case of CWIP and abandoned plant).

Simply put, the ISO tariff contains provisions to collect the necessary funds and provide revenue to a PTO for use of transmission assets. The ISO tariff contains no such provisions for non-PTOs. The ISO pays access charge revenues to PTOs on a monthly basis.

4.3 September 10 straw proposal

In phase 3 of the annual transmission planning process, the ISO evaluates proposals to construct, own, operate, and maintain regional transmission facilities identified in the comprehensive transmission plan and subject to competitive solicitation. The project sponsor selected may be a PTO or a non-PTO. Presumably the selected project sponsor would request FERC approval of incentive rate treatments for its proposed project under FPA section 219 and Order No. 679, including recovery of 100 percent of CWIP in rate base and recovery of 100 percent of prudently-incurred costs associated with project abandonment. If the approved project sponsor is a PTO, then the revenues associated with CWIP and abandoned plant could be recovered through the PTO's existing revenue requirement; however, a non-PTO approved project sponsor would have no such mechanism to recover the revenue requirement associated with CWIP and abandoned plant. As previously stated, the ISO tariff does not contain any provision to collect the necessary funds and provide revenue to a non-PTO for use of transmission assets.

Project sponsors that the ISO (or authorized governmental body) selects to build and own a needed transmission solution identified in the ISO's comprehensive transmission plan, whether a PTO or non-PTO, are similarly situated because they both face similar risks and financing pressures caused by investing in transmission projects. Recognizing these similarities and in order to provide a more level playing field and support a competitive transmission process, the ISO proposes to create a new mechanism by which non-PTO project sponsors that are selected to build and own an identified transmission solution in the ISO's competitive solicitation process can, through the ISO access charge, recover these components of their FERC authorized transmission revenue requirements prior to the completion of the project. This recovery would be limited to CWIP and abandoned plant.

In the case of CWIP, once the project is completed and turned over to the operational control of the ISO, and the project sponsor becomes a party to the TCA, the remaining portions of its FERC authorized transmission revenue requirement would be recoverable through the ISO access charge. An approved project sponsor of a project that is ultimately abandoned, for which FERC has authorized recovery of prudently incurred expenditures prior to the time that the project was discontinued, would continue to recover these costs for the remainder of the authorized amortization period.

To implement this new mechanism, the ISO stated in the September 10 issue paper and straw proposal that it is exploring the following options:

1. Add a new Section 4.17 to the ISO Tariff describing the relationship between the ISO and non-PTO approved project sponsors.
2. Amend Section 26 and Schedule 3 of Appendix F and Section 11 of the ISO Tariff to include recovery of a non-PTO approved project sponsor's FERC authorized transmission revenue requirement associated with transmission projects under construction that was approved by the ISO through the transmission planning process and is intended to be turned over to the operational control of the ISO upon completion or with abandoned facilities for reasons beyond the approved project sponsor's control.
3. Develop a pro-forma agreement for use between the ISO and each approved project sponsor to accomplish a number of purposes including:
 - a. Acknowledge acceptance of the selection of the project sponsor.
 - b. Establish the obligations, roles and responsibilities of the project sponsor including reporting requirements so that the ISO can proactively monitor the status of approved facilities and to take the necessary actions if projects are not on schedule. This agreement may overlap with the Transmission Control Agreement ("TCA") once the project sponsor enters into the TCA with respect to the facility that the project sponsor was selected to construct and own as a result of the competitive solicitation process, and the transmission facilities have achieved commercial operation.
 - c. Allow the project sponsor to file with FERC for CWIP and abandoned plant, if applicable, to be funded through the ISO's access charge.

The ISO invited stakeholders to comment on these potential changes and to identify other alternative (or additive) tariff options/revisions that would (i) enable non-PTOs to recover their transmission revenue requirement in rates before they become PTOs and (ii) ensure that transmission solutions are successfully completed in a timely manner.

4.4 Stakeholder comments

A review of the October 3 stakeholder comments indicates that there is general support for this feature of the straw proposal.

Several stakeholders commented that this should be accomplished through tariff changes and not a new contract mechanism, and that a contract is unnecessary.

PG&E sought the following conditions: (1) the non-PTO must file a petition for declaratory order and obtain FERC authorization to recover the costs; (2) the non-PTO must have a FERC approved transmission owner tariff rate filing setting forth its cost recovery prior to turning the project over to ISO operational control; (3) the non-PTO should enter into some transitional agreement with the ISO that requires it to refund monies collected through the access charge if FERC subsequently

denies recovery of abandoned plant costs and include provisions restricting the sale of the project unless the new entitlement holder becomes a PTO (see TCA sections 4.4.4, 4.4.5, and 4.4.6).

SCE's support is conditioned on assurances that non-PTOs will have to go through the same approval process and be held to the same standards for recovery as PTOs.

Some stakeholders stated that the proposed mechanism should allow for recovery of all types of costs that FERC may permit recovery of before a facility is turned over to ISO control and not just CWIP and abandoned plant. LS Power said the ISO should make it clear that if an applicant is not selected in the competitive solicitation, there is no cost recovery, citing paragraph 332 of Order No. 1000. LS Power also recommended a general catch all phrase like that proposed in PJM's Order No. 1000 docket.

4.5 Draft final proposal

Based on stakeholder comments, the ISO proposes to retain all of the elements of the September 10 straw proposal and complements those with the following refinements:

- The tariff would state that approved project sponsors are permitted to recover all of FERC-approved, pre-PTO costs. This provision would only be reflected in the tariff not in any pro forma agreement between the ISO and an approved project sponsor.
- The tariff language will permit the recovery of all such FERC-approved costs and not single out CWIP or abandoned plant. This approach should be consistent with the language in the tariff regarding what PTO costs can be recovered through the transmission revenue requirement.
- Non-PTO approved project sponsors would have to go through the same rate approval process in the tariff that PTO's go through to establish a FERC approved transmission revenue requirement and a transmission owner tariff that is then reflected in the ISO's access charge. The intent is to make the ISO tariff provisions applicable to both PTOs and Non-PTOs selected as approved project sponsors.
- There is no basis to state in the tariff that the non-PTO must obtain a petition for declaratory order from FERC as a pre-condition. Such a provision is not present in the current tariff for PTOs selected as an approved project sponsor, and this is more of a FERC issue than an ISO tariff issue.
- Provisions similar to those found in sections 4.4.4, 4.4.5, and 4.4.6 of the TCA would serve as the model.
- A transitional pro-forma agreement would be used to (1) acknowledge acceptance of the selection of the approved project sponsor, (2) establish the obligations, roles and responsibilities of the project sponsor, including project specific milestones; and, (3) any binding cost control measures, including binding cost caps that the approved project sponsor agreed to in their application.

5 Non-PTO approved projects sponsors with existing transmission assets

5.1 September 10 straw proposal

In the September 10 straw proposal, the ISO stated its belief that this issue is already addressed in the current tariff. Under ISO tariff section 4.3.1, a new PTO is required to turn over operational control of all facilities and entitlements that (1) satisfy FERC's functional criteria for determining what transmission facilities should be placed under the ISO's operational control, (2) satisfy the criteria adopted by the ISO governing board identifying facilities for which the ISO should assume operational control, and (3) are the subject of mutual agreement between the ISO and the PTOs.

However, some stakeholders have indicated that these tariff provisions lack clarity with respect to the disposition of the existing transmission assets of a non-PTO approved project sponsor. Thus, under the scenario in which a non-PTO with existing transmission assets is selected as the approved project sponsor for a particular transmission solution, the issue has arisen whether that approved project sponsor will not only be required to turn over to the ISO's operational control the particular transmission solution but will also be required to turn over all of its existing transmission assets to ISO operational control.

To be clear, the ISO believes it important to maximize participation in the competitive solicitation process and recognizes that many different transmission developers with existing facilities located throughout the US, or elsewhere, may seek to compete in the competitive solicitation process.

Thus the ISO stated in the straw proposal that an approved project sponsor that is not an existing PTO should be required to turn over to the ISO's operational control *only* the facilities that it was awarded the right to build, not all of its transmission facilities. The ISO further indicated that it is evaluating what would be required to implement this change—a new agreement, changes to the transmission control agreement, and/or targeted tariff provisions (e.g., perhaps this could be addressed in a new section 4.17 to the ISO tariff as discussed in section 3.3 above).

The ISO invited stakeholders to comment on its proposal to address the issue of non-PTO approved project sponsors with existing transmission assets and discuss what specific changes they believe are necessary to effectuate the proposal.

5.2 Stakeholder comments

A review of the October 3 stakeholder comments indicates that there is strong support for this feature of the straw proposal.

SCE noted that the TCA already allows applicants to justify why certain transmission facilities should not be placed under ISO operational control and also provides the ISO discretion to reject taking operational control over facilities under certain circumstances. SCE also references section

4.3.1 of the ISO tariff. SCE thus believes that changes may be unnecessary. SCE conditions its support on fair application among PTOs and non-PTOs.

IID believes that further clarification is needed on this issue and supports ISO's efforts to do so.

DATC supports the proposal because it eliminates uncertainty that could be an obstacle to participation by some non-PTOs.

MidAmerican Transmission supports clarification, if determined to be needed by the ISO.

MidAmerican Transmission notes that historical approaches taken for projects such as Path 15 (with participation by the Western Area Power Administration) appear to already support the premise without the need for additional tariff changes.

Pinnacle West Capital believes that the ISO tariff already makes clear that non-PTOs are required to turn over operational control of only the specific project for which they were selected to build and not all transmission facilities. However, they believe that eliminating any actual or perceived uncertainty will benefit the process.

SMUD supports the ability of non-PTO project sponsors to place discrete ISO-approved projects under ISO operational control.

Critical Path Transmission, NV Energy, and Exelon support the ISO's efforts to explore options for additional clarity on this issue.

5.3 Draft final proposal

The ISO proposes to proceed with this feature of the straw proposal. The ISO proposes to make any necessary changes to section 4 of the tariff and to the TCA to implement this feature of the proposal.

6 Project sponsor application deposit

Over the last several years the ISO has made a number of significant tariff revisions in order to promote competition in the transmission planning process. As a direct result, the ISO now administers a competitive solicitation process providing an opportunity for project sponsors to submit proposals to finance, own, and construct facilities subject to competitive solicitation identified in the comprehensive transmission plan. Under this process the ISO carries out several significant tasks including (1) determining whether a project sponsor meets certain qualification criteria, (2) determining whether a project sponsor's proposal meets certain proposal qualification criteria, and (3) selecting an approved project sponsor. In addition, once the project sponsor is selected, the ISO may also devote a significant amount of time ensuring that the project is on-track for completion including (1) negotiating a contract with the project sponsor to provide obligations, roles and responsibilities of the parties; (2) monthly project status review; (3) change management,

if applicable; (4) coordination of commissioning activities; (5) recovery of CWIP and abandoned plant, and any other FERC authorized pre-PTO costs, ; (6) coordination with existing PTOs; and (7) any binding cost control measures, including binding cost caps that the approved project sponsor agreed to in their application.

The ISO views these tasks as a significant undertaking that requires an extensive commitment of resources and the need to bring in outside contractors to support internal ISO staff, at significant additional cost. Also, the ISO tariff requires that ISO to retain a consultant to assist it in the selection of an approved project sponsor. This workload is likely to increase with each successive annual transmission planning process cycle because more transmission solutions will be subject to competitive solicitation under the ISO's Order No. 1000 transmission planning framework than under the process in effect for the 2012-2013 process.

Thus far the ISO has been funding this significant incremental workload and cost without a corresponding increase in its operations budget (i.e., through the Board approved grid management charge paid by scheduling coordinators). This raises the question whether it is appropriate for ISO ratepayers to fund the costs of individual applicants competing to build and own specific transmission solutions. For example, the ISO notes that resources seeking to interconnect to the ISO grid via the generator interconnection process pay fees to support processing their applications and conducting the necessary studies, and shortly will pay fees to process modifications for their projects. The ISO also notes that FERC authorized the Midcontinent Independent System Operator ("MISO") to charge transmission developers participating in the competitive solicitation process a deposit.³ Similarly, FERC authorized the Southwest Power Pool ("SPP") to charge an application fee for purposes of the qualification determination and a deposit for applicants submitting project proposals.⁴

6.1 September 10 straw proposal

To mitigate the aforementioned impacts, the ISO believes that all project sponsors should bear the costs of the competitive solicitation process. To accomplish this, the ISO proposed in the September 10 paper that project sponsors be required to provide an application deposit in the amount of \$100,000 to be applied as a pool of funds to pay for actual costs incurred by the ISO to perform and administer the competitive solicitation process. If the amount required to pay actual costs is determined to be greater than \$100,000 per application, then each project sponsor would be obligated to provide the additional amount. Conversely, if the amount required to pay actual

³ *Midwest Independent Transmission System Operator*, 142 FERC ¶61,215 at PP 300-01 (2013).

