California Independent
System Operator Corporation

October 11, 2012

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. ER13--____
Order No. 1000 Compliance Filing

Dear Secretary Bose:

The California Independent System Operator Corporation ("ISO") hereby submits this filing to demonstrate the ISO's compliance with the regional planning requirements of Order No. 1000.[1] As explained below, both the ISO's existing transmission planning procedures, which the ISO substantially reformed in the past two years, and the ISO's current cost allocation methodology largely comply with the Order. In this filing, the ISO identifies a number of additional targeted enhancements to the ISO tariff necessary to address specific directives in Order No. 1000 and to increase transparency.

The ISO requests an effective date of October 1, 2013 for the proposed compliance tariff revisions. This effective date will enable the ISO to apply such tariff provisions, and any modifications thereto, to Phase 3 of the ISO's 2013-2014 transmission planning cycle. Nevertheless, as discussed below, to the extent the Commission can issue an order by February 1, 2013 that does not materially change the ISO's Order No. 1000 compliance proposal, the ISO would be able to apply the proposed Phase 3 tariff revisions to Phase 3 of the 2012-2013 transmission planning process.

[1] *Transmission Planning and Cost Allocation by Transmission Owning and Operating Public Utilities*, Order No. 1000, 136 FERC ¶ 61,051 (2011), order on *reh'g,* Order No. 1000-A, 139 FERC ¶ 61,132 (2012).

I. EXECUTIVE SUMMARY

The ISO supports the Commission's stated goals in Order No. 1000 of promoting competition in the transmission planning process and establishing requirements for transmission planning processes and cost allocation mechanisms to ensure that the rates, terms, and conditions of service provided by public utility transmission providers are just and reasonable and not unduly discriminatory or preferential.

The ISO submits that its existing transmission planning and cost allocation tariff provisions largely comply with the requirements of Order No. 1000. Less than two years ago, the ISO substantially reformed its transmission planning process to implement the types of improvements mandated by Order No. 1000. In particular, the ISO's reformed planning process explicitly considers public policy requirements as a potential driver for transmission facilities and affords both incumbent transmission owners and nonincumbent transmission developers nondiscriminatory opportunities to compete to build transmission facilities that the ISO finds are needed for public policy or economic efficiency reasons. The ISO understands that it is the only Commission-regulated public utility transmission provider that uses a competitive solicitation to select project sponsors and selects among competing project sponsors with the assistance of an expert consultant. Further, the ISO tariff allocates the cost of high voltage transmission upgrades included in the transmission plan, which benefit the entire ISO region, to customers throughout the region; whereas, the costs of low voltage facilities, which provide primarily local benefits, are allocated to the participating transmission owner that builds them and then recovers the costs through its transmission owner tariff from its customers that use them.

In approving the ISO's current planning process, the Commission noted that the reformed process is innovative, improves transparency and openness, expands stakeholder, regional, and sub-regional collaboration, fully complies with the transmission planning requirements of Order No. 890, increases competitive opportunities for independent transmission developers, and provides additional opportunities for consideration of demand resources, generation, and other non-transmission resources as alternatives to transmission solutions. Indeed, the Commission cited the ISO's competitive solicitation procedures as an example of an approach to achieve the objectives of Order No. 1000.

In its Order No. 1000 compliance filing, the ISO expands on these recent changes and proposes tariff revisions that will further promote competition in the transmission planning process, add greater clarity to the planning process, facilitate stakeholder identification and consideration of state and federal policies, increase transparency into the ISO's decision-

making process, and ensure full compliance with the directives in Order No. 1000.

The ISO's Order No. 1000 compliance proposal was developed through an extensive stakeholder process, beginning with the publication of an issue paper in February, followed by numerous meetings and conference calls, additional straw proposals, and the publication of three drafts of compliance tariff changes. Many elements of the compliance changes enjoyed wide support. For example, no stakeholder opposed the elements of the compliance filing that distinguish local and regional transmission facilities based on a long-standing voltage-based distinction used in the region for both rate and operational purposes.

In this filing, the ISO proposes 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 -- including transmission facilities of 200 kV and above and lower voltage transmission facilities that extend beyond the retail service territory or footprint of an incumbent transmission owner, *i.e.,* regional transmission facilities. The ISO also proposes to eliminate tariff provisions that provide a federal right of first refusal for transmission facilities on a participating transmission owner's own rights-of-way. To be clear, the ISO is not seeking any new type of right of first refusal for regional transmission facilities and is retaining only the right of participating transmission owners to build upgrades to existing regional transmission facilities, which is expressly authorized in Order No. 1000.

The ISO also proposes to add tariff provisions clarifying that participating transmission owners have a right of first refusal to build and own local transmission facilities – which are facilities under 200kV that are located entirely within the existing retail service territory or footprint of the transmission owner. This reflects 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 feasibility of long-term congestion revenue rights ("CRRs"). This is consistent with Order No. 1000's guidance that an incumbent transmission owner is permitted to build facilities located entirely within their retail service territory where the costs of such facilities are allocated solely to such transmission owner or to a single pricing zone. The ISO's distinct treatment of local and regional transmission facilities follows the directive in Order No. 1000 that construction responsibility should follow cost allocation. The ISO's approach also ensures that new entrants into the ISO's Balancing authority Area are not unduly hampered by rules that severely limit or eliminate a transmission owner's right to build local

transmission facilities needed to serve customers within its service territory.

The ISO is retaining its existing cost allocation scheme for purposes of Order No. 1000 compliance with minor terminology changes to conform to the Order No. 1000 paradigm. Specifically, under the existing cost allocation approach, the ISO (1) will allocate the costs of all transmission facilities under 200 kV to the participating transmission owner who builds them and who recovers their costs through its transmission owner tariff from its low voltage transmission customers, and (2) will allocate the costs of all transmission facilities at voltage levels of 200 kV or higher to all ISO customers through the ISO regional access charge. No stakeholder objected to the ISO's continued use of its existing cost allocation methodology. Indeed a broad range of stakeholders adamantly supported its retention and objected to any changes. Retention of this existing cost allocation reasonably reflects (1) the historical development of the ISO-controlled grid, (2) the functional characteristics, operations, flows and configuration of the facilities that comprise the grid, and (3) the fact that high voltage facilities provide broad, regional benefits in California, while low voltage facilities provide only local benefits.

In compliance with Order No. 1000, the ISO proposes to more explicitly specify the opportunity for stakeholders to propose public policy requirements and directives that should be considered in the transmission planning process and to obligate the ISO to provide a public explanation of its selection of specific public policies for consideration in the planning process and its rejection of others. Based on stakeholder comments, the ISO also has provided in the tariff that a public policy requirement selected for consideration by the ISO in a transmission planning cycle will be carried over into subsequent cycles unless the ISO determines that such policy requirement has been eliminated or is otherwise not relevant for transmission planning purposes in a future planning cycle. Stakeholders suggested that this provision would reduce their burden, make the planning process more efficient, and particularly benefit stakeholders that may not be able to participate in the planning process on a regular basis.

In response to stakeholder feedback, the ISO also proposes a number of tariff enhancements that will add clarity to and increase the transparency of the ISO's competitive solicitation process and its selection of project sponsors, including changes to facilitate collaboration among project sponsors and to provide greater detail regarding the standards the ISO will apply to evaluate competing project sponsors. These changes include, but are not limited to the following:

- Additional language setting forth the ISO's ultimate objective in its comparative analysis of the degree to which competing project

sponsors meet the qualification and selection criteria. This defines the standard the ISO will apply in its comparative analysis for purposes of selecting a project sponsor;

- A new tariff requirement that the ISO identify, within 30 days after the posting of the revised draft comprehensive transmission plan, the factors and considerations, in addition to any binding cost containment commitments, that the ISO believes to be key drivers for selecting an approved project sponsor for each transmission facility that is open to competitive solicitation; and

- A new tariff requirement that the ISO post, within ten days after the ISO's project sponsor selection decision, a report detailing the results of the ISO's comparative analysis, the reasons for the ISO's decisions, and how the ISO considered each of the selection and qualification criteria, including the cost containment criterion.

A couple of stakeholders suggested that the ISO should include in its tariff a pre-established weighting of the criteria used in the ISO's project sponsor selection process or use of a mathematical formula to select project sponsors. The ISO declined to adopt this approach. It is not required by Order No. 1000 and is contrary to Order No. 1000's express emphasis on flexibility. Among other things, such a "slide rule" approach ignores the fact that the relative importance of the criteria will vary for each individual transmission project depending on a multitude of factors. The ISO's proposed tariff changes identified above address the concerns raised by these stakeholders, while giving the ISO the flexibility it needs to select the proper project sponsor based on the specific circumstances that apply to the particular transmission facility.

Another stakeholder suggested that cost should be the primary driver in project selection decisions. The ISO recognizes the importance of cost containment; reliance on cost to the detriment of other factors, however, could cause the ISO to disregard or devalue other important considerations, *e.g.,* reliability concerns, the ability to build a project on schedule, risk of project abandonment, and the quality of materials or dependability of technologies to be used for a particular transmission facility. A cost-centric selection process could lead to inappropriate project sponsor selection decisions.

Some stakeholders argued that Order No. 1000 does not require the elimination of the existing right of first refusal in the ISO tariff for transmission owners to build facilities on their existing rights-of-way. The ISO, however, interprets the order as requiring that the tariff not include such a right of first refusal.