⁴ *Southwest Power Pool*, 144 FERC ¶61,059 at PP 230 242-44 (2013).

costs was determined to be less than \$100,000, then each project sponsor would be refunded the unused balance of its deposit, with interest.⁵

The ISO also indicated that it was considering whether approved project sponsors should bear the actual costs incurred by the ISO to ensure that the project is on-track for completion (e.g., negotiating an agreement with the approved project sponsor, monthly project status review, change management, if applicable; coordination of commissioning activities, and coordination with existing PTOs).

The ISO invited stakeholders to provide comment on the ISO's proposal on a project sponsor application deposit. Stakeholders were also asked to comment on whether approved project sponsors should bear the actual costs incurred by the ISO to manage any potential agreements with approved project sponsors.

6.2 Stakeholder comments

This feature of the straw proposal raised the most discussion, with a broad range of perspectives expressed.

Two stakeholders – Critical Path Transmission and Duke American Transmission Company (DATC) – completely opposed it. Critical Path Transmission claimed that the proposal would be discriminatory toward non-incumbents. DATC argued that: (1) all ratepayers benefit from the competitive solicitation and thus the ISO's administrative costs incurred to run the competitive solicitation benefit ratepayers; (2) unlike the costs of interconnection studies, the costs incurred to manage the competitive solicitation process do not directly benefit the participants, they benefit the ISO and ratepayers; (3) the ISO has not demonstrated any actual cost basis for the \$100,000 and shown that it is reasonably based on the competitive solicitations the ISO has conducted; (4) the fee favors incumbents because there is no showing that they cannot recover these costs in their rates; (5) the cost responsibility obligation is open ended; and, (6) an application fee might be supportable to deter participation by unqualified applicants or large numbers of applications that do not meet the ISO's requirements, but that does not appear to be the case here.

Imperial Irrigation District (IID) and Pinnacle West Capital conceptually support charging an application fee to perform and administer the competitive solicitation process with respect to external consultant charges but not to cover internal ISO costs.

SCE and CPUC staff also conceptually support charging an application fee, and SCE goes further in its comments and supports charging the approved project sponsor for costs associated with negotiating and administering a contract. CPUC staff believes that such deposits should be trued-up after the winning bidder is selected.

⁵ Interest is based on the interest that the ISO receives on the deposit, not based on the federal rate in 18 CFR 35.19(a).

MidAmerican Transmission supports imposition of an application fee for the competitive solicitation, but argues that the ISO needs to provide some clarity regarding how it will calculate costs associated with evaluating bid proposals (e.g., will these funds be used to pay for external consultants or to offset internal ISO staff time) and that the fee should be supported by enough detail to show its cost basis. MidAmerican Transmission, as well as numerous other stakeholders (e.g., CPUC staff, Pinnacle West Capital) opposes any type of fee for monitoring whether a project is on track and meeting milestones.

A large number of stakeholders (e.g., Pinnacle West Capital, Pattern Transmission, PG&E, and CPUC staff) encourage the ISO to evaluate its solicitations on an ongoing basis to ensure that the initial application fee remains appropriate.

Two stakeholders (Pinnacle West Capital and Pattern Transmission) suggest capping the costs that the ISO can recover in connection with running the competitive solicitation or setting a fixed fee, in order to reduce uncertainty.

LS Power suggests a tiered application fee with a clear 45-day refund mechanism: \$25,000 for non-transmission line proposals and transmission lines less than 10 miles in length; and, \$75,000 for solicitations involving lines greater than 10 miles.

Pattern Transmission argues that \$100,000 is an inappropriate amount because project sponsors can't control the process and will be reliant on the ISO to develop an efficient process, and that ratepayers should bear some of the costs because they benefit from competition. Pattern Transmission suggests an annual \$20,000 qualification fee reduced to \$10,000 in future years for any qualification process that occurs two or more years after the previous qualification, and a fixed competitive solicitation fee of \$50,000.

PG&E argues that the ISO has not shown that a \$100,000 fee is just and reasonable or cost-justified. PG&E also wants the ISO to eliminate the collaboration step in the process, claiming that it results in duplicative qualification cost incurrence. PG&E wants the ISO to report to the ISO Board of Governors 90 days after each competitive solicitation stating the costs incurred for outside consultants and discussing the efficiency and effectiveness of the process.

Exelon states that the proposed application fee disadvantages independent developers because it is a hurdle to market participation. Exelon contends that incumbent PTO's will be permitted to recover the cost of the application fee as a prudent expenditure because FERC will have found the imposition of such a fee and the amount of the fee to be just and reasonable. Exelon also states that incumbent utilities will be able to recover this cost even if they are not selected as the approved project sponsor in the competitive solicitation. Finally, Exelon recommends that if ISO retains the application fee, the costs be shared between ratepayers and project sponsors.

6.3 Applicable precedent

In the September 10 straw proposal, the ISO noted that FERC authorized MISO and SPP to charge deposits and fees related to competitive solicitation processes. In this section the ISO provides further information on the applicable precedent.

6.3.1 *Midcontinent Independent System Operator*

For purposes of evaluating project sponsors and selecting a designated project sponsor in the competitive solicitation, the Midcontinent Independent System Operator (MISO) proposed a fee equal to 1% of the estimated cost of the project not to exceed \$500,000. At the end of the process there would be a true up with interest paid on any deposit amounts to be refunded. FERC approved the application fee in concept, but found that MISO had failed to provide sufficient information justifying the level of the deposit fee. MISO cited generation interconnection deposits of \$250,000 but provided no evidence that the costs required to evaluate a generator interconnection were comparable to those necessary to conduct a competitive solicitation.

FERC found MISO's fee level as proposed could therefore constitute a barrier to entry. FERC required interest to be paid on the refunded amount consistent with FERC's policy. FERC also directed MISO to (1) clarify how it would calculate the cost it will incur to evaluate bid for purposes of refunding a bidder's deposit; and (2) clarify whether or not disqualified applicants must wait until after the selection of a project sponsor before they get their refund, because these factors could lead to uncertainty as to whether a transmission developer should submit a bid. Based on discussions with stakeholders, in its 120-day compliance filing, MISO revised the application fee to \$100,000 with a true up of any shortfall at the end of the process and interest paid on any refunded amounts.

6.3.2 *Tampa Electric Company, et al*

Tampa Electric Co. *et al.* proposed a one-time \$50,000 fee for outside consultants to review a non-incumbent transmission developer's qualifications. This is a one-time event for each transmission developer. Unexpended amounts would be refunded. For transmission developers proposing a CEERTS project (one where the transmission line is subject to the Florida Transmission Line Siting Act, or a sub-station flexible AC transmission system such as series of series compensation or static VAR compensators developed to operate above 200 kV), a separate deposit of \$100,000 for each \$10 million of project cost is required, to be capped at a maximum deposit of \$500,000, which is used to cover both internal cost and out-of-pocket costs incurred by the regional planner to evaluate the project sponsor's project. The costs would be trued up at the end of the process.

FERC approved the one time qualification fee with the requirements that (1) interest be paid on refunded amounts, (2) the filing parties provide a description of which costs the deposit will be

applied to, how they will be calculated, and an accounting of the actual costs to which the deposit is applied.

FERC approved the separate CEERT project study fee in concept but found that the filing parties has failed to provide justification of the level of the fee and the step function aspect of the proposal. FERC, *inter alia*, directed Tampa Electric Co. *et al.* to: (1) clarify why the full deposit is required at the initial stages of the project review process rather than once a project is selected in the regional plan; (2) provide an accounting of to each transmission developer describing the costs the deposit would be applied to, how those costs will be calculated, and an accounting of the actual costs incurred to which the deposit is applied; and, (3) pay interest on refunded amounts.

6.3.3 *Southwest Power Pool (“SPP”)*

Southwest Power Pool (SPP) proposed a separate qualifications application fee to be applied only to non-incumbents. The application fee was equal to the amount of the SPP annual membership fee. SPP proposed to post the amount of the qualifications application fee on its website as part of the application form. The fee is intended to offset SPP’s costs of process such qualification applications.

FERC found the fee might be unduly discriminatory because both incumbents and non-incumbent submit qualifications applications. FERC directed that SPP must either impose the charge on both incumbents and non-incumbents or explain why it is not unduly discriminatory to charge non-incumbents this fee, but not incumbents.

SPP also proposed a separate deposit for both incumbents and non-incumbents participating in the competitive solicitation to compensate SPP for the costs of the solicitation. SPP proposed that the level of the fee would be set at the level of SPP’s estimate of what participation in the competitive solicitation would cost. At the end of the process each participant would receive an invoice for additional payments or receive a refund based on the reconciliation of the deposits collected and the actual costs incurred.

FERC found that Order No. 1000 expressly permit transmission planning regions to require additional procedural protections such as the posting of deposits and agreed with SPP that a deposit would prevent flooding the process with duplicative proposals. However, FERC found that SPP had not provided enough information to justify the proposed fee, had not specified a precise dollar amount or a formula for determining the amount of the fee, and therefore a transmission developer did not have sufficient information to assess whether or not to submit a bid. FERC also imposed all of the information, calculation, accounting, and interest requirements it had imposed on MISO and the Florida parties.

6.4 Draft final proposal

Based on a review of stakeholder feedback and applicable precedent, the ISO presents its draft final proposal in this section.

The ISO proposes to retain the application fee concept as described in the September 10 straw proposal. Each proposal will be required to include an application deposit in the amount of \$75,000. The application fee amount is based on the internal and external expenditures incurred by the ISO for the Imperial Valley Policy Element competitive solicitation (slightly more than a total of \$200,000 for two project sponsors) and an estimate of the final cost of the Gates-Gregg 230 kV Line competitive solicitation (approximately \$250,000 total for five project sponsors). There are still a number of consultant invoices pending and there are ongoing internal and consultant costs yet to be incurred before the final selection is made and report posted. Internal costs will be based on the amount of time each ISO employee charged to the specific competitive solicitation analysis, multiplied by the imputed hourly rate of such employee. Also, the Gates-Gregg 230 kV Line only involves construction of a single line with no substations, so it does not reflect all of the comparative analysis that might occur with a more complex, multi-facility proposal (including substations). On the other hand, the Imperial Valley Policy Element included a collector substation. The deposit will be applied as a pool of funds to pay for costs incurred by the ISO, or third parties at the direction of the ISO, as applicable, to perform and administer the competitive solicitation process and to communicate with applicants with respect to their proposal applications. If the amount required to pay actual costs is determined to be greater than \$75,000 per application, then each project sponsor would be obligated to provide the additional amount up to a cap of \$150,000. Conversely, if the amount required to pay actual costs was determined to be less than \$75,000, then each project sponsor would be refunded the unused balance of its deposit, with interest.⁶ The ISO would make refunds as follows: (1) following the ISO's qualification decisions, to the extent the ISO finds a project sponsor to be unqualified for the project, the ISO will make its refund within 75 days after the qualification decision; and (2) for qualified project sponsors, the ISO will make refunds within 75 days after the approved project sponsor is named.

The ISO's tariff provisions will (1) clarify what costs the deposit will apply to and how it will calculate the costs it will incur for purposes of refunding a bidder's deposit and how the deposit is to be applied, and (2) provide an accounting, to be made public, of the actual costs incurred to which the deposit applied.

The ISO is not proposing a separate fee for qualification and selection, but rather one deposit to cover costs incurred to perform and administer all aspects of the competitive solicitation process. The ISO developed its competitive solicitation process to be as efficient as possible. This enabled

⁶ Interest is based on the interest that the ISO receives on the deposit, not based on the federal rate in 18 CFR 35.19(a).

the ISO to open up all regional transmission solutions to competitive solicitation, including near-term reliability projects (unlike some of the other ISOs that maintained a ROFR for such projects). Adding a two-step invoicing/payment process would add delay to the process. In that regard, after the qualification process the ISO would need to send out separate invoices to all project sponsors who were qualified, allow sufficient time for payment, and then re-start the comparative selection analysis only after all of the project sponsors had remitted their fees. The ISO has attempted to bridge the gap by proposing a separate refund opportunity after the qualification process is completed.

At this time there is no basis to support a tiered application fee based on the mileage of the line. The Imperial Valley Policy Element was significantly shorter than the Gates-Gregg 230 kV Line, but the costs incurred for that solicitation were higher. As indicated above, that also required a comparative analysis regarding a new substation in addition to a transmission line. The ISO will monitor future competitive solicitations to see whether any trends become discernible. To the extent they are, the ISO will be prepared to convene a stakeholder process to reassess the application fee structure.

The ISO disagrees with those stakeholders that argue that the application fee process is unduly discriminatory or that ratepayers should bear the costs of the competitive solicitation because it is ratepayers, not project sponsors that benefit. As discussed above, FERC approved the imposition of application fees on project sponsors in MISO, SPP, and Tampa Electric *et al.* FERC did not find the imposition of such a fee to be unduly discriminatory or require that all or a portion of the costs of the selection process be borne by ratepayers. In particular, MISO and SPP had ROFRs in place prior to Order No. 1000 and did not charge an application fee for incumbent transmission owners to propose new projects. That fact did not prevent FERC from finding that it is just and reasonable to charge an application fee to all project sponsors participating in a competitive solicitation. The suggestion that only ratepayers benefit from the competitive solicitation is not sustainable. Project sponsors benefit because if they are selected they will earn a return on equity for their shareholders. The suggestion that incumbent participating transmission owners that lose a competitive solicitation will automatically be permitted by FERC to recover their application fee in rates is speculative at this time. This would be an issue of first impression at FERC. It is uncertain whether FERC would require such costs to be borne by shareholders (such as other promotional, lobbying, and advertising costs that benefit shareholders) or would allow such costs to be recovered from ratepayers. In any event, this is a FERC issue not an ISO tariff issue because the ISO cannot dictate to FERC what it must, or must not, include in rates.