Although the ISO's eliminates a right of first refusal based on rights-of-way, the existing tariff includes possession of rights-of-way as a consideration in evaluating competing project sponsors. One stakeholder proposed its elimination. Consistent with the express conclusions in Order Nos. 1000 and 1000-A, the ISO believes that a sponsor's possession of rights-of-way that would contribute to a proposed project (and the experience of a sponsor in obtaining such rights-of-way) are material factors that should be considered in selecting a project sponsor. Possession of existing rights-of-way could reduce the overall cost of a project or reduce the number of regulatory hurdles that a project sponsor must overcome in the siting and permitting process.

The ISO also proposes the following significant tariff changes:

- Tariff language clarifying that the ISO will select the transmission or non-transmission solutions to meet reliability needs and enhance the simultaneous feasibility of long-term congestion revenue rights that are the most prudent and cost-effective. This standard provides more clearly conforms with the Commission's precedent on comparability and reflects a stated goal of Order No. 1000;

- Tariff provisions establishing new project sponsor reporting requirements and providing for the ISO to proactively monitor the status of approved facilities and to take the necessary actions if projects are not on schedule; and

- A requirement that, before the ISO re assigns construction responsibility for an economically driven and public policy-driven transmission project that is abandoned by a previously approved project sponsor, the ISO must conduct an additional competitive solicitation. This mitigates the concerns of load serving participating transmission owners that a backstop obligation presents significant potential adverse economic and other impacts while ensuring that all needed economic and public policy projects are built.

Because Order No. 1000 only establishes general requirements and principles without dictating specific tariff changes or a "one size fits all" approach to compliance, it provides the ISO, like any other public utility, significant discretion is crafting its compliance proposal. The ISO respectfully submits that this filing fully complies with Order No. 1000. To the extent any elements of the ISO's transmission planning process and cost allocation mechanisms, as modified by this compliance filing, could be found to vary from specific provisions in Order No. 1000, the ISO submits that the terms of its tariff with the modifications proposed in this

filing are consistent with or superior to requirements of Order No. 1000 and that the Commission should accept them as an appropriate regional variation in implementing Order No. 1000. The ISO also urges the Commission to avoid an overly technical approach to determining compliance with Order No. 1000. If a proposed tariff revision is not strictly required by Order No. 1000, but is part of a package designed to achieve the principles or concepts enunciated in Order No. 1000, or is a corollary to other changes that are required to comply with the Order, the Commission should treat this revision as a compliance proposal and should not require a separate filing under section 205 of the Federal Power Act.

The ISO believes that the Commission's overarching goal should be to implement a framework that is workable in each region and that allows the Commission's objectives of enhancing regional transmission planning to be implemented as expeditiously as practicable. The Commission should therefore rule on the package of proposals in this filing in their entirety. To that end, the ISO stands ready to implement the pro-competitive directives of Order No. 1000 in the current planning cycle's competitive solicitation process if the Commission can issue an order approving the ISO's proposal without material change by February 1, 2013.

II. BACKGROUND

A. Order No. 890 Compliance

On February 16, 2007, the Commission issued Order No. 890,[2] which required that transmission providers implement a coordinated, open, and transparent transmission planning process that satisfies nine planning principles: enunciated in the order: (1) coordination; (2) openness; (3) transparency; (4) information exchange; (5)comparability; (6) dispute resolution; (7) regional participation; (congestion studies; and (9) cost allocation for new projects.

On December 21, 2007, the ISO submitted its filing to comply with the transmission planning requirements of Order No. 890. The Commission approved the filing, subject to a further compliance filing.[3] The Commission found that with the modifications adopted in the Order,

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[2] *Preventing Undue Discrimination and Preference In Transmission Service,* Order No. 890, FERC Stats. & Regs. ¶ 31,241, *order on reh'g,* Order No. 890-A, FERC Stats. & Regs. ¶ 31,261 (2007), *order on reh'g,* Order No. 890-B, 123 FERC ¶ 61,299 (2008), *order on reh'g,* Order No. 890-C, 126 FERC ¶ 61,228 (2009), *order on clarification,* Order No. 890-D, 129 FERC ¶ 61,126 (2009).

[3] *Cal. Indep. Sys. Operator Corp.,* 123 FERC ¶ 61,283 (2008) ("*ISO 890 Compliance Order*").

the ISO's transmission planning process complied with each of the nine planning principles and other planning requirements adopted in Order No. 890.[4]

The ISO's existing transmission planning tariff provisions are those that the Commission approved as fully compliant with the Order No. 890 planning principles and other requirements through the Order No. 890 compliance proceedings and the planning process enhancements approved in connection with the ISO's revised transmission planning process tariff amendment in Docket No. ER10-1401(which is discussed in the next section), which the Commission also approved as fully compliant with Order No. 890.

B. The ISO's Revised Transmission Planning Process

1. The RTPP Tariff Amendment

On June 4, 2010, the ISO proposed revisions to its Order 890 transmission planning process to facilitate long-term planning for the transmission additions and upgrades needed to meet California's ambitious target of a 33 percent renewable portfolio standard by 2020 in the most effective and efficient manner. Following a lengthy stakeholder process, the ISO filed tariff revisions to implement a revised transmission planning process ("RTPP") to develop a single comprehensive transmission plan that satisfies all of the transmission planning requirements of Order No. 890, effectively and efficiently identifies infrastructure needs for the ISO controlled grid, enables the ISO to plan for transmission needs driven by environmental policy goals, and provides opportunities for potential project sponsors to submit proposals in response to identified needs. The following were the key features of the RTPP:

- A process for identifying state and federal policy directives that need to be addressed in the transmission planning process and developing a new category of "policy-driven" transmission additions and upgrades to meet those needs;

- Development of a statewide conceptual transmission plan, through collaboration with other transmission planners and

[4] *Id.* at P 13. The ISO made a filing to comply with the June 19, 2008 Order on October 31, 2008. By Order issued on May 21, 2009, the Commission accepted that compliance filing subject to a few additional modifications and denied rehearing of its prior order. *Cal. Indep. Sys. Operator Corp.,* 127 FERC ¶ 61,172 (2009) ("*ISO 890 Compliance Reh'g Order*").The Commission found that, with a couple of modifications, the ISO's transmission planning process complied with the June 19, 2008 order and the nine planning principles of Order No. 890.

transmission providers in California, to serve as one of many inputs into the ISO's planning process;

- Significant opportunities for stakeholder participation and input to the process, including opportunities to identify interstate transmission options and other alternatives to transmission solutions identified in the conceptual statewide plan;

- Specific avenues for continued consideration of demand response, generation and other types of non-transmission alternative for meeting identified needs;

- Identification of the specific transmission (or non-transmission) solutions needed to maintain reliability, ensure the feasibility of long-term CRRs, improve economic efficiency, and meet public policy requirements and directives;

- A competitive and open solicitation process in which all interested project sponsors, including both independent transmission developers and existing participating transmission owners, have an equal opportunity to propose to construct and own policy-driven transmission facilities, economically driven transmission projects, and projects identified for other needs that provide threshold public policy or economic benefits;

- A transparent mechanism for choosing among competing proposals, including objective qualification and selection criteria, to use when the ISO is the entity that must choose among the proposals (*i.e.,* only when the project sponsors elect to obtain their siting authorizations from different governmental bodies); and

- Retention of an expert consultant to assist the ISO in selecting a project sponsor.

The Commission approved the RTPP, subject to certain modifications and clarifications, [5] and noted, *inter alia,* that the enhanced process was innovative, improved transparency and openness, expanded stakeholder, regional, and sub-regional collaboration, fully complied with Order No. 890's transmission planning requirements, increased competitive opportunities (including opportunities for independent transmission developers to build projects), and provided additional

[5] *Cal. Indep. Sys. Operator Corp.,* 133 FERC ¶ 61,224 (2010) ("*RTPP 1 Order*").

opportunities for consideration of demand resources, generation and other non-transmission resources as alternatives to transmission solutions.[6]

On October 11, 2012, the Commission issued an order on motions for clarification and requests for rehearing of the RTPP Order.[7] In the *RTPP Rehearing Order*, the Commission, among other things, ruled that it was inappropriate to give cost containment more weight in the competitive solicitation process than other no-cost project sponsor selection factors (such as capabilities and financial resources).[8] The Commission stressed that non-cost factors are equally important.[9]

2. Overview of the ISO's Current Transmission Planning Process

The ISO's revised transmission planning is structured in three phases, and the activities under each are set forth chronologically in the tariff. In Phase 1, the ISO develops its unified planning assumptions and study plan with stakeholder input and determines what technical studies it will conduct during the current planning cycle. In developing the unified planning assumptions and study plan, the ISO, working with stakeholders, considers, among other things, the following: (1) the policy requirements and directives of state and federal agencies that need to be considered during the current planning cycle; (2) demand response programs and other non-transmission projects; and (3) planned facilities in interconnected balancing authority areas. In parallel with this activity, the ISO initiates development of a statewide conceptual transmission plan that examines transmission needs for the State of California as a whole. This serves as an input into Phase 2 of the revised process. Stakeholders may submit comments on the statewide conceptual plan, which can include recommendations for alternative transmission elements, including potential interstate transmission lines, and non-transmission solutions.

In Phase 2, the ISO develops the comprehensive transmission plan for the ISO Controlled Grid that specifies all the projects and elements required to meet the infrastructure needs of the grid. The ISO performs the studies specified in its study plan and assesses the various inputs into the process that it receives. These inputs include, among others, (1) the draft statewide conceptual plan and stakeholder comments on that plan, (2) project proposals for reliability projects, projects to maintain the simultaneous feasibility of long-term CRRs, merchant transmission,

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[6] *Id.* at P 2-3; 27-29, 102.

[7] *Cal. Indep. Sys. Operator Corp.* 137 FERC ¶ 61,062 (2011)("*RTPP Reh'g Order*")

[8] *Id.* at P 27.

[9] *Id.*

location constrained resource interconnection facilities and non-transmission alternatives to meet reliability needs that are submitted in a request window, and (3) stakeholder comments received at several points in the process.

The ISO then determines the appropriate transmission (or non-transmission) solutions to meet the following: reliability needs; economic needs; public policy requirements and directives; location-constrained resource interconnection facilities (which are radial generation tie facilities ultimately paid for by generators as they come on-line); maintaining the feasibility of long-term CRRs. The ISO also identifies merchant transmission proposals and additional components or expansions of facilities that will be reflected in large generator interconnection agreements. The ISO tariff and Business Practice Manual ("BPM") for the Transmission Planning Process sets forth the criteria that the ISO assesses in determining the need for transmission (or non-transmission) solutions in each of these areas. With respect to public policy-driven projects, the ISO applies a "least-regrets" analysis to determine the transmission upgrades or additions that "efficiently and effectively meet applicable policies under alternative location and integration assumptions and scenarios, while mitigating the risk of stranded investment."[10]

Phase 2 culminates in the presentation of the comprehensive transmission plan to the ISO board for approval. The comprehensive plan includes both transmission *projects*, which are associated with specific approved project sponsors, and transmission *elements*, for which approved project sponsors will be determined through a competitive process that constitutes Phase 3 of the planning process.

In Phase 3, the ISO conducts an open solicitation in which all interested parties, including independent transmission developers as well as existing participating transmission owners, have an equal opportunity to propose to construct and own transmission elements specified in the comprehensive transmission plan. The ISO reviews the project proposals received in Phase 3 to determine whether they are technically consistent with the specifications in the final Phase 2 plan, whether they satisfy applicable reliability criteria and the ISO's planning standards, and whether the project sponsors are qualified to build and own the facilities. The qualification standards require potential project sponsors to demonstrate that they are physically, technically, and financially capable of (1) completing the project in a timely and competent manner, and (2) operating and maintaining the facilities consistent with good utility practice

[10] The ISO assesses ten criteria in making its determination regarding the transmission that is needed to meet public policy requirements and directives.

and applicable reliability criteria. Where there is only one qualified project sponsor proposing to construct and own a needed transmission element, that sponsor may then proceed to the appropriate siting authority to have the project approved and sited.

Where two or more qualified project sponsors seek to construct and own the same policy-driven or economically driven transmission element, and both meet the qualification requirements just described, the ISO will, upon request, facilitate an opportunity for the project sponsors to collaborate with each other to propose a single joint project. If the project sponsors are unable to collaborate on a single project and all of the qualified project sponsors propose to seek siting authorizations from the same siting authority (*e.g.*, the California Public Utilities Commission ("CPUC")), the ISO will defer to that siting authority to determine which project sponsor should build and own the project. This approach recognizes that ultimately it is state siting authorities (and some federal siting authorities) that determine which projects should be sited and built and who should build them.

In cases where two or more project sponsors submit proposals to build the same transmission element and the sponsors intend to seek siting approval from different siting authorities, the ISO will determine which project sponsor should build and own the project and recover the costs of the project in the ISO's transmission access charge. The approved project sponsor is then required to proceed to the siting authority it had designated to obtain all necessary approvals, permits, and siting authorizations. The ISO makes its determination based a comparative analysis of the degree to each project sponsor meets the non-discriminatory criteria specified in the tariff. The criteria include, among other things, the demonstrated cost containment capabilities of the project sponsor, including any binding agreement by the project sponsor to a cost cap, specific advantages or strengths that a project sponsor has to build and own the project, a comparative assessment of the initial qualification criteria, a project sponsor's financial resources and capabilities, the project sponsor's technical and engineering qualifications, the project sponsor's current and expected capabilities to finance, license and construct the facility and then to own and maintain it, and the project sponsor's prior record regarding the construction and maintenance of any transmission facilities. The ISO retains an expert consultant to assist it in the selection of approved project sponsors. The information that potential project sponsors must submit to allow the ISO to assess how they satisfy each of the tariff-specified selection criteria will be set forth in the ISO's BPM of the Transmission Planning Process.

C. Order No. 1000

In Order No. 1000, the Commission revised the transmission planning and cost allocation requirements established in Order No. 890. Order No. 1000's transmission planning reforms provide that (1) each public utility transmission provider must participate in a regional transmission planning process that produces a regional transmission plan; (2) local and regional transmission planning processes must provide an opportunity to identify and evaluate transmission needs driven by public policy requirements established by state of federal laws or regulations; (3) public utility transmission provider regions must coordinate with neighboring planning regions for new interregional transmission facilities; and (4) each public utility transmission provider must remove from its tariff any federal "right of first refusal" for transmission facilities selected in a regional transmission plan for purposes of regional cost allocation, but incumbent transmission owners have right of first refusal to build upgrades to existing facilities and new local transmission facilities that are located within the boundary of their retail distribution service territory or footprint and the costs of which are not allocated on a region wide basis.

The Commission stated that "this Final Rule permits a region to use or retain an existing mechanism that relies on a competitive solicitation to identify preferred solutions to regional transmission needs, and such an existing process may require little or no modification to comply with the framework adopted in this Final Rule" and identified the competitive solicitation procedures in the ISO's RTPP as an example of a process that provides greater opportunities to independent transmission developers.[11] Order No. 1000 also required that a regional transmission planning process have (1) a regional cost allocation method for the cost of new transmission facilities selected in a regional transmission plan for purposes of costs allocation that satisfies certain principles set forth in the order, and (2) an interregional cost allocation method for the cost of new transmission facilities that are located in two neighboring transmission planning regions and are jointly evaluated by the two regions in the interregional transmission planning coordination process required by the Final Rule. The Commission established a compliance date of October 11, 2012, for the regional requirements in the order and April 11, 2013 for the interregional requirements.

In Order No. 1000-A, the Commission provided some clarification to the requirements of Order No. 1000 and added the additional compliance requirement that each planning region have a clear enrollment process that defines how entities, including non-public utility transmission providers, make the choice to become part of the region.

[11] Order No. 1000 at P 321.

D. The ISO's Order No. 1000 Stakeholder Process

The ISO's Order No. 1000 compliance stakeholder initiative provided multiple opportunities for stakeholder input into the development of the proposal. The ISO began a stakeholder process on Order No. 1000 compliance on February 29, 2012 by publishing an issue paper. [12] Between February and September 2012, the ISO issued two further iterations of the draft proposal, conducted an in-person stakeholder meeting and two stakeholder web conferences to discuss the issue paper and the straw proposals, and provided stakeholders with three opportunities to submit written comments on these documents. Because of timing issues, the ISO essentially merged the policy and tariff development stages of its stakeholder process and issued its first draft of the Order No. 1000 compliance tariff on August 8, 2012. The ISO addressed outstanding compliance and policy-related issues in the draft tariff language and discussed these matters with stakeholders on the ensuing stakeholder web conference held on August 21. The ISO also provided stakeholders with an opportunity to submit written comments on such draft tariff language. Based on input from stakeholders, the ISO thereafter circulated two further drafts of compliance tariff language, provided an opportunity for the submission of written comments on those drafts, and conducted an additional stakeholder conference call to discuss the tariff language.

On September 13, 2012, ISO management presented the Order No, 1000 compliance proposal to the ISO Board of Governors, which subsequently authorized the filing.[13] No stakeholder opposed the ISO's compliance filing at the Board meeting.

III. COMPLIANCE DEMONSTRATION

The ISO believes that its existing tariff provisions satisfy many of the requirements set out in Order No. 1000 for regional planning and cost allocation as the term "regional" is used in Order No. 1000, most notably:

- A framework for developing and approving policy-driven transmission projects that address federal and state policy requirements;

[12] The record for the initiative is posted on the ISO's website at: http://www.caiso.com/informed/Pages/StakeholderProcesses/FERCOrder1000Compliance.aspx. This record includes the ISO's whitepapers, all comments submitted by stakeholders during the stakeholder process, all stakeholder meeting presentations, and the draft tariff language.

[13] The materials presented to the ISO Board of Governors regarding the Order 1000 Compliance stakeholder initiative are provided as Attachment C to this filing.

- A competitive solicitation process that provides an opportunity for non-incumbent transmission developers to propose to build and own transmission elements that the ISO finds to be needed in its transmission planning process;

- An annual conceptual statewide transmission plan ensuring coordination on a broader basis; and

- A regional cost allocation methodology for projects included in the regional transmission plan for purposes of cost allocation.

For this reason, the ISO's existing tariff is largely compliant with Order No. 1000 and requires only minor modifications to align completely with the detailed regional requirements enunciated in Order No. 1000 and to provide greater transparency. The following sections of this paper describe the Order No. 1000 requirements in more detail, explain whether the existing tariff provisions are compliant with each requirement, and for those that are not, provide the ISO's proposal.