The ISO does not propose in this draft final proposal to retain the concept of charging approved project sponsors for costs incurred by the ISO to ensure that the project is on-track for completion (e.g., negotiating an agreement with the approved project sponsor, monthly project status review,

change management if applicable, coordination of commissioning activities, and coordination with existing PTOs).

7 Other issues raised by stakeholders

7.1 The requirement to initiate siting and other approvals

SCE and PG&E argue that the 120-day window (sections 24.5.2.2 and 24.5.2.3) to initiate siting approval is unnecessary and unworkable. SCE says it is unrealistic to complete the environmental work within 120 days, and the tariff should be revised to tie the requirement to the operating date of the project. PG&E suggests using the wording in sections 5.5.1 and 5.5.2.1 of the BPM that “the Project Sponsor must provide the ISO with documentation that it has commenced the process to seek siting approval and other necessary approvals.”

There is no basis for these concerns. The tariff literally does not require the filing of a CPCN/CEQA application or any other application within 120 days. Both the tariff and BPM merely require that the approved project sponsor take steps to initiate the process with regulators. As the ISO stated at page 49, footnote 121 of its October 11, 2012 Order No. 1000 compliance filing:

However, to ease the up-front workload burdens on project sponsors, the ISO is clarifying the existing provisions in section 24.5.2.3 which require a project sponsor to seek siting approval within 120 days of the ISO’s qualification determination or selection of an approved project sponsor. Specifically, the ISO is making it clear that project sponsors are not required to submit a complete siting application within 120 days; they are only required to demonstrate that they have taken steps to initiate the siting approval process. This should reduce the upfront burdens on project sponsors.

This conclusion applies to “other approvals” as well. The cited tariff language does not establish separate standards with respect to siting approvals and other approvals. Rather, they are both addressed in a single sentence with the same requirement applying to both. Thus, the clarification cited above applies with equal force both to the requirements for siting approvals and for “other approvals.” The ISO also recognizes that many of the other approvals are intimately tied to the siting process and siting approvals and cannot be pursued until that process is completed. To the extent stakeholders still require additional clarification, the ISO can add these specific clarifications to the BPM when it makes its BPM changes related to Order No. 1000 compliance.

7.2 Requirements for the transferee of an approved project sponsor

SCE argues that transferee of an approved project sponsor must be held to the same standards needed to be an approved project sponsor, namely the criteria specified in tariff section 24.5.2.1. The ISO notes that tariff section 24.6 already provides that an approved project sponsor may not

sell, assign, or otherwise transfer its rights to finance, construct, and own a transmission solution or any element thereof before the project has been energized and turned over to the ISO's operational control unless the ISO approves such transfer. There must be a reasonable basis for the ISO's decision, which would include taking into account the results of the competitive solicitation. In addition, the ISO is willing to add language to this section requiring any transferee to (1) satisfy the provisions of section 24.5.3.1 (formerly 24.5.2.1), and (2) agree to honor any binding cost containment measures or cost caps that remain applicable at the time of the proposed transfer and reflected in the agreement between the ISO and the approved project sponsor.

7.3 Removing the collaboration tariff provisions

PG&E recommends eliminating the collaboration phase of the competitive solicitation process. The ISO declines to eliminate the collaboration step from the competitive solicitation process. Collaboration was a key component of the RTPP tariff amendment and the Order No. 1000 compliance filing. FERC has approved the provision twice and has been very supportive of it. Other stakeholders that participated in the Order No. 1000 compliance effort, such as the Public Interest Groups, strongly supported it. There are no material changed circumstances since the collaboration step was re-approved in FERC's April 18, 2013 Order on the ISO's Order No. 1000 compliance filing that would require us to revisit the issue.

7.4 Efficiency enhancements in the competitive solicitation process

PG&E suggests that the ISO: (1) eliminate certain questions from the project sponsor application as not adding value or being too much detail; (2) create a virtual/digital data room in which each bidder would populate its proposal documents; (3) reference all relevant market notices regarding the competitive solicitation on the ISO's transmission planning process webpage; and, (4) submit an annual report to the ISO Board regarding the efficiency and effectiveness of the ISO's transmission planning process Phase 3 procedures and a disclosure of the costs of outside consultants, total ISO costs incurred for each competitive solicitation, and the amount of time that was needed to complete each project selection process.

The ISO does not believe that these are really tariff issues to be addressed in this stakeholder process, but pertain more to ISO process and administration of the competitive solicitation process. The ISO appreciates the points made by PG&E, and as a part of this proposal, the ISO will commit to ongoing monitoring of its efficiency and effectiveness in performing and administering the solicitation and pursuing possible enhancements that will improve efficiency and reduce costs. As indicated above, the ISO will be providing a full accounting of the costs and time associated with each competitive solicitation. The ISO will make this public. With respect to the amount of time associated with each competitive solicitation, that is readily discernible from the ISO's website. Under the BPM, there are specified dates for the submission of project sponsor applications, and the ISO will post its selection decisions and reports (which will reflect the dates when the process

ends). Also, prior to the start of the competitive solicitation process for any regional transmission solutions identified in the 2013-2014 transmission plan, the ISO intends to hold a meeting with all interested parties to discuss what changes to the project sponsor application might be appropriate. This discussion can also address the other efficiency recommendations made by PG&E. Finally, as indicated above, to the extent the ISO can identify any trends in the competitive solicitation process or durable efficiency gains, the ISO is willing to open a new stakeholder process to address whether any changes in the application fee structure are appropriate.

Attachment B – Memorandum to ISO Governing Board
Competitive Transmission Improvements Tariff Amendment
California Independent System Operator Corporation
January 30, 2014

Memorandum

To: ISO Board of Governors

From: Keith Casey, Vice President, Market and Infrastructure Development

Date: December 11, 2013

Re: **Decision on competitive transmission improvements proposal**

This memorandum requires Board action.

EXECUTIVE SUMMARY

The ISO has made a number of significant tariff revisions in recent years to promote competition in the transmission planning process. As a direct result, the ISO now administers a competitive solicitation process that provides opportunities for project sponsors, both incumbents and non-incumbents alike, to submit proposals to finance, own, and construct facilities subject to competitive solicitation identified in the comprehensive transmission plan. For example, in 2010, the ISO reformed its transmission planning process to explicitly consider public policy requirements as a potential driver for transmission facilities and afford both incumbent and non-incumbent transmission developers nondiscriminatory opportunities to compete to build transmission facilities that the ISO finds are needed for public policy or economic efficiency reasons. More recently in its Order No. 1000 compliance filing, the ISO expanded on these changes and proposed tariff revisions to eliminate the remaining provisions that grant a federal “right of first refusal” for incumbent participating transmission owners to build and own certain transmission facilities whose costs will be allocated regionally. These changes reflect a significant scaling-back of participating transmission owners’ existing incumbent rights and obligations to build all transmission facilities needed for reliability or to maintain the simultaneous feasibility of allocated long-term congestion revenue rights. On April 18, 2013, the Federal Energy Regulatory Commission approved these changes.

Management recommends four additional changes to further promote competition through the transmission planning process. First, Management proposes to permit approved project sponsors to recover all Federal Energy Regulatory Commission-approved, pre-participating transmission owner costs associated with the project it was selected to build. Under the current tariff, this is permitted only for approved project

sponsors who are participating transmission owners.¹ Expanding this mechanism to approved project sponsors beyond participating transmission owners would promote competition in the transmission planning process by further leveling the playing field between incumbents and non-incumbents.

Second, Management proposes to clarify in the tariff that approved project sponsors who are not participating transmission owners, but who have existing transmission assets, are only required to turn over to ISO operational control the project they are selected to build. This change would promote competition in the transmission planning process by maximizing participation in the competitive solicitation process.

Third, Management proposes to impose a project sponsor application deposit as a means to mitigate costs incurred by the ISO to perform and administer the competitive solicitation process. Management expects that this workload is likely to increase with each successive annual transmission planning process cycle because more transmission solutions will be subject to competitive solicitation under the ISO's transmission planning framework.

Finally, Management proposes to clarify current tariff provisions requiring approved project sponsors to take the necessary steps to initiate the process of seeking siting approval from the appropriate authorities within 120 days of being selected as the approved project sponsor.

Management recommends the following motion:

Moved, that the ISO Board of Governors approves the proposal for competitive transmission improvements, as described in the memorandum dated December 11, 2013; and

Moved, that the ISO Board of Governors authorizes Management to make all necessary and appropriate filings with the Federal Energy Regulatory Commission to implement the proposed tariff change.

DISCUSSION AND ANALYSIS

Management recommends changes in the following four areas to further promote competition through the transmission planning process.

¹ Under the ISO tariff, a participating transmission owner is defined as a party to the Transmission Control Agreement whose application to become a participating transmission owner has been accepted and who has placed its transmission assets and entitlements under the ISO's operational control.

Recovery of FERC-authorized transmission revenue requirement prior to becoming a participating transmission owner

In phase 3 of the annual transmission planning process, the ISO administers a competitive solicitation process providing an opportunity for project sponsors to submit proposals to construct, own, operate, and maintain eligible transmission facilities identified in the comprehensive transmission plan. This opportunity is open to participating transmission owners and non-participating transmission owners alike as both may submit proposals, be selected as the approved project sponsor, and have Federal Energy Regulatory Commission-approved costs. However, under current tariff rules, only participating transmission owners may recover FERC-approved costs through the transmission access charge prior to the facility being placed into service. This is because the transmission access charge is currently designed to recover each participating transmission owner's transmission revenue requirement. The ISO tariff contains no such provisions for non-participating transmission owner approved project sponsors. Thus, to address this gap and improve opportunities for non-incumbents, Management proposes to amend the tariff to provide that approved project sponsors be permitted to recover all FERC-approved, pre-participating transmission owner costs associated with the project it was selected to build. Management also proposes to develop a pro forma agreement for approved project sponsors selected through the competitive solicitation process, whether they are a participating transmission owner or a non-participating transmission owner, to (1) acknowledge acceptance of the selection as the approved project sponsor; (2) establish the obligations, roles and responsibilities of the project sponsor, including project-specific milestones; and (3) reflect any binding cost containment measures, including binding cost caps that the approved project sponsor agreed to in its application.

Non-participating transmission owner approved project sponsors with existing transmission assets

If a non-participating transmission owner with existing transmission assets is selected as the approved project sponsor for a particular transmission solution, the sponsor will only be required to turn over to the ISO's operational control the particular solution it was selected to build. This clarification addresses some potential sponsors' concern that the ISO's current tariff provisions lack clarity with respect to the disposition of the existing transmission assets of a non-participating transmission owner approved project sponsor. Management believes this clarification is important to maximize participation in the competitive solicitation process. Many different transmission developers with existing facilities located throughout the U.S., or elsewhere, may seek to compete in the competitive solicitation process. In addition, once a non-participating transmission owner with existing transmission assets is selected as the approved project sponsor for a particular transmission solution and the Transmission Control Agreement is negotiated for it to become a participating transmission owner, the ISO will amend the Transmission Control Agreement to align with this concept.

Project sponsor application deposit

In performing and administering the competitive solicitation process, the ISO carries out several significant tasks including (1) determining whether a project sponsor meets certain qualification criteria; (2) determining whether a project sponsor's proposal meets certain proposal qualification criteria; and, (3) selecting an approved project sponsor. These tasks require an extensive commitment of resources and the need to bring in outside consultants to support internal ISO staff, at significant additional cost. Thus far, the ISO has been funding this significant incremental workload and cost without a corresponding increase in its operations budget which raises the question whether it is appropriate for ISO ratepayers to fund the costs of individual applicants competing to build and own specific transmission solutions. Management believes that project sponsors should bear the costs of the competitive solicitation process, and notes that FERC has approved the imposition of application fees on project sponsors under similar circumstances.² To accomplish this, Management proposes that project sponsors be required to provide an application deposit in the amount of \$75,000 with each proposal submitted. This amount is based on the internal and external expenditures incurred by the ISO for the Imperial Valley Policy Element competitive solicitation (slightly more than a total of \$200,000 for two project sponsors) and an estimate of the final cost of the Gates-Gregg 230 kV Line competitive solicitation (approximately \$250,000 total for five project sponsors). The deposit will be applied as a pool of funds to pay for costs incurred by the ISO, or third parties at the direction of the ISO, as applicable, to perform and administer the competitive solicitation process, and to communicate with applicants with respect to their proposal applications. If the amount required to pay actual costs is determined to be greater than \$75,000 per application, then each project sponsor would be obligated to provide the additional amount up to a cap of \$150,000. Conversely, if the amount required to pay actual costs was determined to be less than \$75,000, then each project sponsor would be refunded the unused balance of its deposit, plus interest. The ISO would make refunds at two different points in the process as follows: (1) within 75 days following the ISO's qualification decisions, to the extent the ISO finds a project sponsor not to be qualified for the project; and, (2) within 75 days after the approved project sponsor is named for project sponsors found to be qualified for the project.

Clarification of tariff requirement to seek siting approval within 120 days

Based on feedback received from stakeholders, Management proposes to clarify current tariff provisions requiring approved project sponsors to take the necessary steps to initiate the process of seeking siting approval from the appropriate authorities within 120 days of being selected as the approved project sponsor. Stakeholders have expressed concern that this provision would require a project sponsor to submit a completed siting application within the 120 day window. Management would like to clarify that the tariff merely requires that the approved project sponsor takes the

² These include application fees assessed by Midcontinent Independent System Operator, Tampa Electric Co. and Southwest Power Pool.

necessary steps to initiate the process with regulators, which can be accomplished without developing and filing a complete application.

POSITIONS OF THE PARTIES

First, all stakeholders either fully support, or support with qualification, Management's proposal to permit approved project sponsors to recover all FERC-approved, pre-participating transmission owner costs associated with the project it was selected to build. The qualifications expressed and Management's responses are summarized in the attached stakeholder matrix.

Second, all stakeholders either fully support, or support with qualification, Management's proposal to clarify in the tariff that approved project sponsors who are not a participating transmission owner, but who have existing transmission assets, are only required to turn over to ISO operational control for the project they are selected to build. The qualifications expressed and Management's responses are summarized in the attached stakeholder matrix.

Third, a majority of stakeholders either fully supports, or supports with qualification, Management's proposal to impose a project sponsor application deposit as a means to mitigate costs incurred by the ISO to perform and administer the competitive solicitation process. The qualifications expressed and Management's responses are summarized in the attached stakeholder matrix. Only one stakeholder, LS Power, expressed opposition but clarifies that its position is driven more by its preference that the qualification and selection processes be separate rather than by the reasonableness of the deposit requirements contained in the proposal. Management does not propose separate fees for qualification and selection, but rather proposes one deposit to cover costs incurred to perform and administer all aspects of the competitive solicitation process. Nevertheless, Management proposes a separate refund opportunity after the qualification process is completed.

Finally, Management intends to address stakeholder concerns, through the tariff development process, to clarify that the tariff merely requires that the approved project sponsor takes the necessary steps to initiate the process with regulators, which can be accomplished without developing and filing a complete application.

CONCLUSION

Management recommends that the Board approve the proposal described in this memorandum. Management's proposal is broadly supported by stakeholders and was refined to address their major comments and concerns. Management believes that its proposal will further promote competition in the transmission planning process by maximizing participation in the competitive solicitation process and improving the ISO's ability to perform and administer the process.

Stakeholder Process: Decision on Competitive Transmission Improvements

Summary of Submitted Comments

Stakeholders submitted two rounds of written comments to the ISO on the following dates:

- Round One: Issue Paper and Straw Proposal posted on September 10, 2013; comments received October 3.
- Round Two: Draft Final Proposal posted on October 17, 2013; comments received November 12.

Stakeholder comments are posted at:

<http://www.caiso.com/informed/Pages/StakeholderProcesses/CompetitiveTransmissionImprovements.aspx>

Other stakeholder efforts include:

- Stakeholder web conferences were held on September 20, 2013 and November 4, 2013.

Parties that submitted written comments on the Draft Final Proposal: California Public Utilities Commission (“CPUC”) staff, Duke American Transmission Company (“DATC”), Imperial Irrigation District (“IID”), Isolux Infrastructure, LS Power, MidAmerican Transmission, Pinnacle West Capital Corporation (“PNW”), Pacific Gas and Electric Company (“PG&E”), Six Cities¹, and Southern California Edison (“SCE”).

Other parties that also participated in the initiative: Abengoa, Bonneville Power Administration, California Department of Water Resources, California Energy Commission, Clean Coalition, Critical Path Transmission, Customized Energy Solutions, Exelon Corporation, Flynn Resource Consultants, Idaho Power, ITC Holdings, NV Energy, Northern Tier Transmission Group, Northeast Utilities, Pasadena Water & Power, Pattern Transmission LP, Power Engineers, Powerex, Powerlink Transmission Company, Sacramento Municipal Utility District, San Diego Gas & Electric, Sempra, Smart Wire Grid, Terra-Gen Power, Trans Bay Cable, Transmission Agency of Northern California, Tres Amigas, Western Area Power Administration, and Xtreme Power.

¹ Cities of Anaheim, Azusa, Banning, Colton, Pasadena and Riverside, California (“Six Cities”).

Management Proposal	Transmission Developers	Participating Transmission Owners	Government Agencies	Management Response
<p>Permit approved project sponsors to recover all FERC-approved, pre-participating transmission owner costs associated with the project it was selected to build.</p>	<ul style="list-style-type: none"> • DATC: Strongly supports. • Isolux Infrastructure: No comment. • LS Power: Supports with qualification. Needs to review exact tariff language. • MidAmerican Transmission: Supports with qualification. Requests clarification that a declaratory order from FERC is an option for the project sponsor, not a requirement. The pro forma approved project sponsor agreement should apply to both PTOs and non-PTOs and should not include provisions more onerous than the obligations and requirements of project sponsors of non-competitive projects. • PNW: Supports with qualification. Would not support a pro forma approved sponsor agreement that would impose more onerous provisions on non-incumbents than those imposed on incumbents. 	<ul style="list-style-type: none"> • PG&E: Supports with qualification. The pro forma approved project sponsor agreement should include a provision establishing an obligation for the sponsor to refund construction work in progress (“CWIP”) revenues collected via the transmission access charge (“TAC”) in the event FERC subsequently denies recovery of 100% abandoned plant costs and the project does not become operational. • SCE: Supports. • Six Cities: Does not categorically object but believes ISO should enhance its approach to evaluating the cost impacts of proposals submitted through the competitive solicitation process. 	<p>CPUC: Fully supports.</p>	<p>Management does not believe it is necessary to state in the tariff that a non-PTO selected as an approved project sponsor must obtain a petition for declaratory order from FERC as a pre-condition. Such a provision is not present in the current tariff for PTOs selected as an approved project sponsor.</p> <p>The pro forma approved project sponsor agreement will apply to all approved project sponsors selected through the competitive solicitation process whether a PTO or non-PTO with no difference in the provisions applied to either. For non-competitive projects, the obligations and requirements imposed on the PTOs are set forth in the transmission control agreement and the tariff; however, there are not similar provisions for competitive projects until they are energized and turned over to ISO operational control. The matters addressed in the agreement will be similar to these obligations and requirements and will be no more or less onerous. Establishing an obligation for the sponsor to refund CWIP revenues is outside the scope of this initiative and is a FERC</p>

Management Proposal	Transmission Developers	Participating Transmission Owners	Government Agencies	Management Response
				<p>matter.</p> <p>Reviewing and enhancing the approach to evaluating the cost impacts of proposals submitted through the competitive solicitation process is outside the scope of this initiative.</p>
<p>An approved project sponsor that is not an existing participating transmission owner should be required to turn over to the ISO's operational control only the facilities that it is selected to build, not all of its transmission facilities.</p>	<ul style="list-style-type: none"> • DATC: Fully supports. • IID: Supports. • Isolux Infrastructure: No comment. • LS Power: Supports with qualification. Needs to review exact tariff language. • MidAmerican Transmission: Fully supports. • PNW: Supports. Requests clarification regarding disposition of existing transmission facilities for non-PTO approved project sponsors with existing facilities who become PTOs and are subsequently selected as the approved project sponsor in a subsequent competitive solicitation. 	<ul style="list-style-type: none"> • PG&E: Supports. • SCE: Supports. • Six Cities: Takes no position. 	<p>CPUC: Fully supports.</p>	<p>Management clarifies that if a non-PTO with existing transmission facilities is selected as an approved project sponsor, completes the project, becomes a PTO, and is later selected as an approved project sponsor in a subsequent competitive solicitation, then it would be required to turn over to ISO operational control only the facilities that it is selected to build.</p>
<p>Project sponsors should be required to provide an application deposit in the amount of \$75,000 with each proposal submitted. If the amount required to</p>	<ul style="list-style-type: none"> • DATC: Supports with qualifications. ISO should commit to periodically reviewing its process to ensure efficiency and cost effective administration of the competitive solicitation process. ISO should commit to 	<ul style="list-style-type: none"> • PG&E: Supports. However, remains concerned with the competitive solicitation feature that allows sponsors to request an opportunity to collaborate. Recommends that the ISO 	<p>CPUC: Supports with qualification. Suggests a \$50,000 deposit with any costs above this level to be funded by the overall transmission customers.</p>	<p>Management commits to continually monitor the efficiency and effectiveness of the competitive solicitation process and pursue enhancements to improve efficiency and cost.</p> <p>Management believes that all</p>

Management Proposal	Transmission Developers	Participating Transmission Owners	Government Agencies	Management Response
<p>pay actual costs is determined to be greater than \$75,000 per application, then each project sponsor would be obligated to provide the additional amount up to a cap of \$150,000.</p>	<p>reviewing the deposit requirements in the event that there is any evidence the deposit is discouraging participation by qualified project sponsors.</p> <ul style="list-style-type: none"> • Isolux Infrastructure: Proposes a \$25,000 non-refundable application fee. ISO should recover the balance of its costs through rates. • LS Power: Expresses opposition but clarifies that its position is driven more by its preference that the qualification and selection processes be separate rather than by the reasonableness of the proposed deposit requirements. • MidAmerican Transmission: Supports with qualification. The deposit should only apply to the evaluation of the competitive project that the depositor is applying for. Requests clarification that no additional costs will be incurred following the selection of the successful sponsor. ISO should apply deposits only to incremental costs for the competitive solicitation process, not internal labor costs. ISO should provide up front estimates to determine the need for additional fees and allow a withdrawal window if these fees are deemed too high. Sponsors which collaborate after the initial 	<p>continually monitor the efficiency and effectiveness of the competitive solicitation process and pursue enhancements to improve efficiency and cost.</p> <ul style="list-style-type: none"> • SCE: Supports and believes that the ISO has adequately justified the proposed amounts. • Six Cities: Generally supports; however, does not support a cap (believes that sponsors should pay for all actual costs). 		<p>project sponsors should bear the costs of the competitive solicitation process rather than ratepayers funding the costs of individual applicants competing to build and own specific transmission solutions. Management's proposed \$75,000 deposit amount is based on actual costs incurred in recent competitive solicitations. Setting the deposit at an amount less than \$75,000 would likely result in ratepayers funding the balance of the actual costs.</p> <p>Management does not propose a separate fee for qualification and selection, but rather one deposit to cover costs incurred to perform and administer all aspects of the competitive solicitation process. Nevertheless, Management proposes a separate refund opportunity after the qualification process is completed.</p> <p>An applicant's deposit will apply to the actual costs incurred relative to the competitive project that the depositor is applying for. No additional costs will be incurred following selection.</p> <p>The entire competitive solicitation process represents incremental costs for the ISO. To not include internal ISO labor costs in the calculation of costs incurred would result in ratepayers funding the balance of actual costs</p>

Management Proposal	Transmission Developers	Participating Transmission Owners	Government Agencies	Management Response
	<p>submittal and subsequently resubmit competitive proposals should be required to continue to fund and be individually responsible for the initial deposit and any additional amounts required.</p> <ul style="list-style-type: none"> • PNW: Supports. Requests clarification whether the true-up and cost cap apply only to selected project sponsors or to both selected and unsuccessful project sponsors. Also recommends elimination of the true-up and cap in order to provide cost certainty to applicants. Requests clarification on the calculation of refunds for sponsors found not qualified. 			<p>incurred.</p> <p>Management proposes to cap an applicant's cost responsibility at \$150,000 in direct response to stakeholder concerns about cost certainty. Moreover, the proposed deposit amount of \$75,000 is based on actual costs in recent competitive solicitations and believes this to be a reasonable estimate of costs going forward. Thus, Management believes that any further need for up front estimates and withdrawal windows has been reasonably mitigated.</p> <p>Sponsors that collaborate after the initial submittal will be required to continue to fund and be individually responsible for the initial deposit and any additional amounts required.</p> <p>Both selected and unsuccessful project sponsors are responsible for actual costs incurred up to the cost cap. Once the ISO finds a project sponsor not to be qualified for the project, no additional costs will be incurred relative to that sponsor and any refund due to that sponsor will be made within 75 days.</p> <p>Management does not recommend eliminating the collaboration step from the competitive solicitation process, as it is a key component of the</p>

Management Proposal	Transmission Developers	Participating Transmission Owners	Government Agencies	Management Response
				<p>revised transmission planning process (“RTPP”) tariff amendment and the Order No. 1000 compliance filing. FERC has approved the provision twice and has been very supportive of it. There are no material changed circumstances since the collaboration step was re-approved in FERC’s April 18, 2013 order on the ISO’s Order No. 1000 compliance filing that would require us to revisit the issue.</p>

Attachment C – Clean

Competitive Transmission Improvements Tariff Amendment

California Independent System Operator Corporation

January 30, 2014

4.3.1.3 CAISO Relationship with Specific Participating TOs

- (a) **Western Path 15.** Western Path 15 shall be required to turn over to CAISO Operational Control only its rights and interests in the Path 15 Upgrade and shall not be required to turn over to CAISO Operational Control Central Valley Project transmission facilities, Pacific AC Intertie transmission facilities, California-Oregon Transmission Project facilities, or any other new transmission facilities or Entitlements not related to the Path 15 Upgrade. For purposes of the CAISO Tariff, Western Path 15 shall be treated with respect to revenue recovery as a Project Sponsor in accordance with Section 24.14.3.1.
- (b) **New Participating TOs After April 1, 2014.** An Approved Project Sponsors that was not a Participating TO as of April 1, 2014, shall be required to turn over to CAISO Operational Control only its rights and interests in the Regional Transmission Facilities it has been selected to finance, construct and own under section 24.5. Such a Participating Transmission Owner will be subject to all obligations of a Participating TO with regard to the facilities placed under CAISO Operational Control.