In evaluating the ISO's compliance with Order No. 1000, the ISO requests the Commission to consider the fact that, unlike most other regional transmission organizations and independent system operators, and unlike other regional planning arrangements that the ISO anticipates will be made in compliance with Order No. 1000, the ISO's transmission planning process governs *all* transmission upgrades to and expansions of the ISO controlled grid, and the ISO controlled grid includes all network transmission facilities – regional *and* local, high voltage *and* low voltage – that are owned by the participating transmission owners.[14] Thus, although the Commission stated in Order No. 1000-A that it "do[es] not require that the transmission facilities in a public utility transmission provider's local transmission plan be subject to approval at the regional or interregional level, unless that public utility transmission provider seeks to have any of those facilities selected in the regional transmission plan for

[14] Pursuant to the transmission control agreement and the ISO tariff, the ISO does all of the transmission planning with respect to the network facilities of its participating transmission owners, with limited exceptions. The ISO's participating transmission owners have turned over to ISO Operational Control network facilities down to 55 kV. For example, as Pacific Gas & Electric has noted in its September 27, 2012 Compliance Filing in Docket No. RM10-23, it has turned over operational control of all its transmission facilities to the ISO. Unlike some other independent system operators, the ISO does not maintain a minimum voltage level below which it will not accept network facilities. Further, under the Transmission Control Agreement, all network transmission expansions of the ISO's participating transmission owners are subject to the ISO's transmission planning process and ISO operational control. Thus, the ISO essentially does both the local transmission planning and the regional transmission planning, as those terms are defined in Order No. 1000, for its participating transmission owners.

purposes of cost allocation,"[15] utilities that are participating transmission owners in the ISO cannot opt out of inclusion in the plan, regardless of whether the ISO tariff allocates the costs locally. For example, a utility elsewhere can preserve its right of first refusal for a 230 kV facility by planning it locally and paying for it locally. As discussed below, a participating transmission owner does not have that option under the ISO tariff. Thus, even if the Commission were to conclude that the ISO's structure in some manner departs from specific directives in Order No. 1000, the Commission should approve the ISO's compliance because it advances the Commission goals in Order No. 1000 effectively and is consistent with or superior to a structure that meets the Commission's minimum requirements. The Commission in Order No. 888 allowed the public utility to file proposed deviations from the pro forma OATT, along with a proposed demonstration that the deviations were consistent with or superior to the pro forma OATT's terms and conditions.[16] The Commission should apply the same standards here.

The ISO's planning structure provides significant benefits over a planning framework that meets the minimum requirements of Order No. 1000. Order No. 1000 permits a framework whereby individual transmission owners "plan" for their individual transmission systems, and "roll" their local transmission plans into a broader regional plan. Under that paradigm, an independent planning entity does not review the need for each local facility; it merely assesses whether any regional solution would be more efficient or cost-effective than a particular local solution or multiple local solutions.

On the other hand, under the ISO's planning framework, the ISO the ISO considers both the local and the regional needs of load serving entities and determines the appropriate local or regional transmission facilities (or non-transmission solutions) to meet those needs. This enables the ISO to more effectively identify cost-effective regional transmission solutions that can displace local transmission facilities and plan an integrated system that will use all local and regional transmission

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[15] Order No. 1000-A at P 190.

[16] *Promoting Wholesale Competition Through Open Access Non-Discriminatory Transmission Service by Public Utilities' Recovery of Stranded Costs by Public Utilities and Transmitting Utilities,* Order No. 888, FERC Stats. & Regs. ¶ 31,036 at 31,769-70 (1996). The Commission has subsequently provided opportunities to make similar "consistent with or superior to" demonstrations in other rulemakings. As example, in Order No. 890, the Commission directed ISO and RTO transmission providers to submit FPA Section 206 compliance filings that contained the non-rate terms and conditions set forth in Order No. 890 or to demonstrate that their existing tariff provisions were consistent with or superior to the provisions in the Order No. 890 pro forma OATT. Order No. 890 at P 157. *See, also, Standardization of Large Generator Interconnection Procedures and Generator Interconnection Agreement,* Order No. 2003, 104 FERC ¶ 61,103 at PP 826-27 (2003).

facilities in the most efficient manner. The ISO has clear *ex ante* rules for determining the construction responsibility and cost allocation for local and regional transmission facilities. Because *participating* owners only have the right to build local transmission facilities below 200 kV, these rules result in more transmission facilities being subject to competitive solicitation than would be necessary to comply with Order No. 1000. Also, stakeholders need only participate in a single planning process for network facilities, not two planning processes (*i.e.,* the transmission owner's planning process for local transmission facilities and the ISO's planning process for regional transmission facilities). This saves stakeholders money and resources, which is particularly important for governmental agencies and smaller stakeholders.

The ISO's structure has allowed the ISO, in the course of fourteen years, to expand from three to over a dozen participating transmission owners. The result is an ever more comprehensive plan for ensuring reliable service to the ISO's ratepayers and, importantly, enabling the achievement of policy goals, such as California's 33 percent renewable portfolio standard, in a coordinated and cost-effective manner. In light of Order No. 1000, the ISO is proposing certain revisions to its planning and cost allocation provisions in order to build upon this success. Also, as demonstrated throughout this filing, the ISO continues to be compliant with Order No. 890.

A. Regional Transmission Planning Requirements

1. Participating in a Regional Transmission Planning Process

Order No. 1000 requires that each public utility transmission provider participate in a regional transmission planning process that produces a regional transmission plan and that complies with the transmission planning principles of Order No. 890.[17] According to Order No. 1000, all independent system operators and regional transmission organizations already conduct a regional planning analysis and develop the type of regional transmission plan contemplated by the rule. Therefore, the ISO is a regional planning entity and the participating transmission owners in its footprint are participants in an Order No. 890/1000 compliant transmission planning process. The Commission has already found that the ISO's transmission planning process satisfies the Order No. 890 planning principles. Because the ISO's existing structure and governance are consistent with the structure of a regional planning entity, reforms are not needed to satisfy this requirement of Order No. 1000.

[17] Order No. 1000 at PP 68, 146.

2. Regional Enrollment Process Requirement

Order No. 1000-A requires each regional planning entity to have a "clear enrollment process that defines how entities, including non-public utility transmission providers, make the choice to become part of the transmission planning region."[18] In addition, each regional planning entity must "include in its OATT a list of all of the public utility and non-public utility transmission providers that have enrolled as transmission providers in its transmission planning region."[19]

Order No. 1000-A further provides that, "[a] non-public utility transmission provider that makes the choice to become part of a transmission planning region by enrolling in that region would be subject to the regional and interregional cost allocation methods for that region."[20] Appendix B in Order No. 1000-A further clarifies that enrollment will subject enrollees to cost allocation if they are found to be beneficiaries of new transmission facilities selected in the regional transmission plan for purposes of cost allocation.

Under Order No. 1000, participation by non-public utility transmission providers in the development of the planning or cost allocation process does not obligate that provider to join the transmission planning region and be eligible for cost allocation. Rather, the enrollment process would apply only to transmission providers who wish to join in a regional process and thereby participate in the cost allocation mechanisms applicable to regional projects identified in a regional plan.[21]

The ISO tariff and agreements already contain an enrollment process that includes identification of the participants and is compliant with Order No. 1000-A. The ISO's planning region comprises the systems of the participating transmission owners who have turned transmission facilities over to the ISO's operational control by signing the transmission control agreement.[22] The transmission control agreement, which is filed

[18] Order No. 1000-A at P 275.

[19] *Id.*

[20] *Id.*

[21] *Id.* at P 276.

[22] In Order No. 1000 at P 797, the Commission indicated that public utility transmission owners that are part of a Commission-jurisdictional RTO or ISO may "demonstrate compliance through that RTO's or ISO's compliance filing and are not required to make a separate compliance filing." Participating transmission owners have turned over operational control of their network transmission facilities to the ISO. Also, they are subject to the ISO's planning process with respect to all transmission upgrades and additions, including both local and regional transmission facilities. Accordingly, the ISO does not expect its participating transmission owners to make individual filings to comply

with the Commission and posted on the ISO website, identifies all participating transmission owners.[23] The process by which a non-public utility or non-incumbent utility provider can become a participating transmission owner is set forth in the ISO tariff and the transmission control agreement. If an entity that is not a participating transmission owner is assigned in the ISO's competitive solicitation process to construct and own a transmission project, it will become a participating transmission owner upon energizing the project and executing the transmission control agreement. No stakeholder raised objections to this element of the ISO's Order No. 1000 compliance.

The ISO notes that "enrolled" transmission providers are subject to the ISO's cost allocation methods, both as participating transmission owners and, to the extent applicable, as load-serving entities. First, all participating transmission owners, including non-public utility participating transmission owners, recover the costs of their regional facilities through the ISO's high-voltage access charge. Low voltage facility costs are allocated to the applicable participating transmission owner, which in turn attempts to recover these costs from its low voltage customers through its transmission owner tariff. To the extent a participating transmission owner is also a load-serving entity, it pays the high-voltage access charge and any applicable charges for low voltage facilities under a transmission owner tariff. For this reason, the ISO's enrollment process ensures that enrolling transmission providers will be subject to the regional cost allocation methods for the ISO region.[24]

Order No. 1000-A further provides that "[a]ny non-public utility transmission providers that do not make the choice to become part of the transmission planning region will nevertheless be permitted to act as stakeholders in the regional transmission planning process."[25] As the

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with Order No. 1000 because they are permitted to submit comments on the ISO's filing, while reserving their rights with respect to the individual aspects of that filing.

[23] The transmission control agreement is ISO FERC Electric Tariff No. 7. To the extent this does not meet the definition of "tariff" contemplated in Order No. 1000-A, the ISO requests leave to publish the list of enrolled transmission providers (*i.e.,* participating transmission owners) in this manner, which meets the objectives of Order No. 1000-A.

[24] Nothing in Order No. 1000-A suggests that transmission costs cannot be allocated to a transmission customer that has not enrolled in a transmission planning region. Indeed, Order No. 1000-A is clear that transmission providers must continue to plan their systems and serve customers that have not so enrolled. *See* Order No. 1000-A at P 276. Non-public utility transmission providers are able to participate in the regional planning process just like other stakeholders. *Id.* The ISO's planning process is consistent with these principles.

[25] Order No. 1000-A at P 275. Order No. 1000-A also makes it clear that "a regional planning process is not required to plan for the transmission needs of a non-public utility transmission provider that has not made the choice to a transmission planning region. *Id.*

Commission acknowledged in the *RTPP 1 Order* and its orders on the ISO's Order No. 890 compliance filings, stakeholders, including non-public utility transmission providers, have ample opportunities to participate in the ISO's regional planning process. This fact, however, does not obligate them to participate in the regional cost allocation methodology.