* * *

24.5.3.4 Single Qualified Project Sponsor and Proposal

If only one (1) Project Sponsor, including joint Project Sponsors resulting from a collaboration submits a proposal to finance, own, and construct a specific transmission solution and the CAISO determines that the Project Sponsor is qualified to own and construct the transmission solution under the criteria set forth in Section 24.5.3.1 and the proposal meets the proposal qualification criteria in Section 24.5.3.2, the Project Sponsor will be the Approved Project Sponsor and must execute an Approved Project Sponsor Agreement with the CAISO within one-hundred twenty (120) calendar days of CAISO approval, unless otherwise agreed by the Parties.

24.5.3.5 Multiple Qualified Project Sponsors and Proposals: Selection of Approved Project Sponsor

If there are multiple qualified Project Sponsors and proposals for the same transmission solution, the CAISO will select one qualified Approved Project Sponsor based on a comparative analysis of the degree to which each Project Sponsor's proposal meets the qualification criteria set forth in Section 24.5.3.1 and the selection factors set forth in 24.5.4. The CAISO will engage an expert consultant to assist with the selection of the Approved Project Sponsor. Thereafter, the Approved Project Sponsor must execute an Approved Project Sponsor Agreement with the CAISO within one-hundred twenty (120) calendar days of CAISO approval, unless otherwise agreed by the Parties.

* * *

24.5.6 Competitive Solicitation Project Proposal Fee

- (a) **In General.** Project Sponsors shall, on a pro rata basis, be responsible for the actual costs that the ISO incurs in qualifying and selecting an Approved Project Sponsor through the competitive solicitation process, including the costs of the expert consultant engaged to assist with the selection process pursuant to Section 24.5.3.5, not to exceed \$150,000 per Project Sponsor application. Such costs include the actual costs of the validation, qualification and selection process for each solution subject to the competitive solicitation process.
- (b) **Deposit.** Each Project Sponsor will pay a deposit of \$75,000 to the CAISO with the submission of each Project Sponsor application project proposal under section 24.5.2. A separate deposit is required for each solution for which a Project Sponsor submits an application.
- (c) **Reconciliation of costs for unqualified Project Sponsors.** Within seventy-five days of the final listing of qualified Project Sponsors for each solution under Section 24.5.3.3, in accordance with the schedule in the Business Practice Manual, the CAISO will determine each Project Sponsor's pro rata share of the costs that the CAISO incurred in determining the qualified Project Sponsors for that solution and will refund to each Project Sponsor that the CAISO did not include in the list of qualified Project Sponsors the difference between its pro rata costs, not to exceed \$150,000 per Project Sponsor, and

the deposit. If a refund is owed the Project Sponsor, the refund shall include interest at the rate that the CAISO earned on the deposit.

- (d) **Reconciliation of Costs for Qualified Project Sponsors.** Within seventy-five days of the CAISO's Notice to qualified Project Sponsors under Section 24.5.5, in accordance with the schedule in the Business Practice Manual, the CAISO will determine each Project Sponsor's pro rata share of the costs that the CAISO incurred in selecting an Approved Project Sponsor from among the qualified Project Sponsors for each solution. The ISO will refund to or charge each qualified Project Sponsor the difference between its pro rata costs, not to exceed \$150,000 per qualified Project Sponsor, and the deposit. If a refund is owed to the Project Sponsor, the refund shall include interest at the rate that the CAISO earned on the deposit.
- (e) **Posting of Incurred Costs.** Following the reconciliation of costs in (d) above, the ISO will post an accounting of the costs incurred in qualifying and selecting the Approved Project Sponsor for each solution and how the deposit reconciliation for each Project Sponsor was calculated.

* * *

24.6 Obligation to Construct Transmission Solutions

The Approved Project Sponsor selected to construct the needed transmission solution or the applicable Participating TO where there is no Approved Project Sponsor, must make a good faith effort to obtain all approvals and property rights under applicable federal, state and local laws that are necessary to complete the construction of the required transmission solution. This obligation includes the Approved Project Sponsor's use of eminent domain authority, where provided by state law. A Participating TO in whose PTO Service Territory or footprint either terminus of the transmission solution is located shall be obligated to construct all regional transmission solutions included in the comprehensive Transmission Plan for which there is no Approved Project Sponsor either from the first competitive solicitation or future competitive solicitations. The Approved Project Sponsor shall not sell, assign or otherwise transfer its rights to finance, construct and own the needed transmission solution, or any element thereof, before the facilities have been energized and, if applicable, turned over to the CAISO's Operational Control unless

the CAISO has not approved such proposed transfer, which approval shall not be unreasonably withheld. The CAISO shall not approve such sale, assignment or transfer unless the purchaser, transferee or assignee (i) meets the qualification requirements set forth in section 24.5.3.1; (ii) agrees to honor any binding cost containment measures or cost caps agreed to by the Approved Project Sponsor in its proposal; (iii) agrees to meet the factors that the ISO relied upon in selecting the proposal of the Approved Project Sponsor; and (iv) assumes the rights and obligations set forth in the Approved Project Sponsor Agreement.

* * *

26.1 Access Charges

- (a) In General. All Market Participants withdrawing Energy from the CAISO Controlled Grid shall pay Access Charges in accordance with this Section 26.1 and Appendix F, Schedule 3, except as provided in Section 4.1 of Appendix I (Station Power Protocol). The Access Charge shall comprise two components, which together shall be designed to recover each Participating TO's or Approved Project Sponsor's Transmission Revenue Requirement. The first component shall be the annual authorized revenue requirement, as approved by FERC, associated with (1) the transmission facilities and Entitlements turned over to the Operational Control of the CAISO by a Participating TO or (2) transmission facilities that are not yet in operation, but approved under Section 24, and assigned to an Approved Project Sponsor. The second component shall be based on the Transmission Revenue Balancing Account (TRBA), which shall be designed to flow through the Participating TO's Transmission Revenue Credits calculated in accordance with Section 5 of the TO Tariff and other credits identified in Sections 6 and 8 of Schedule 3 of Appendix F of the CAISO Tariff.
- The Access Charges shall be paid by any UDC or MSS Operator that is serving Gross Load in a PTO Service Territory, and shall consist, where applicable, of a Regional Access Charge, and a Local Access Charge. The Regional Access Charge and the Local Access Charges shall each comprise two components, which together shall be designed to recover each Participating TO's Regional Transmission Revenue

Requirement and Local Transmission Revenue Requirement, as applicable. The Regional Access Charge and the Local Access Charge for the applicable Participating TO shall be paid by each UDC and MSS Operator based on its Gross Load in the PTO Service Territory.

- (b) Allocation of Transmission Revenue Requirement. Each Participating TO or Approved Project Sponsor shall provide in its TO Tariff or Approved Project Sponsor Tariff filing with FERC an appendix to such filing that states the Participating TO's or Approved Project Sponsor's Regional Transmission Revenue Requirement, its Local Transmission Revenue Requirement (if applicable) and its Gross Load used in developing the rate. The allocation of each Participating TO's Transmission Revenue Requirement between the Regional Transmission Revenue Requirement and the Local Transmission Revenue Requirement shall be undertaken in accordance with Section 11 of Schedule 3 of Appendix F. To the extent necessary, each Participating TO shall make conforming changes to its TO Tariff. A Participating TO that is a UDC or MSS Operator to whom the Local Access Charge of a Non-Load-Serving Participating TO is assessed shall include these billed Local Access Charge amounts in its Local TRBA adjustment for its Local Access Charge, together with all other applicable Local TRBA adjustments. If an Approved Project Sponsor that is a Non-Load-Serving Participating TO has been assigned responsibility to construct and own a Local Transmission Facility because the CAISO concluded, pursuant to Section 24.4.10, that it was not reasonable to divide construction responsibility, the Approved Project Sponsor shall include any pre-operational cost recovery approved by FERC for the Local Facility in its Local Transmission Revenue Requirement. The division of the total revenue requirement associated with the facility between Regional and Local Transmission Revenue Requirements shall consistent with Appendix F, Schedule 3, Sections 11 and 12.
- (c) Assessment of Regional Access Charge. The Regional Access Charge shall be paid to the CAISO by each UDC and MSS Operator based on its Gross Load connected to a Regional Transmission Facility in a PTO Service Territory, either directly or through

intervening distribution facilities, but not through a Local Transmission Facility. The applicable Regional Access Charge shall be assessed by the CAISO as a charge for transmission service under this CAISO Tariff, shall be determined in accordance with Schedule 3 of Appendix F, and shall include all applicable components of the Regional Access Charge set forth therein.

- (d) Assessment of Local Access Charge of Load-Serving Participating TO. The Local Access Charge for each Load-Serving Participating TO is set forth in that Participating TO's TO Tariff. Each Participating TO shall charge for and collect the Local Access Charge, as provided in its TO Tariff, except that the CAISO shall charge for and collect the Local Access Charge of each Non-Load-Serving Participating TO that qualifies under this Section 26.1 and Appendix F, Schedule 3, Section 13, unless otherwise agreed by the affected Participating TOs. If a Participating TO that is also a UDC, MSS Operator, or Scheduling Coordinator serving End-Use Customers is using the Local Transmission Facilities of another Participating TO, such Participating TO shall also be assessed the Local Access Charge of the other Participating TO by such other Participating TO, or by the CAISO pursuant to Section 13 of Schedule 3 of Appendix F. The CAISO shall provide to the applicable Participating TO a statement of the amount of Energy delivered to each UDC and MSS Operator serving Gross Load that utilizes the Local Transmission Facilities of that Participating TO on a monthly basis. If a UDC or MSS Operator that is serving Gross Load in a PTO Service Territory has Existing Rights to use another Participating TO's Local Transmission Facilities, such entity shall not be charged the Local Access Charge for delivery of Energy to Gross Load for deliveries using the Existing Rights.
- (e) Standby Transmission Charges. Each Participating TO shall recover Standby Transmission Revenues directly from the Standby Service Customers of that Participating TO through its applicable retail rates.
- (f) Assessment of Local Access Charge of Non-Load Serving Participating TOs. Where a Non-Load-Serving Participating TO has Local Transmission Facilities, the CAISO shall

assess the Local Access Charge for each project of that Non-Load-Serving Participating TO to the UDC or MSS Operator of each Participating TO that is directly connected to one or more Local Transmission Facilities of that project, unless otherwise agreed by the affected Participating TOs. The Non-Load-Serving Participating TO shall calculate separately its Local Transmission Revenue Requirement for each individual transmission project that includes one or more Local Transmission Facilities. If the Non-Load-Serving Participating TO's Local Transmission Facilities projects are directly connected to the facilities of the same Participating TO(s), the Local Access Charge shall be calculated for the group of Local Transmission Facilities. A separate Local Access Charge shall apply based on the Local Transmission Revenue Requirement for the relevant project or projects of such Non-Load-Serving Participating TO divided by the Gross Load of all UDCs or MSS Operators of a Participating TO that are directly connected to the relevant Local Transmission Facility or group of facilities.

A Non-Load-Serving Participating TO must include any over- or under-recovery of its annual Local Transmission Revenue Requirement for the relevant project or group of projects in its Local TRBA adjustment for its Local Access Charge for the relevant project or group of projects pursuant to Section 13.1 of Schedule 3 of Appendix F.

* * *

26.1.1 Publicly Owned Electric Utilities Access Charge

Local Publicly Owned Electric Utilities whose transmission facilities are under CAISO Operational Control or who are Approved Project Sponsors shall file with the FERC their proposed Regional Transmission Revenue Requirements, and any proposed changes thereto, under procedures determined by the FERC to be applicable to such filings and shall give notice to the CAISO and to all Scheduling Coordinators of any such filing. A prospective New Participating TO that is a Local Publicly Owned Electric Utility shall submit its first proposed Regional Transmission Revenue Requirement to the FERC and the CAISO at the time the Local Publicly Owned Electric Utility submits its application to become a New Participating TO in accordance with the Transmission Control Agreement. Federal power marketing agencies whose

transmission facilities are under CAISO Operational Control shall develop their Regional Transmission Revenue Requirement pursuant to applicable federal laws and regulations.