3. Consideration of Transmission Needs Driven By Public Policy Requirements

In Order No. 1000, the Commission required that public utility transmission providers amend their tariffs to include procedures for the consideration of transmission needs driven by public policy requirements in the local and regional transmission planning processes.[26] The Commission explained that this meant (1) the identification with stakeholders, of transmission needs driven by public policy requirements and (2) the evaluation of potential solutions, including those proposed by stakeholders to meet those needs.[27] Additionally, to ensure fair and nondiscriminatory review of requests to address policy needs, Order No. 1000 required each public utility transmission provider to post on its website and explanation of which transmission needs driven by public policy requirements it will evaluate for potential solutions in the local and regional transmission planning process, as well as an explanation of why it did not evaluate other suggested needs.[28]

The ISO's Commission-approved RTPP already includes mechanisms for consideration of public policy requirements in the transmission planning process and for approval of transmission facilities needed to meet such policy requirements. It requires only minor revisions to be fully compliant with the Final Rule.[29] The opportunity for stakeholders to identify the public policy requirements for consideration in each cycle of the transmission planning process commences in Phase 1 of the transmission planning process, which occurs in the first quarter of each calendar year. Among the specified inputs to the uniform planning assumptions and the Study Plan, which are the foundation for each annual transmission planning cycle, are policy requirements and directives,

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at P 276. The ISO's framework is consistent with this principle because it does not "plan" the transmission facilities of entities that are not participating transmission owners.

[26] Order No. 1000 at P 203.

[27] *Id.* at P 205.

[28] *Id.* at P 209.

[29] The RTPP proposal was driven in large part to implement processes into the transmission planning process that would allow the ISO to effectively plan transmission infrastructure to support California's ambitious RPS policy goals, and to establish a planning framework that would enable it to address potential future public policy directives and requirements that affect infrastructure needs.

including, as appropriate, programs initiated by state and federal regulatory authorities.[30] The ISO must identify, in the unified planning assumptions and study plan, the state or federal requirements or directives that the ISO will use to identify policy-driven transmission elements.[31] Most importantly, the ISO develops the unified planning assumptions and study plan in an open stakeholder process that provides stakeholders multiple opportunities to provide input regarding the consideration of policy directives and requirements.[32]

Phase 2 of the transmission planning process provides further opportunities for stakeholders to comment on how the ISO should take state or federal policy initiatives into account. The ISO posts a conceptual statewide plan that identifies, among other things, potential transmission upgrades or additional elements needed to meet state and federal policy directives and requirements.[33] Stakeholders have the opportunity to submit comments on the conceptual statewide plan and suggest alternative solutions. The tariff also identifies other opportunities that stakeholders have to provide input regarding public-policy transmission needs during Phase 2.[34]

Based on these public policy needs, the ISO identifies and approves public policy-driven transmission elements, which are distinct from other types of transmission categories in the ISO's transmission planning process.[35]

In response to specific directives in Order No. 1000 and stakeholder input, the ISO is proposing two enhancements to public policy tariff provisions that facilitate stakeholder participation in the identification of relevant public policies and provide increased transparency regarding the ISO's consideration of public policy requirements:[36] (1) a specific

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[30] ISO Tariff § 24.3.1(g).

[31] *Id. §* 24.3.2(i).

[32] *Id. §* 24.3.3.

[33] *Id* § 24.4.4.

[34] *Id.* § 24.4.9.

[35] *Id.* § 24.4.6.6.

[36] During the Order No. 1000 stakeholder process, one stakeholder expressed concerns that the ISO "unduly limits" the scope of public policy requirements to California's renewable portfolio standard, even though there are other policy objectives that affect the State's approach to clean energy. The stakeholder also suggested that the ISO's planning process does not permit stakeholders to participate in the identification of the public policies that should be assessed in the planning process.

The ISO does not agree with these comments' characterization of the ISO's identification of public policy requirements. Although recent planning cycles have considered the renewable portfolio standard mandate as a public policy directive, the

provision in section 24.3.3(a)(iii) of the tariff for a stakeholder opportunity to submit proposals regarding state and federal policy requirements or directives for consideration in the development of the draft uniform planning assumptions and study plan; and (2) a requirement in section 24.3.3(e) that the final posted Uniform Planning Assumptions and Study Plan include an explanation of the public policy requirements and directives that the ISO selected for consideration in the current planning cycle and the reasons that the ISO did not select other suggested needs.[37] The ISO submits that the addition of these two tariff provisions makes the ISO fully compliant with the reforms adopted in Order No. 1000 regarding the consideration of public policy requirements in the transmission planning process.

In addition to the aforementioned changes, which make the ISO compliant with Order No. 1000, the ISO is proposing one additional change to its public policy tariff provisions to incorporate a recommendation by a stakeholder that that the ISO establish a "baseline" of public policies, such that once those policies are identified they would not be subject to reconsideration each planning cycle. The stakeholder stated that under this framework stakeholders "would not have to vie for the identification of the same policy each year." In response, the ISO is proposing a new tariff section 24.3.3(f), pursuant to which "a public policy requirement or directive selected for consideration in a transmission planning cycle will be carried over into subsequent transmission planning cycles unless the ISO determines that such policy requirement or directive has been eliminated, modified, or is otherwise not applicable or relevant for transmission planning purposes in a future transmission planning cycle." The ISO will also provide an explanation of any decision not to consider a previously identified public policy requirement or directive from consideration in the current planning cycle. This proposed revision will benefit stakeholders that might not be able to participate in the ISO's annual transmission planning process on a regular basis and will reduce the burden on stakeholders.

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transmission planning tariff provisions have no such limit. They are flexible enough to support potential future public policy requirements that may arise. Also, as described above, the ISO's transmission planning process provides numerous opportunities for stakeholders to participate in the identification of public policy objectives that the ISO should consider. Indeed, in approving the ISO's RTPP proposal, the Commission found that the process enhanced the ISO's transmission planning by improving transparency and openness and expanding stakeholder participation. Nothing in Order No. 1000 calls that finding into question.

[37] See Order 1000 at PP 207-09.

B. Cost Allocation

1. Order No. 1000 Requirements

Order No. 1000 requires a public utility transmission provider to have in place a method, or set of methods, for allocating the costs of new transmission facilities selected in the regional transmission plan for purposes of cost allocation.[38] If the public utility transmission provider is a member of an independent system operator or regional transmission organization, then the cost allocation method or methods must be set for in the tariff of the independent system operator or the regional transmission organization.[39] Order No. 1000 requires each public utility transmission provider to show on compliance that its cost allocation method or methods for regional cost allocation are just and reasonable and consistent with six cost allocation principles.

The Commission stressed that it was retaining regional flexibility that would allow transmission providers in each region to develop transmission cost allocation methods that best suit the needs of the planning region.[40] The ISO has concluded that its current cost allocation procedures are compliant with the requirements of Order No. 1000.

2. The ISO's Compliance with Order No. 1000's Cost Allocation Requirements

Order No. 1000 distinguishes between facilities included in the transmission plans for the purpose of regional cost allocation, *i.e.,* regional transmission facilities, and local transmission facilities for which the costs are allocated entirely to a single transmission owner.[41] This distinction

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[38] Order No. 1000 at P 558.

[39] *Id.*

[40] *Id.* at P 604.

[41] In Order No. 1000-A, the Commission clarified that a transmission facility located within the retail service territory or footprint of a transmission owner constitutes a local transmission facility so long as the costs of the facility are allocated solely to that transmission owner. Order No. 1000-A at PP 423-24. The Commission further clarified if the cost of a new transmission facility is allocated entirely to an area or pricing zone consisting of one transmission provider that also has one or more smaller transmission dependent utilities (that also own a little transmission of their own) within its borders, that might qualify as a local cost allocation, not a regional cost allocation. In other words, such transmission facility would retain its status as a local transmission facility. *Id.* at P 424. Order No. 1000 also recognizes that the costs of a facility located entirely within an incumbent transmission owner's retail service territory or footprint could be allocated on a regional basis if (1) the transmission owner seeks regional cost allocation for such facility, and (2) the regional planning entity determines that the facility provides regional benefits and, therefore, the costs of the facility appropriately are eligible for regional cost allocation. Order No. 1000 at P 262; Order No. 1000-A at PP 85,179, 190.

between local and regional facilities for the purpose of cost allocation is not new to the ISO, but rather has been embodied in the ISO tariff since well before the issuance of Order No. 1000. The legislation creating the ISO -- California Assembly Bill 1890[42] -- directed the development of a new transmission access charge and established a default methodology (if neither board action nor dispute resolution produced an alternative methodology) consisting of a uniform "regional" transmission access charge and a utility-specific "local" transmission access charge.[43] The default methodology set forth in the statute defined regional transmission as 230 kV and above, and local transmission as below 230 kV.[44]

In preparing the new access charge mandated by the legislation, the ISO worked extensively – for over two years – with a stakeholder Transmission Access Charge Working Group. One of the alternatives considered, which the ISO eventually adopted, was a modification of the legislation's criterion for the regional/local split. During the process, the ISO and the stakeholders modeled and evaluated extensive data across the potential scenarios, including different voltage levels for the regional/local split. The result of these efforts is reflected in the current transmission access charge – a high voltage access charge for 200 kV and above (regional) facilities and a low voltage access charge for below 200 kV (local) facilities**.**

The ISO tariff allocates the cost all high voltage facilities under the ISO's operational control regionally, so by definition they are facilities "included in the transmission plan for the purpose of regional cost allocation" as described by Order No. 1000. Lower voltage lines under the ISO's operational control are equivalent to "local" transmission facilities as discussed in Order No. 1000 in that they are not subject to regional cost allocation. Instead, the existing ISO tariff allocates the costs of low voltage facilities to the applicable participating transmission owner, who recovers the costs of such low voltage facilities from is customers that the use the low voltage facilities. The participating transmission owner establishes the low voltage access charge rate in the transmission owner's tariff on file with the Commission (its "TO Tariff") and collects it, using data provided by the ISO, from the customers in its local service area that actually withdraw energy from those low voltage facilities. Although the ISO's transmission plan includes both high and low voltage transmission facilities, only the high voltage facilities are eligible for regional cost allocation.

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[42] Statutes of 1996, Chapter 854.

[43] *Cal. Pub. Util. Code* §§ 9600.

[44] *Id.* §9600(a)(2)(C).

Based on input from stakeholders, and considering the actual configuration and operation of the ISO-controlled transmission grid, the ISO has concluded that this cost allocation methodology complies with Order No. 1000, except for some changes in terminology to align with the Commission's paradigm. Specifically, the ISO replaces the terms low-voltage transmission facilities and high-voltage transmission facilities with the terms local transmission facilities and regional transmission facilities, respectively, and makes parallel revisions to related terms.[45] A broad range of stakeholders strongly supported retention of the ISO's historic cost allocation framework, and adamantly opposed any changes to it. No stakeholder opposed application of that existing cost allocation methodology to new facilities constructed pursuant to Order No. 1000.

a. The ISO's Existing Methodology Allocates Costs in Rough Proportion to Benefits.

As noted above, the ISO has concluded that it is appropriate to retain the existing cost allocation methodology not only because of the historical development of the ISO-controlled grid, but also because of the functional characteristics, operations, flows, and configuration of the transmission facilities that constitute the ISO controlled grid and, most importantly for the purposes of this filing, the benefits that arise from such facility types.

As described on page 3 of the testimony of Neil Millar, the ISO's Executive Director - Infrastructure Development,[46] the transmission system developed by individual public utilities in California initially relied solely on transmission lines below 200 kV. With the need to transport power over longer distances, utilities began to construct higher voltage transmission lines to operate in parallel with the then-existing low voltage lines. As time passed and load increased significantly, utilities reinforced the transmission system with parallel high voltage facilities, such that the parallel paths at lower voltages were no longer needed to provide backup to the larger, high voltage lines.[47] The low voltage paths became problematic, essentially becoming the limits on path flows.[48] Thus, on the grid that exists today, it is no longer practical to provide a parallel path on

[45] The definitions are discussed in connection with the right of first refusal in section III.C.1, *infra.*

[46] Mr. Millar's testimony is provided as Attachment D to this filing.

[47] Because thermal capabilities are not always at the same ratio as equivalent impedances, continuing to operate parallel low voltage facilities will eventually limit flows on the higher voltage facilities, especially if the higher voltage grid has sufficient redundancy such that it is not dependent on the lower voltage grid for such redundancy. Millar Testimony at 3-4.

[48] *Id.*

lower voltage facilities to support path limits on the higher voltage (*i.e.,* 200 kV or above) paths.[49]

As is apparent in the ISO's annual transmission plans, the higher voltage transmission lines on the ISO-controlled grid perform a "backbone" function that supports regional flows of bulk energy throughout the system, while the lower voltage facilities are primarily local facilities designed (1) to deliver energy that has already been transmitted on the high voltage lines to local customers in load pockets or (2) to deliver energy from smaller-scale, individual generating units that are used to serve local areas.[50] These low voltage facilities do not provide benefits to the entire ISO region and do not support the attachment and delivery of bulk energy for delivery throughout the grid.[51] The functional differences between the ISO's high and low voltage transmission facilities also reflect how the ISO plans and manages the grid.[52]

The ISO's high voltage transmission facilities facilitate energy flows throughout the region (not just locally) and play a key role in enabling market participants throughout the region to engage in trade and permitting consumers throughout the region to reap the benefits of competitive markets and diverse and greater sources of supply. In other words, the high voltage transmission lines benefits consumers and market participants throughout the region.[53] This supports allocating the costs of high voltage facilities on a regional basis.

The distinctions between the high voltage and low voltage transmission facilities that comprise the ISO-controlled grid are well delineated in the ISO's annual transmission plans. For example, as

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[49] *Id.*

[50] As indicated throughout the *2011-2012 Transmission Plan* (and prior transmission plans), the ISO's "backbone" transmission facilities comprise 230 kV and 500 kV transmission facilities, and the local area transmission facilities comprise of lower voltage facilities, namely 55 kV, 60 kV, 69 kV, 115 kV, and 138 kV. *See also,* Millar Testimony at 7.

[51] Millar Testimony at 4-5. For example, the ISO notes that there are no low voltage facilities that interconnect the three investor owned utilities, and the ISO does not anticipate that any such facilities will be needed or approved in the future. Also, only one municipal utility participating transmission owner -- the City of Banning -- is served by a low voltage transmission line, and Banning is located within the borders of Southern California Edison Company's retail service territory and footprint.

[52] For example, facilities above 200 kV are deemed to be Significant Facilities that have a significant effect on CRR revenue adequacy when there are outages. *See Business Practice Manual for Outage Management* at section 4.2.1 (incorporating the provisions of section 36.4.3 and 9.3.6.3.2 of the ISO tariff). That is why the ISO has some separate outage management rules that apply to planned outages on these high voltage facilities.

[53] Millar Testimony at 5-7.

recognized in the ISO's *2011-2012 Transmission Plan* (pages 41-42), the Pacific Gas and Electric Company backbone system, which traverses the state from the California-Oregon border in the north to past Bakersfield in the south, transfers power between California and other states in the Northwest and western Canada. Also, it is a gateway for delivering energy from resources located in the sparsely populated portions of northern California to population centers in the Bay Area and Central valley. Additionally, a large number of generation resources in the central California area are delivered into southern California via high voltage lines. The typical direction of power flows through Path 26 is from north to south during on-peak periods, and in the reverse direction during off-peak load periods. The 230 kV lines on Pacific Gas and Electric Company's system (1) serve as backbone lines, (2) complement PG&E's 500 kV lines, and (3) facilitate large scale power transfers between and within local areas, in addition to supporting regional power flows.[54]

On the other hand, Pacific Gas and Electric Company's low voltage facilities, which consist of 69 kV and 115 kV transmission lines, are primarily designed to transmit energy from local generating facilities (including qualifying facilities), facilitate deliveries within local areas to meet local electricity demand, and serve distribution substations.[55] The ISO performs separate reliability assessments for the backbone and for each of Pacific Gas and Electric Company's eight local areas, which are separate and distinct.[56]

Southern California Edison Company's backbone transmission facilities, which consist of 230 kV and 500 kV transmission lines,[57] meet the bulk of the energy needs for the 13 million people that the utility serves. They facilitate power transfers into southern California on DC and AC transmission lines from the Pacific Northwest and Desert Southwest.[58] In contrast, Southern California Edison Company's low voltage lines under the ISO's operational control, which essentially constitute "small pockets" of 115 kV and 66 kV network transmission facilities[59] (as well as some 55 kV facilities),[60] serve local loads and deliver power from local generation, not out-of-area generation.

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[54] *See, e.g.,* ISO 2011-2012 Transmission Plan at 83, 87, and 119.

[55] *Id.* at 57, 83, 87-88, and 125-26.

[56] *Id.* at 25-26; *see also* Millar Testimony at 8.

[57] ISO 2011-2012 Transmission Plan at 138.

[58] *Id.*

[59] *Id.; see also* Millar Testimony at 8.

[60] ISO 2011-2012 Transmission Plan at 166.

The same functional distinctions apply to San Diego Gas & Electric Company's high and low voltage transmission facilities.[61] For example, the 500 kV Sunrise Power Link Project transmits significant energy supplies from remote areas in the Imperial Valley to load centers in southern California.[62] Likewise, the 500 kV Southwest PowerLink delivers imports from remote areas in eastern California and Arizona to southern California load centers.[63] The company's 230 kV lines are similarly used (1) to transmit bulk energy supplies throughout and around the region from imports and other generation distant from the load center and (2) to support the 500 kV system.[64] On the other hand, San Diego Gas & Electric Company's low voltage facilities, which consist of 69 kV and 138 kV transmission lines, deliver output from individual, smaller scale generation facilities within the San Diego area and serve rural loads.[65]

These uses of high voltage and low voltage facilities on the ISO-controlled grid reveal the nature of the benefits provided by each category of transmission facility. High voltage lines provide benefits through the ISO balancing authority area. They provide transfer capability over a broad area. [66] Events on high voltage lines can have an impact on major portions, or perhaps all, of the ISO controlled grid. High voltage lines increase the overall system's ability to withstand extreme disturbances. They mitigate regional reliability issues associated with delivering power to more distant load centers.[67] The higher voltage transmission facilities enable the ISO to absorb unexpected changes in frequency that occur from time to time and support adequate voltage levels throughout the system, thereby reducing the risk of voltage collapse and thermal overloads throughout the region. [68]

Higher voltage lines also significantly reduce congestion and facilitate reserve sharing among load serving entities.[69] This produces annual savings in the form of lower redispatch costs, avoidance of curtailments, reduced reserve requirements, savings from region wide planning, and system-wide access to more competitive energy and

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[61] *Id.* at 185-86.

[62] *Id.* at 185.

[63] *Id.*

[64] *Id.* at 185-87, 199, 201.

[65] *Id.* at 186-87.