The procedures for public participation in a federal power marketing agency's ratemaking process are posted on the federal power marketing agency's website. Each federal power marketing agency shall also post on its website the Federal Register notices and FERC orders for rate making processes that impact the federal power marketing agency's Regional Transmission Revenue Requirement. At the time the federal power marketing agency submits its application to become a New Participating TO in accordance with the Transmission Control Agreement, it shall submit its first proposed Regional Transmission Revenue Requirement to the FERC and the CAISO.

* * *

26.1.3 Disbursement Of RAC Revenues

The CAISO shall collect and pay, on a monthly basis, to Participating TOs and Approved Project Sponsors all Regional Access Charge revenues at the same time as other CAISO charges and payments are settled. Regional Access Charge revenues received with respect to the Regional Access Charge shall be distributed to Participating TOs and Approved Project Sponsors in accordance with Appendix F, Schedule 3, Section 10.

* * *

26.2 [Not Used]

* * *

26.3 Addition Of New Facilities After CAISO Implementation

The costs of transmission facilities placed in service after the CAISO Operations Date shall be recovered consistent with the cost recovery determinations made pursuant to Appendix F, Schedule 3 and Section 24.

* * *

Appendix A

* * *

- Approved Project Sponsor Agreement

An agreement between an Approved Project Sponsor and the CAISO establishing the terms and

conditions under which the Approved Project Sponsor will complete the siting and construction of the transmission facilities that the Approved Project Sponsor was selected to construct and own under Section 24. Among other terms, the Agreement shall include any binding cost control measures, including cost caps, that the Approved Project Sponsor specified in its proposal.

* * *

- Approved Project Sponsor Tariff

A tariff specifying the rates and charges of an Approved Project Sponsor that is not a Participating TO to recover the costs of transmission facilities that are not yet in operation but have been approved under Section 24 and assigned to the Approved Project Sponsor, and associated terms and conditions.

* * *

- Local Transmission Revenue Requirement (LTRR)

The portion of a Participating TO's TRR associated with and allocable to the Participating TO's Local Transmission Facilities and Converted Rights associated with Local Transmission Facilities that are under the CAISO Operational Control or, in the case of an Approved Project Sponsor that is a Participating Transmission Owner, Transmission Facilities not yet in operation, but approved under Section 24 and assigned to the Approved Project Sponsor, that will be Local Transmission Facilities when placed under the CAISO's Operational Control.

* * *

- Regional Transmission Revenue Requirement (RTRR)

The portion of a Participating TO's or an Approved Project Sponsor's Transmission Revenue Requirement associated with and allocable to: 1) the Participating TO's Regional Transmission Facilities and Converted Rights associated with Regional Transmission Facilities, 2) the CAISO's assigned share of Interregional Transmission Project costs, and 3) Location Constrained Resource Interconnection Facilities that are under the CAISO Operational Control or Transmission Facilities not yet in operation, but approved under Section 24 and assigned to the Approved Project Sponsor, that will be Regional Transmission Facilities or, in the case of an Approved Project Sponsor that is not a Participating Transmission Owner, Local Transmission Facilities when placed under the CAISO's Operational Control.

* * *

- Transmission Revenue Balancing Account (TRBA)

A mechanism to be established by each Participating TO and Approved Project Sponsor that will ensure that all Transmission Revenue Credits and other credits specified in Sections 6, 8, and 13 of Appendix F, Schedule 3, flow through to transmission customers.

* * *

- Transmission Revenue Credit

The proceeds a Participating TO received from the CAISO for Wheeling service, plus (a) the revenues received from any LCRIG with respect to an LCRIF, unless FERC has approved an alternative mechanism to credit such revenues against the Participating TO's TRR, and (b) the shortfall or surplus resulting from any cost differences between Transmission Losses and Ancillary Service requirements associated with Existing Rights and the CAISO's rules and protocols, minus any Local Access Charge amounts paid for the use of the Local Transmission Facilities of a Non-Load-Serving Participating TO pursuant to Section 26.1 and Appendix F, Schedule 3, Section 13.

* * *

- Transmission Revenue Requirement (TRR)

The Transmission Revenue Requirement is the total annual authorized revenue requirements associated with (1) transmission facilities and Entitlements turned over to the Operational Control of the CAISO by a Participating TO or (2) transmission facilities that are not yet in operation, but have been approved under Section 24 and assigned to an Approved Project Sponsor. The costs of any transmission facility turned over to the Operational Control of the CAISO shall be fully included in the Participating TO's Transmission Revenue Requirement. The Transmission Revenue Requirement of a Participating TO includes the costs of transmission facilities and Entitlements and deducts Transmission Revenue Credits and credits for Standby Transmission Revenue and the transmission revenue expected to be actually received by the Participating TO for Existing Rights and Converted Rights.

* * *

Appendix F Rate Schedules

* * *

Schedule 3

Regional Access Charge and Wheeling Access Charge

* * *

5.2 Each Participating TO and Approved Project Sponsor will develop, in accordance with Section 6 of this Schedule 3, a Regional Transmission Revenue Requirement (RTRR_{PTO}) consisting of a Transmission Revenue Requirement for (i) Regional Transmission Facilities; (2) Transmission Facilities that are not yet in operation but have been approved under Section 24 and assigned to the Approved Project Sponsor, that will be Regional Transmission Facilities when placed under the CAISO's Operational Control; and (iii) to the extent the costs have not been recovered, Location Constrained Interconnection Facilities. The RTRR_{PTO} includes the TRBA adjustment described in Section 6.1 of this Schedule 3. If an Approved Project Sponsor that is a Non-Load-Serving Participating Transmission Owner has been assigned responsibility to construct and own a Local Transmission Facility because the CAISO concluded, pursuant to Section 24.4.10, that it was not reasonable to divide construction responsibility, the Approved Project Sponsor shall include any authorized pre-operational cost recovery for the Local Transmission Facility in its Local Transmission Revenue Requirement. The division of the total revenue requirement associated with the facility between Regional and Local Transmission Revenue Requirements shall consistent with Appendix F, Schedule 3, Sections 11 and 12.

* * *

5.4 The Regional Access Charge shall be equal to the sum of the Regional Transmission Revenue Requirements of all Participating TOs and Approved Project Sponsors, divided by the sum of the Gross Loads of all Participating TOs.

6. Regional Transmission Revenue Requirement.

6.1 The Regional Transmission Revenue Requirement of a Participating TO or an Approved Project Sponsor will be determined consistent with CAISO procedures posted on the CAISO Website and shall be the sum of:

- (a) the Participating TO's Regional Transmission Revenue Requirement (including costs related to Existing Contracts associated with transmission by others and deducting transmission revenues actually expected to be received by the Participating TO related to transmission for others in accordance with Existing Contracts and Interregional Transmission Projects, less the sum of the Standby Transmission Revenues) or the Approved Project Sponsors Regional Transmission Revenue Requirement; and
- (b) the annual Regional TRBA adjustment, which shall be based on the principal balance in the Regional TRBA as of September 30 and shall be calculated as a dollar amount based on the projected Transmission Revenue Credits as adjusted for the true up of the prior year's difference between projected and actual credits. A Non-Load-Serving Participating TO shall include any over- or under-recovery of its annual Regional Transmission Revenue Requirement in its Regional TRBA. If the annual Regional TRBA adjustment

involves only a partial year of operations, the Non-Load-Serving Participating TO's over- or under-recovery shall be based on a partial year revenue requirement, calculated by multiplying the Non-Load-Serving Participating TO's Regional Transmission Revenue Requirement by the number of days the Regional Transmission Facilities were under the CAISO's Operational Control divided by the number of days in the year. An Approved Project Sponsor shall include any over- or under-recovery of its annual Regional Transmission Revenue Requirement in its Regional TRBA. If the annual Regional TRBA adjustment involves only a partial year, the Approved Project Sponsor's over- or under-recovery shall be based on a partial year revenue requirement, calculated by multiplying the Approved Project Sponsor's Regional Transmission Revenue Requirement by the number of days the transmission facilities were under construction based on the construction plan required in accordance with Section 24.6.1, as such plan may be updated by the construction plan status report, divided by the number of days in the year.

7. [NOT USED]

8. Updates to Regional Access Charges.

8.1 Regional Access Charges and Regional Wheeling Access Charges shall be adjusted: (1) on January 1 and July 1 of each year when necessary to reflect the addition of any New Participating TO and (2) on the date FERC makes effective a change to the Regional Transmission Revenue Requirements of any Participating TO or Approved Project Sponsor. Using the Regional Transmission Revenue Requirement accepted or authorized by FERC, consistent with Section 9 of this Schedule 3, for each Participating TO and Approved Project Sponsor, the CAISO will recalculate on a monthly basis the Regional Access Charge applicable during such period. Revisions to the Transmission Revenue Balancing Account adjustment shall be made effective annually on January 1 based on the principal balance in the TRBA as of September 30 of the prior year and a forecast of Transmission Revenue Credits for the next year.

8.2 Any refund associated with a Participating TO's or Approved Project Sponsor's Transmission Revenue Requirement that has been accepted by FERC, subject to refund, shall be provided as ordered by FERC. Such refund shall be invoiced in the CAISO Market Invoice.

* * *

9. Approval of Updated Regional Revenue Requirements.

9.1 Participating TOs and Approved Project Sponsors will make the appropriate filings at FERC to establish their Transmission Revenue Requirements for their Local Access Charges and the Regional Access Charge, and to obtain approval of any changes thereto. All such filings with the FERC will include a separate appendix that states the RTRR, LTRR (if applicable) and the appropriate Gross Load data and other information required by the FERC to support the Access Charges. The Participating TO or Approved Project Sponsor will provide a copy of its filing to the CAISO and the other Participating TOs and Approved Project Sponsors in accordance with the notice provisions in the Transmission Control Agreement.

* * *

10. Disbursement of Regional Access Charge Revenues.

10.1 Regional Access Charge revenues shall be calculated for disbursement to each Participating TO and Approved Project Sponsor on a monthly basis as follows:

- (a) the amount determined in accordance with Section 26.1.2 of the CAISO Tariff ("Billed RAC");
- (b)

- (i) for a Participating TO that is a UDC or MSS Operator and has Gross Load in its TO Tariff in accordance with Appendix F, Schedule 3, Section 9, then calculate the amount each UDC or MSS Operator would have paid and the Participating TO would have received by multiplying the Regional Utility-Specific Rates for the Participating TO whose Regional Transmission Facilities served such UDC and MSS Operator times the actual Gross Load of such UDCs and MSS Operators; or
 - (ii) for a Non-Load-Serving Participating TO and Approved Project Sponsors, then calculate the Non-Load-Serving Participating TO's or Approved Project Sponsor's portion of the total Billed RAC in subsection (a) based on the ratio of the Non-Load-Serving Participating TO's and Approved Project Sponsors Regional Transmission Revenue Requirement to the sum of all Participating TOs' and Approved Project Sponsor's Regional Revenue Requirements.
- (c) if the total Billed RAC in subsection (a) received by the CAISO less the total dollar amounts calculated in subsection (b)(i) and subsection (b)(ii) is different from zero, the CAISO shall allocate the positive or negative difference among those Participating TOs that are subject to the calculations in subsection (b)(i) based on the ratio of each Participating TO's Regional Transmission Revenue Requirement to the sum of all of those Participating TOs' Regional Transmission Revenue Requirements that are subject to the calculations in subsection (b)(i). This monthly distribution amount is the "RAC Revenue Adjustment";
- (d) the sum of the RAC revenue share determined in subsection (b) and the RAC Revenue Adjustment in subsection (c) will be the monthly disbursement to the Participating TO.

* * *

11. Determination of Transmission Revenue Requirement Allocation Between Regional and Local Transmission Facilities.

11.1 Each Participating TO shall allocate its Transmission Revenue Requirement between the Regional Transmission Revenue Requirement and Local Transmission Revenue Requirement based on the Procedure for Division of Certain Costs Between the Regional and Local Transmission Access Charges contained in Section 12 of this Schedule.

Attachment D – Marked

Competitive Transmission Improvements Tariff Amendment

California Independent System Operator Corporation

January 30, 2014

4.3.1.3 CAISO Relationship with Specific Participating TOs

(a) Western Path 15. Western Path 15 shall be required to turn over to CAISO Operational Control only its rights and interests in the Path 15 Upgrade and shall not be required to turn over to CAISO Operational Control Central Valley Project transmission facilities, Pacific AC Intertie transmission facilities, California-Oregon Transmission Project facilities, or any other new transmission facilities or Entitlements not related to the Path 15 Upgrade. For purposes of the CAISO Tariff, Western Path 15 shall be treated with respect to revenue recovery as a Project Sponsor in accordance with Section 24.14.3.124.10.

(b) New Participating TOs After April 1, 2014. An Approved Project Sponsors that was not a Participating TO as of April 1, 2014, shall be required to turn over to CAISO Operational Control only its rights and interests in the Regional Transmission Facilities it has been selected to finance, construct and own under section 24.5. Such a Participating Transmission Owner will be subject to all obligations of a Participating TO with regard to the facilities placed under CAISO Operational Control.

* * *

24.5.3.4 Single Qualified Project Sponsor and ~~Proposal~~

If only one (1) Project Sponsor, including joint Project Sponsors resulting from a collaboration submits a proposal to finance, own, and construct a specific transmission solution and the CAISO determines that the Project Sponsor is qualified to own and construct the transmission solution under the criteria set forth in Section 24.5.3.1 and the proposal meets the proposal qualification criteria in Section 24.5.3.2, the Project Sponsor will be the Approved Project Sponsor and must execute an Approved Project Sponsor Agreement with the CAISO initiate the process of seeking siting approval, and any other necessary approvals, from the appropriate authority or authorities within one-hundred twenty (120) calendar days of CAISO approval, unless otherwise agreed by the Parties.

24.5.3.5 Multiple Qualified Project Sponsors and Proposals: Selection of Approved Project Sponsor

If there are multiple qualified Project Sponsors and proposals for the same transmission solution, the CAISO will select one qualified Approved Project Sponsor based on a comparative analysis of the degree to which each Project Sponsor's proposal meets the qualification criteria set forth in Section 24.5.3.1 and the selection factors set forth in 24.5.4. The CAISO will engage an expert consultant to assist with the selection of the Approved Project Sponsor. Thereafter, the Approved Project Sponsor must execute an Approved Project Sponsor Agreement with the CAISO~~initiate the process of seeking siting approval, and any other necessary approvals, from the appropriate authority or authorities~~ within one-hundred twenty (120) calendar days of CAISO approval, unless otherwise agreed by the Parties.

* * *

24.5.6 Competitive Solicitation Project Proposal Fee

- (a) In General. Project Sponsors shall, on a pro rata basis, be responsible for the actual costs that the ISO incurs in qualifying and selecting an Approved Project Sponsor through the competitive solicitation process, including the costs of the expert consultant engaged to assist with the selection process pursuant to Section 24.5.3.5, not to exceed \$150,000 per Project Sponsor application. Such costs include the actual costs of the validation, qualification and selection process for each solution subject to the competitive solicitation process.
- (b) Deposit. Each Project Sponsor will pay a deposit of \$75,000 to the CAISO with the submission of each Project Sponsor application project proposal under section 24.5.2. A separate deposit is required for each solution for which a Project Sponsor submits an application.
- (c) Reconciliation of costs for unqualified Project Sponsors. Within seventy-five days of the final listing of qualified Project Sponsors for each solution under Section 24.5.3.3, in accordance with the schedule in the Business Practice Manual, the CAISO will determine each Project Sponsor's pro rata share of the costs that the CAISO incurred in

determining the qualified Project Sponsors for that solution and will refund to each Project Sponsor that the CAISO did not include in the list of qualified Project Sponsors the difference between its pro rata costs, not to exceed \$150,000 per Project Sponsor, and the deposit. If a refund is owed the Project Sponsor, the refund shall include interest at the rate that the CAISO earned on the deposit.

(d) **Reconciliation of Costs for Qualified Project Sponsors.** Within seventy-five days of the CAISO's Notice to qualified Project Sponsors under Section 24.5.5, in accordance with the schedule in the Business Practice Manual, the CAISO will determine each Project Sponsor's pro rata share of the costs that the CAISO incurred in selecting an Approved Project Sponsor from among the qualified Project Sponsors for each solution. The ISO will refund to or charge each qualified Project Sponsor the difference between its pro rata costs, not to exceed \$150,000 per qualified Project Sponsor, and the deposit. If a refund is owed to the Project Sponsor, the refund shall include interest at the rate that the CAISO earned on the deposit.

(e) **Posting of Incurred Costs.** Following the reconciliation of costs in (d) above, the ISO will post an accounting of the costs incurred in qualifying and selecting the Approved Project Sponsor for each solution and how the deposit reconciliation for each Project Sponsor was calculated.

* * *

24.6 Obligation to Construct Transmission Solutions

The Approved Project Sponsor selected to construct the needed transmission solution or the applicable Participating TO where there is no Approved Project Sponsor, must make a good faith effort to obtain all approvals and property rights under applicable federal, state and local laws that are necessary to complete the construction of the required transmission solution. This obligation includes the Approved Project Sponsor's use of eminent domain authority, where provided by state law. A Participating TO in whose PTO Service Territory or footprint either terminus of the transmission solution is located shall be obligated to construct all regional transmission solutions included in the comprehensive Transmission Plan for which there is no Approved Project Sponsor either from the first competitive solicitation or future

competitive solicitations. The Approved Project Sponsor shall not sell, assign or otherwise transfer its rights to finance, construct and own the needed transmission solution, or any element thereof, before the facilities have been energized and, if applicable, turned over to the CAISO's Operational Control unless the CAISO has not approved such proposed transfer, which approval shall not be unreasonably withheld. The CAISO shall not approve such sale, assignment or transfer unless the purchaser, transferee or assignee (i) meets the qualification requirements set forth in section 24.5.3.1; (ii) agrees to honor any binding cost containment measures or cost caps agreed to by the Approved Project Sponsor in its proposal; (iii) agrees to meet the factors that the ISO relied upon in selecting the proposal of the Approved Project Sponsor; and (iv) assumes the rights and obligations set forth in the Approved Project Sponsor Agreement.

* * *

26.1 Access Charges

(a) In General. All Market Participants withdrawing Energy from the CAISO Controlled Grid shall pay Access Charges in accordance with this Section 26.1 and Appendix F, Schedule 3, except as provided in Section 4.1 of Appendix I (Station Power Protocol). The Access Charge shall comprise two components, which together shall be designed to recover each Participating TO's or Approved Project Sponsor's Transmission Revenue Requirement. The first component shall be the annual authorized revenue requirement, as approved by FERC, -associated with (1) the transmission facilities and Entitlements turned over to the Operational Control of the CAISO by a Participating TO or (2) transmission facilities that are not yet in operation, but approved by FERC under Section 24, and assigned to an Approved Project Sponsor. The second component shall be based on the Transmission Revenue Balancing Account (TRBA), which shall be designed to flow through the Participating TO's Transmission Revenue Credits calculated in accordance with Section 5 of the TO Tariff and other credits identified in Sections 6 and 8 of Schedule 3 of Appendix F of the CAISO Tariff.

The Access Charges shall be paid by any UDC or MSS Operator that is serving Gross Load in a PTO Service Territory, and shall consist, where applicable, of a Regional

Access Charge, and a Local Access Charge. ~~The Regional Access Charges and the Local Access Charges shall each comprise two components, which together shall be designed to recover each Participating TO's Regional Transmission Revenue Requirement and Local Transmission Revenue Requirement, as applicable. The first component shall be based on the annual authorized Transmission Revenue Requirement associated with the Regional Transmission Facilities or Local Transmission Facilities, as applicable, and Entitlements turned over to the CAISO Operational Control by a Regional Access Charge and the Local Access Charge for the applicable Participating TO. The second component shall be the Transmission Revenue Balancing Account shall be paid by each UDC and MSS Operator based on its Gross Load in the PTO Service Territory.~~

~~(TRBA), which shall be designed to flow through the Participating TO's Allocation of~~
Transmission Revenue ~~Credits associated with the Regional or Local, as applicable, Transmission Facilities and Entitlements and calculated in accordance with Section 5 of the TO Tariff and other credits identified in Sections 6, 8 and 13 of Schedule 3 of Appendix F of the CAISO Tariff Requirement.~~ Each Participating TO ~~or Approved Project Sponsor~~ shall provide in its TO ~~Tariff or Approved Project Sponsor~~ Tariff filing with FERC an appendix to such filing that states the Participating TO's ~~or Approved Project Sponsor's~~ Regional Transmission Revenue Requirement, its Local Transmission Revenue Requirement (if applicable) and its Gross Load used in developing the rate. The allocation of each Participating TO's Transmission Revenue Requirement between the Regional Transmission Revenue Requirement and the Local Transmission Revenue Requirement shall be undertaken in accordance with Section 11 of Schedule 3 of Appendix F. To the extent necessary, each Participating TO shall make conforming changes to its TO Tariff. ~~A Participating TO that is a UDC or MSS Operator to whom the Local Access Charge of a Non-Load-Serving Participating TO is assessed shall include these billed Local Access Charge amounts in its Local TRBA adjustment for its Local Access Charge, together with all other applicable Local TRBA adjustments. If an~~

Approved Project Sponsor that is a Non-Load-Serving Participating TO has been assigned responsibility to construct and own a Local Transmission Facility because the CAISO concluded, pursuant to Section 24.4.10, that it was not reasonable to divide construction responsibility, the Approved Project Sponsor shall include any pre-operational cost recovery approved by FERC for the Local Facility in its Local Transmission Revenue Requirement, The division of the total revenue requirement associated with the facility between Regional and Local Transmission Revenue Requirements shall consistent with Appendix F, Schedule 3, Sections 11 and 12.

(c) Assessment of Regional Access Charge. The ~~applicable~~ Regional Access Charge shall be paid to the CAISO by each UDC and MSS Operator based on its Gross Load connected to a Regional Transmission Facility in a PTO Service Territory, either directly or through intervening distribution facilities, but not through a Local Transmission Facility. The applicable Regional Access Charge ~~and the Local Access Charge for the applicable Participating TO shall be paid by each UDC and MSS Operator based on its Gross Load in the PTO Service Territory.~~ The applicable Regional Access Charge shall be assessed by the CAISO as a charge for transmission service under this CAISO Tariff, shall be determined in accordance with Schedule 3 of Appendix F, and shall include all applicable components of the Regional Access Charge set forth therein.

(d) Assessment of Local Access Charge of Load-Serving Participating TO. The Local Access Charge for each Load-Serving Participating TO is set forth in that Participating TO's TO Tariff. Each Participating TO shall charge for and collect the Local Access Charge, as provided in its TO Tariff, except that the CAISO shall charge for and collect the Local Access Charge of each Non-Load-Serving Participating TO that qualifies under this Section 26.1 and Appendix F, Schedule 3, Section 13-, unless otherwise agreed by the affected Participating TOs. If a Participating TO that is also a UDC, MSS Operator, or Scheduling Coordinator serving End-Use Customers is using the Local Transmission Facilities of another Participating TO, such Participating TO shall also be assessed the Local Access Charge of the other Participating TO by such other Participating TO, or by

the CAISO pursuant to Section 13 of Schedule 3 of Appendix F. The CAISO shall provide to the applicable Participating TO a statement of the amount of Energy delivered to each UDC and MSS Operator serving Gross Load that utilizes the Local Transmission Facilities of that Participating TO on a monthly basis. If a UDC or MSS Operator that is serving Gross Load in a PTO Service Territory has Existing Rights to use another Participating TO's Local Transmission Facilities, such entity shall not be charged the Local Access Charge for delivery of Energy to Gross Load for deliveries using the Existing Rights.

(e) Standby Transmission Charges. Each Participating TO shall recover Standby Transmission Revenues directly from the Standby Service Customers of that Participating TO through its applicable retail rates.

(f) Assessment of Local Access Charge of Non-Load Serving Participating TOs. Where a Non-Load-Serving Participating TO has Local Transmission Facilities, the CAISO shall assess the Local Access Charge for each project of that Non-Load-Serving Participating TO to the UDC or MSS Operator of each Participating TO that is directly connected to one or more Local Transmission Facilities of that project, unless otherwise agreed by the affected Participating TOs. The Non-Load-Serving Participating TO shall calculate separately its Local Transmission Revenue Requirement for each individual transmission project that includes one or more Local Transmission Facilities. If the Non-Load-Serving Participating TO's Local Transmission Facilities projects are directly connected to the facilities of the same Participating TO(s), the Local Access Charge shall be calculated for the group of Local Transmission Facilities. A separate Local Access Charge shall apply based on the Local Transmission Revenue Requirement for the relevant project or projects of such Non-Load-Serving Participating TO divided by the Gross Load of all UDCs or MSS Operators of a Participating TO that are directly connected to the relevant Local Transmission Facility or group of facilities.

A Non-Load-Serving Participating TO must include any over- or under-recovery of its annual Local Transmission Revenue Requirement for the relevant project or group of

projects in its Local TRBA adjustment for its Local Access Charge for the relevant project or group of projects pursuant to Section 13.1 of Schedule 3 of Appendix F.

~~A Participating TO that is a UDC or MSS Operator to whom the Local Access Charge of a Non-Load-Serving Participating TO is assessed shall include these billed Local Access Charge amounts in its Local TRBA adjustment for its Local Access Charge, together with all other applicable Local TRBA adjustments.~~

* * *

26.1.1 Publicly Owned Electric Utilities Access Charge

Local Publicly Owned Electric Utilities whose transmission facilities are under CAISO Operational Control or who are Approved Project Sponsors shall file with the FERC their proposed Regional Transmission Revenue Requirements, and any proposed changes thereto, under procedures determined by the FERC to be applicable to such filings and shall give notice to the CAISO and to all Scheduling Coordinators of any such filing. A prospective New Participating TO that is a Local Publicly Owned Electric Utility shall submit its first proposed Regional Transmission Revenue Requirement to the FERC and the CAISO at the time the Local Publicly Owned Electric Utility submits its application to become a New Participating TO in accordance with the Transmission Control Agreement. Federal power marketing agencies whose transmission facilities are under CAISO Operational Control shall develop their Regional Transmission Revenue Requirement pursuant to applicable federal laws and regulations.