[66] Millar Testimony at 5-7.

[67] *Id.* at 7.

[68] *Id.*

[69] *Id.*

ancillary services supplies.[70] In particular, the ISO's high voltage lines benefit the import and export of power and facilitate the development of large scale generation resources, thereby leading to increased capacity and diversity of the resource mix. Of note, the bi-directional nature of the ISO's high voltage facilities promotes region-wide market transactions and allows individual load serving entities to "share" resources, thereby reducing reserve margins and the cost of each utility's being required to have sufficient reserves located on its system separately. High voltage transmission lines also provide regional benefits by providing the capacity to transfer the energy from the large volumes of renewable resources necessary to meet California's renewable portfolio standard.[71] Finally, high voltage transmission facilities result in reduced energy losses compared to a string of lower voltage facilities spanning the same distance. By providing access to less expensive remote generation, the ISO's high voltage transmission facilities facilitate balancing supply and demand at the lowest feasible cost.[72]

In contrast, low voltage facilities on the ISO's system do not generally provide these benefits. Low voltage facilities primarily support local transmission services, including providing more localized incremental transfer capability.[73] Events on the low voltage transmission lines are typically smaller and localized in nature and do not affect the system outside the PTO Service territory. Low voltage facilities cannot efficiently transfer power over long distances, and a contingency on such a facility typically will not cause a cascading outage.

The ISO's current allocation of the costs of high voltage, or regional, facilities to all users of the ISO controlled grid based on their actual use of the system has been approved by the Commission and upheld by the U.S. Court of Appeals for the Ninth Circuit.[74] The ISO submits that this regional cost allocation as well as the allocation of the costs of low voltage, or local, facilities to the applicable specific participating transmission owner (who then recovers the costs from its customers using the low voltage facilities) is consistent with the requirement of Order No. 1000 that costs be allocated roughly in proportion to benefits received. Although there could be instances in which a low voltage transmission facility provides some regional benefits, the ISO does not view this as anything more than a rare occurrence in light of the configuration and operation of the ISO grid and expected future

[70] *Id.*

[71] *Id.* at 8-9.

[72] *Id.*

[73] *Id.* at 4-5.

[74] *State Water Contractors v. FERC*, 285 Fed.Appx. 397 (9th Cir. 2008).

conditions and needs. And while the regional benefits from high voltage facilities may inure to some areas of the regional grid more than others, the benefits will vary over time, as will the sectors of the grid that benefit. Thus, any effort to parse the benefits out further could well lead to an allocation that would not be roughly proportionate to benefits over the long run.

It is important to keep in mind that the Commission's primary cost allocation principle derives from that set forth in *Illinois Commerce Commission v. FERC*, in which the court explicitly noted that the Commission is "not bound to reject any rate mechanism that tracks the cost causation principle less than perfectly"[75] and need not "calculate benefits to the last penny, or for that matter to the last million or ten million or perhaps hundred million dollars."[76] Order No. 1000 provides no reason to modify the Commission's previous conclusion, affirmed by the Ninth Circuit Court of Appeals, that the ISO's cost allocation of facilities under its operational control is just and reasonable.

Moreover, the ISO's continued use of its historic bright-line voltage level for cost allocation purposes will provide cost certainty to customers and transmission developers, promote administrative efficiency, and reduce the burdens on the ISO and stakeholders. It will prevent time-consuming and costly disputes (and potential litigation) with regard to the allocation of costs associated with each new, individual transmission facility. In that regard, not only will it eliminate litigation among customers as to how the costs of a specific facility will be allocated, it will prevent litigation between transmission developers and existing transmission providers, which have an interest in how the costs of a line are allocated because that will drive construction responsibility for the facility. As discussed in the next section, the bright-line voltage split provides clear rules regarding the responsibility for constructing each type of transmission facilities under an Order No. 1000 regime: all transmission facilities at voltage levels of 200 kV and above (as well as under 200 kV facilities that extend beyond the retail service territory or footprint of the applicable participating transmission owner) will be subject to competitive solicitation; transmission facilities located entirely within the retail service territory or footprint of a participating transmission owner that are below 200 kV will be constructed by such participating transmission owner. This approach provides certainty for all transmission developers and eliminates disputes that would arise if cost allocation were based on a *de novo* analysis of each new transmission facility on an individual facility-by-facility basis. That could cause certain stakeholders to support a regional cost allocation simply because it results in a competitive solicitation and

[75] 576 F.3d 470, 475 (7th Cir. 2009).

[76] *Id.* at 477.

existing transmission owners to support a local allocation of costs because that would accord them the right to build the facility.

b. The Proposed Cost Allocation Complies with the Commission's Remaining Cost Allocation Principles

Just as the ISO's existing cost allocation methodology complies with the Order No. 1000 principle that costs be allocated in a way that is roughly commensurate with benefits, it also is consistent with the remaining five regional cost allocation principles enunciated in Order No. 1000.

In the second principle, the Commission required that there be no involuntary allocation of costs to non-beneficiaries. The ISO has shown that all users of the high voltage grid benefit from that use. There is no allocation to non-beneficiaries with regard to low voltage facilities because customers that do not take service on low voltage facilities do not pay for them.

The Commission's third regional cost allocation principle is that, if the regional planning entity uses a cost-benefit ratio to determine which transmission facilities have net benefits to be selected in the regional transmission plan for purposes of regional cost allocation, it must not be so high that transmission facilities with positive transmission benefits are excluded from cost allocation. This is not applicable because the ISO uses no such ratio. The need for economic transmission facilities is determined based whether the economic benefits of the project outweigh the costs, and there is no minimum threshold above 1:1 in the tariff.

Next, the Commission stated that allocation must be solely within a planning region unless the outside region voluntarily assumes cost. The costs of transmission facilities located solely on the ISO-controlled grid are allocated only to the ISO region, not to neighboring regions (unless such neighboring regions were to voluntarily accept the allocation of such costs).

Order No. 1000's fifth regional cost allocation principle provides that there must be a transparent method for determining benefits and identifying beneficiaries. The ISO's bright-line voltage level split constitutes a transparent method for determining the benefits and identifying the beneficiaries of transmission facilities on the ISO-controlled grid. As discussed herein, there are also additional benefits of the ISO's bright line test.

Finally, the Commission indicated that a transmission planning region may choose to use a different cost allocation method for different

types of regional transmission facilities (such as transmission facilities needed for reliability, congestion relief, or to achieve public policy requirements). This requirement is not applicable because the ISO's cost allocation does not distinguish among different types of transmission facilities. Regardless of the need that justifies the construction of a specific transmission facility, high voltage transmission facilities provide regional benefits and are allocated regionally, and local transmission facilities provide only local benefits and are allocated locally.

C. Rights of First Refusal

Order No. 1000 requires public utility transmission providers to remove from Commission-approved tariffs and agreements any federal "right of first refusal" for a transmission facility selected in a regional transmission plan for purposes of regional cost allocation.[77] The directive does not apply to transmission facilities that are not selected in a regional transmission plan for purposes of cost allocation.[78] Rather, Order No. 1000 provides that an existing transmission owner has the right to build transmission facilities located entirely within its retail service territory or footprint for which the costs are not allocated on a regional basis, *i.e.,* for which the costs are allocated entirely to the transmission owner that builds such facilities or to a pricing zone, which contains only one large transmission owner that may have one or more smaller transmission dependent utilities subsumed within its borders or footprint.[79] Also, the Commission did not prohibit rights of first refusal for a transmission owner to build any upgrades of, improvements to, additions on, or replacements of a part of an existing transmission facility.[80] Order No. 1000 allows, but does not require, public utility transmission providers in a transmission planning region to use competitive bidding to solicit transmission projects or project developers.[81]

The ISO has already implemented major tariff reforms consistent with the Commission's pro-competition goal of providing increased opportunities to non-incumbent transmission developers. These include establishment of a competitive solicitation process in which all interested project sponsors, including both independent transmission developers and existing participating transmission owners, have an equal opportunity to propose to construct and own policy-driven transmission facilities and

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[77] Order No 1000 at P 253. These are regional transmission facilities under the ISO's costs allocation structure.

[78] *Id.* at P 226.

[79] These are local transmission facilities under the ISO's cost allocation process.

[80] Order No. 1000-A at P 426.

[81] Order No. 1000 at P 321 n.302.

economically driven transmission facilities that the ISO finds to be needed in its planning process. Accordingly, only incremental changes are needed for the ISO to comply with this requirement of Order No. 1000.

As required by Order No. 1000, under the proposed revisions, there are no rights of first refusal, limited or otherwise, for incumbent transmission providers or any other party to build regional transmission facilities. All regional transmission facilities, except upgrades to existing transmission facilities, are open to competitive solicitation.[82] The ISO also proposes to eliminate the existing right of first refusal for participating transmission owners to build transmission facilities on their rights-of-way. The only rights of first refusal that will exist under the ISO tariff are the right of a participating transmission owner to build local transmission facilities and upgrades to its existing transmission facilities, and both of these rights of first refusal are expressly permitted under Order No. 1000.

1. Right of first refusal for Local Versus Regional Transmission Facilities

Under the current ISO tariff, all transmission facilities included in the transmission plan, other than a limited set that participating transmission owners have a right to build, are subject to a competitive process for the determination of construction and ownership rights. Participating transmission owners currently have a right of first refusal under the ISO tariff to build and own three categories of facilities: (1) reliability driven projects that do not also meet a threshold of incidental policy or economic benefits;[83] (2) projects to preserve the feasibility of long-term congestion revenue rights that do not also meet a threshold of policy or economic benefits; and (3) projects that are upgrades or improvements to, additions on, or replacements of a part of an existing

[82] The ISO is retaining the right of participating transmission owners to build upgrades to their existing facilities, as expressly authorized by Order No. 1000.