The procedures for public participation in a federal power marketing agency's ratemaking process are posted on the federal power marketing agency's website. Each federal power marketing agency shall also post on its website the Federal Register notices and FERC orders for rate making processes that impact the federal power marketing agency's Regional Transmission Revenue Requirement. At the time the federal power marketing agency submits its application to become a New Participating TO in accordance with the Transmission Control Agreement, it shall submit its first proposed Regional Transmission Revenue Requirement to the FERC and the CAISO.

* * *

26.1.3 Disbursement Of RAC Revenues

The CAISO shall collect and pay, on a monthly basis, to Participating TOs and Approved Project Sponsors all Regional Access Charge revenues at the same time as other CAISO charges and payments

are settled. Regional Access Charge revenues received with respect to the Regional Access Charge shall be distributed to Participating TOs and Approved Project Sponsors in accordance with Appendix F, Schedule 3, Section 10.

* * *

26.2 Tracking Account[Not Used]

~~If the Access Charge rate methodology implemented pursuant to Section 26.1 results in Access Charge rates for any Participating TO which are different from those in effect prior to the CAISO Operations Date, an amount equal to the difference between the new rates and the prior rates for the remainder of the period, if any, during which a cost recovery plan established pursuant to Section 368 of the California Public Utilities Code (as added by AB 1890) is in effect for such Participating TO shall be recorded in a tracking account. The balance of that tracking account will be recovered from customers and paid to the appropriate Participating TO after termination of the cost recovery plan set forth in Section 368 of California Public Utilities Code (as added by AB 1890). The recovery and payments shall be based on an amortization period not exceeding three years in the case of electric corporations regulated by the CPUC or five years for Local Publicly Owned Electric Utilities.~~

* * *

26.3 Addition Of New Facilities After CAISO Implementation

The costs of transmission facilities placed in service after the CAISO Operations Date shall be recovered consistent with the cost recovery determinations made pursuant to Appendix F, Schedule 3 and Section 24.10.324.

* * *

Appendix A

* * *

- Approved Project Sponsor Agreement

An agreement between an Approved Project Sponsor and the CAISO establishing the terms and conditions under which the Approved Project Sponsor will complete the siting and construction of the transmission facilities that the Approved Project Sponsor was selected to construct and own under

Section 24. Among other terms, the Agreement shall include any binding cost control measures, including cost caps, that the Approved Project Sponsor specified in its proposal.

* * *

- Approved Project Sponsor Tariff

A tariff specifying the rates and charges of an Approved Project Sponsor that is not a Participating TO to recover the costs of transmission facilities that are not yet in operation but have been approved under Section 24 and assigned to the Approved Project Sponsor, and associated terms and conditions.

* * *

- Local Transmission Revenue Requirement (LTRR)

The portion of a Participating TO's TRR associated with and allocable to the Participating TO's Local Transmission Facilities and Converted Rights associated with Local Transmission Facilities that are under the CAISO Operational Control or, in the case of an Approved Project Sponsor that is a Participating Transmission Owner, Transmission Facilities not yet in operation, but approved under Section 24 and assigned to the Approved Project Sponsor, that will be Local Transmission Facilities when placed under the CAISO's Operational Control.

* * *

- Regional Transmission Revenue Requirement (RTRR)

The portion of a Participating TO's or an Approved Project Sponsor's Transmission Revenue Requirement associated with and allocable to: 1) the Participating TO's Regional Transmission Facilities and Converted Rights associated with Regional Transmission Facilities, 2) the CAISO's assigned share of Interregional Transmission Project costs, and 3) Location Constrained Resource Interconnection Facilities that are under the CAISO Operational Control or Transmission Facilities not yet in operation, but approved under Section 24 and assigned to the Approved Project Sponsor, that will be Regional Transmission Facilities or, in the case of an Approved Project Sponsor that is not a Participating Transmission Owner, Local Transmission Facilities when placed under the CAISO's Operational Control.-

* * *

- Transmission Revenue Balancing Account (TRBA)

A mechanism to be established by each Participating TO and Approved Project Sponsor that ~~which~~ will ensure that all Transmission Revenue Credits and other credits specified in Sections 6, 8, and 13 of Appendix F, Schedule 3, flow through to transmission customers.

* * *

- Transmission Revenue Credit

The proceeds a Participating TO received from the CAISO for Wheeling service, plus (a) the revenues received from any LCRIG with respect to an LCRIF, unless FERC has approved an alternative mechanism to credit such revenues against the Participating TO's TRR, and (b) the shortfall or surplus resulting from any cost differences between Transmission Losses and Ancillary Service requirements associated with Existing Rights and the CAISO's rules and protocols, minus any Local Access Charge amounts paid for the use of the Local Transmission Facilities of a Non-Load-Serving Participating TO pursuant to Section 26.1 and Appendix F, Schedule 3, Section 13.

* * *

- Transmission Revenue Requirement (TRR)

The Transmission Revenue Requirement is the total annual authorized revenue requirements associated with (1) transmission facilities and Entitlements turned over to the Operational Control of the CAISO by a Participating TO or (2) transmission facilities that are not yet in operation, but have been approved under Section 24 and assigned to an Approved Project Sponsor. The costs of any transmission facility turned over to the Operational Control of the CAISO shall be fully included in the Participating TO's Transmission Revenue Requirement. The Transmission Revenue Requirement of a Participating TO includes the costs of transmission facilities and Entitlements and deducts Transmission Revenue Credits and credits for Standby Transmission Revenue and the transmission revenue expected to be actually received by the Participating TO for Existing Rights and Converted Rights.

* * *

Appendix F Rate Schedules

* * *

Schedule 3

Regional Access Charge and Wheeling Access Charge

* * *

5.2 Each Participating TO and Approved Project Sponsor will develop, in accordance with Section 6 of this Schedule 3, a Regional Transmission Revenue Requirement (RTRR_{PTO}) consisting of a Transmission Revenue Requirement for (i) Regional Transmission Facilities; (2) Transmission Facilities that are not yet in operation but have been approved under Section 24 and assigned to the Approved Project Sponsor, that will be Regional Transmission Facilities when placed under the CAISO's Operational Control; and (iii); to the extent the costs have not been recovered, Location Constrained Interconnection Facilities. The RTRR_{PTO} includes the TRBA adjustment described in Section 6.1 of this Schedule 3. If an Approved Project Sponsor that is a Non-Load-Serving Participating Transmission Owner has been assigned responsibility to construct and own a Local Transmission Facility because the CAISO concluded, pursuant to Section 24.4.10, that it was not reasonable to divide construction responsibility, the Approved Project Sponsor shall include any authorized pre-operational cost recovery for the Local Transmission Facility in its Local Transmission Revenue Requirement. The division of the total revenue requirement associated with the facility between Regional and Local Transmission Revenue Requirements shall consistent with Appendix F, Schedule 3, Sections 11 and 12.

* * *

5.4 The Regional Access Charge shall be equal to the sum of the Regional Transmission Revenue Requirements of all Participating TOs and Approved Project Sponsors, divided by the sum of the Gross Loads of all Participating TOs.

6. Regional Transmission Revenue Requirement.

6.1 The Regional Transmission Revenue Requirement of a Participating TO or an Approved Project Sponsor will be determined consistent with CAISO procedures posted on the CAISO Website and shall be the sum of:

- (a) the Participating TO's Regional Transmission Revenue Requirement (including costs related to Existing Contracts associated with transmission by others and deducting transmission revenues actually expected to be received by the Participating TO related to transmission for others in accordance with Existing Contracts and Interregional Transmission Projects, less the sum of the Standby Transmission Revenues) or the Approved Project Sponsors Regional Transmission Revenue Requirement; and
- (b) the annual Regional TRBA adjustment, which shall be based on the principal balance in the Regional TRBA as of September 30 and shall be calculated as a dollar amount based on the projected Transmission Revenue Credits as adjusted for the true up of the prior year's difference between projected and actual credits. A Non-Load-Serving Participating TO shall include any over- or under-recovery of its annual Regional Transmission Revenue Requirement in its Regional TRBA. If the annual Regional TRBA adjustment involves only a partial year of operations, the Non-Load-Serving Participating TO's over- or under-recovery shall be based on a partial year revenue requirement, calculated by multiplying the Non-Load-Serving Participating TO's Regional Transmission Revenue Requirement by the number of days the Regional Transmission Facilities were under the CAISO's Operational Control divided by the number of days in the year. An Approved Project Sponsor shall include any over- or under-recovery of its annual Regional Transmission Revenue Requirement in its Regional TRBA. If the annual Regional TRBA adjustment involves only a partial year, the Approved Project Sponsor's over- or under-recovery shall be based on a partial year revenue requirement, calculated by multiplying the Approved Project Sponsor's Regional Transmission Revenue Requirement by the number of days the transmission facilities were under construction based on the construction plan required in accordance with Section 24.6.1, as such plan may be updated by the construction plan status report, divided by the number of days in the year.

7. [NOT USED]

8. Updates to Regional Access Charges.

8.1 Regional Access Charges and Regional Wheeling Access Charges shall be adjusted: (1) on January 1 and July 1 of each year when necessary to reflect the addition of any New Participating TO and (2) on the date FERC makes effective a change to the Regional Transmission Revenue Requirements of any Participating TO or Approved Project Sponsor. Using the Regional Transmission Revenue Requirement accepted or authorized by FERC, consistent with Section 9 of this Schedule 3, for each Participating TO and Approved Project Sponsor, the CAISO will recalculate on a monthly basis the Regional Access Charge applicable during such period. Revisions to the Transmission Revenue Balancing Account adjustment shall be made effective annually on January 1 based on the principal balance in the TRBA as of September 30 of the prior year and a forecast of Transmission Revenue Credits for the next year.

8.2 Any refund associated with a Participating TO's or Approved Project Sponsor's Transmission Revenue Requirement that has been accepted by FERC, subject to refund, shall be provided as ordered by FERC. Such refund shall be invoiced in the CAISO Market Invoice.

9. Approval of Updated Regional Revenue Requirements.

9.1 Participating TOs and Approved Project Sponsors will make the appropriate filings at FERC to establish their Transmission Revenue Requirements for their Local Access Charges and the ~~applicable~~ Regional Access Charges, and to obtain approval of any changes thereto. All such filings with the FERC will include a separate appendix that states the RTRR, LTRR (if applicable) and the appropriate Gross Load data and other information required by the FERC to support the Access Charges. The Participating TO or Approved Project Sponsor will provide a copy of its filing to the CAISO and the other Participating TOs and Approved Project Sponsors in accordance with the notice provisions in the Transmission Control Agreement.

* * *

10. Disbursement of Regional Access Charge Revenues.

10.1 Regional Access Charge revenues shall be calculated for disbursement to each Participating TO and Approved Project Sponsor on a monthly basis as follows:

- (a) the amount determined in accordance with Section 26.1.2 of the CAISO Tariff ("Billed RAC");
- (b)
 - (i) for a Participating TO that is a UDC or MSS Operator and has Gross Load in its TO Tariff in accordance with Appendix F, Schedule 3, Section 9, then calculate the amount each UDC or MSS Operator would have paid and the Participating TO would have received by multiplying the Regional Utility-Specific Rates for the Participating TO whose Regional Transmission Facilities served such UDC and MSS Operator times the actual Gross Load of such UDCs and MSS Operators; or
 - (ii) for a Non-Load-Serving Participating TO and Approved Project Sponsors, then calculate the Non-Load-Serving Participating TO's or Approved Project Sponsor's portion of the total Billed RAC in subsection (a) based on the ratio of the Non-Load-Serving Participating TO's and Approved Project Sponsors Regional Transmission Revenue Requirement to the sum of all Participating TOs' and Approved Project Sponsor's Regional Revenue Requirements.
- (c) if the total Billed RAC in subsection (a) received by the CAISO less the total dollar amounts calculated in in subsection (b)(i) and subsection (b)(ii) is different from zero, the CAISO shall allocate the positive or negative difference among those Participating TOs that are subject to the calculations in subsection (b)(i) based on the ratio of each Participating TO's Regional Transmission Revenue Requirement to the sum of all of those Participating TOs' Regional Transmission Revenue Requirements that are subject to the calculations in subsection (b)(i). This monthly distribution amount is the "RAC Revenue Adjustment";
- (d) the sum of the RAC revenue share determined in subsection (b) and the RAC Revenue Adjustment in subsection (c) will be the monthly disbursement to the Participating TO.

* * *

11. Determination of Transmission Revenue Requirement Allocation Between **Regional Regional and Local Transmission Facilities.**

11.1 Each Participating TO shall allocate its Transmission Revenue Requirement between the Regional Transmission Revenue Requirement and Local Transmission Revenue Requirement

| based on the Procedure for Division of Certain Costs Between the ~~Regional High~~ and Local Transmission Access Charges contained in Section 12 of this Schedule.