[83] Sections 24.4.6.2 and 24.4.6.4 of the ISO tariff provide that reliability and long-term CRR transmission projects that have incidental public policy or economic benefits are subject to competitive solicitation. These provisions are no longer is necessary under the ISO's Order No. 1000 "regime" because *all* regional transmission facilities, including those built to meet reliability needs or maintain the simultaneous feasibility of long-term CRRs, are subject to competitive solicitation (whether or not they provide incidental public policy or economic benefits). Thus, the concern that led to the addition of this tariff language in the RTPP proceeding – *i.e.,* that under the initial RTTP proposal the ISO might attempt 're-categorize" economic or public policy transmission elements as transmission facilities that a participating transmission owner would have the exclusive right to build no longer exists. *RTPP 1 Order* at PP 59-61. This language is now superfluous and unnecessary. Accordingly, there is no need for specific criteria to determine which regional reliability and long-term CRR projects will be subject to competition.

participating transmission owner facility or are on the participating transmission owner's right of way.[84]

Thus, the assignment of construction responsibility under the current ISO tariff depends upon the nature of the need for the new facility or expansion, *i.e.,* reliability, public policy, economic efficiency, or to maintain the simultaneous feasibility of long-term CRRs. Order No. 1000, however, establishes different criteria for determining when an incumbent transmission owner can retain the rights to construct transmission projects. Specifically, the order directs the elimination of incumbent transmission owners' rights of first refusal for all transmission facilities that are included in the transmission plan for the purposes of regional cost allocation (*i.e.,* regional transmission facilities), with certain limited exceptions. However, Order No. 1000 expressly allows existing transmission owners to build local transmission facilities,[85] which the order describes as those located solely within a transmission provider's retail distribution service territory or footprint that are not selected in the regional plan for purposes of regional cost allocation, but may nonetheless be reflected in the regional plan. In other words, the determination of whether there is a right of first refusal for a specific transmission facility tracks the cost allocation for that facility.[86] In order to comply with Order No. 1000, the ISO's proposes revisions to modify the category of projects subject to the competitive process in Phase 3 by deleting the construction responsibility provisions of sections 24.4.6.2 (Reliability Driven Projects), 24.4.6.4 (Projects to Maintain the Feasibility of Long Term CRRs), 24.4.6.6 (Policy Driven Elements) and 24.4.6.7 (Economic Studies and Mitigation Solutions).

To conform to the Order No. 1000 paradigm, the ISO proposes to create new definitions for regional and local transmission facilities based on their voltage levels and whether they are confined within the footprint of a single participating transmission owner. A Local Transmission Facility is "(1) under the CAISO Operational Control, (2) is owned by a Participating TO or to which a Participating TO has an Entitlement that is represented by a Converted Right, (3) operates at a voltage below 200 kilovolts, and

[84] The ISO transmission plan also includes certain expansions, or additions to, generator interconnection network upgrades. Tariff section 24.4.6.5. To the extent that the ISO's Phase II interconnection studies identified the original upgrade as needed and such upgrade has not yet been set forth in an executed Large Generator Interconnection Agreement, the responsibility for construction lies with the participating transmission owner. Otherwise, the responsibility for building and owning expansions or upgrades approved under this section depends on the transmission need that the upgrade or addition addresses, e.g., reliability, public policy or economic.

[85] Order No. 1000 at P 329; Order No. 1000-A at PP 85, 88,374, 382, 392 411, 428-49.

[86] Order No. 1000 at PP 7, 63-64, 226,262; Order No. 1000-A at PP 85, 190, 379, 382, 428-29.

(4) only in the case of a transmission facility approved in the final 2013/2014 comprehensive Transmission Plan and thereafter, is located entirely within a Participating Transmission Owner's footprint or PTO Service Territory." The fourth requirement is a modification of the current definition that the ISO uses for cost allocation purposes, but is consistent with the description of local transmission facilities in Order No. 1000-A. All transmission facilities under the ISO's operational control that are not Local Transmission Facilities are defined as "Regional Transmission Facilities". For purposes of construction responsibility, the ISO's definition of Local Transmission Facility significantly "scales back" participating transmission owners' existing right of first refusal to build reliability, long-term CRR, and certain LGIP-related additions or expansions. Based on the ISO's fourteen years of planning experience and its expectation regarding future system needs and grid operations, the ISO anticipates that the almost all new low voltage transmission facilities will be smaller scale, low cost, local reliability projects, not public policy projects or economic projects.[87] This is evident based on a review of the ISO's recent annual transmission plans.[88]

The combined result of these definitions and the cost allocation provisions discussed above is that the ISO's proposal includes all regional projects in the transmission plan for the purpose of regional cost allocation, and all projects included in the plan for the purpose of regional cost allocation are regional projects. Local projects are included in the transmission plan, but not for the purpose of regional cost allocation. Under the ISO's proposal, consistent with Order No. 1000's distinction between regional and local transmission facilities, all regional transmission facilities are subject to the Phase 3 open solicitation process. On the other hand, the applicable participating transmission owner has the right to build needed local transmission facilities, *i.e.,* facilities below 200 kV that are located entirely within the borders of a participating transmission owners existing retail service territory or footprint.[89] As indicated above,

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[87]There generally are no real congestion issues on the lower voltage lines which, on the ISO system, are primarily lines designed to effectuate the delivery of energy within local areas).

[88] *See* ISO 2011-2012 Transmission Plan at Table 7.2-1; ISO 2010-2011 Transmission Plan at Table 8.2-1.

[89] The ISO does not expect to include in future transmission plans any transmission projects under 200 kV that (1) extend beyond the borders of a participating transmission owner's service territory or outside of its existing footprint and (2) connect to another participating transmission owner. Thus, the ISO considers the issue of the cost allocation and construction responsibility for such facilities to be purely hypothetical. As discussed in Mr. Millar's testimony, it is even more unlikely that facilities less than 200 kV will be built in parallel with higher voltage facilities that cross existing participating transmission owner footprints. For completeness of its proposal, the ISO believes that it is appropriate to clarify the practical meaning of the exclusion of such projects from the definition of local transmission facilities because it was the focus of much discussion among

the costs of these facilities are allocated solely to the participating transmission owner who recovers the costs from its customers in accordance with its TO tariff.

To effectuate this proposed structure, the tariff revisions amend section 24.4.10 to provide that all regional projects that are not improvements to, additions on, or replacements of a part of an existing transmission facility are subject to the competitive process. This provision applies regardless of whether the project is needed for reliability purposes, economic reasons, to meet public policy needs, or to maintain the simultaneous feasibility of long-term CRRs.

To ensure the effective operation of this provision, the ISO is also adding language to section 24.4.5 of its tariff to make it clear that the ISO planning process will determine whether a regional solution is more efficient and cost-effective than any local solution(s). The planning process does this today, but the ISO has determined that further clarification of this point would be beneficial. The proposed revision to

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stakeholders who expressed concern about potential cost shifts if the costs of such low voltage lines were to be allocated regionally. The definition will have different practical consequences for right of first refusal and cost allocation.

Unless the project is an upgrade or expansion of an existing facility, such yet-to-be-built facility cannot be deemed a Local Transmission Facility to which a participating transmission owner has a right of first refusal. It would not be within the definition of the Local Transmission Facility because it would extend beyond the PTO Service Territory or footprint of a participating transmission owner. The ISO recognizes that the construction and ownership of short distance, low cost, low voltage lines are unlikely to provide any meaningful opportunity for attracting independent transmission developers. Also as discussed in Mr. Millar's testimony, given the limited capacity provided by such low voltage facilities, such facilities would not be expected to provide any meaningful regional benefits. Accordingly, the ISO considered that such a facility, if ever approved, would most reasonably be developed by each incumbent essentially "building to its border" and interconnecting with the adjacent transmission owner at the point of interconnection. However, out of an abundance of caution for strict compliance with Order No. 1000's definition of local transmission facilities and erring on the side of more competitive solicitation rather than less, the ISO will not treat such proposed facility as meeting the tariff definition of a Local Transmission Facility while in the planning stage. Therefore, such facility will be subject to the ISO's competitive solicitation process. The ISO reiterates that the likelihood the ISO will find such a facility to be needed in the future is remote.

Once such a facility is built and placed into service, however, it will be within the footprint of the participating transmission owner that built it. Accordingly, it will then become a Local Transmission Facility, and the costs of the facility will be allocated solely to the participating transmission owner that built the facility. This is consistent with the fact that transmission facilities below 200 kV do not provide regional benefits. Further, stakeholders vehemently opposed allocating the costs of such low voltage facilities on a regional basis.

section 24.4.5 provides that, in doing so, the ISO will also assess whether it can replace any individual local project or multiple local projects with more efficient, cost-effective regional projects, which could be open to competition.

The ISO's transmission planning process includes a sequential consideration of reliability, policy, and economic needs that revises solutions to take the additional needs into account. Also, it fully takes non-transmission alternatives into consideration. Under the proposed tariff revisions, the needs addressed by the projects have no impact on construction responsibility because all regional transmission facilities are subject to competitive solicitation. Thus, there is no need to define a separate class of "replacement regional facilities" or "multi-category driven" facilities as a stakeholder suggested.

Further, to the extent a needed transmission element constitutes both a local transmission facility and a regional transmission facility, the ISO will conduct a competitive solicitation for the entire facility, unless the ISO can reasonably separate construction responsibility for the local and regional portions. The ISO assumes that the Commission's preference under Order No. 1000 would be to treat the transmission element as a regional transmission facility for construction responsibility purposes. That will increase the opportunities for independent transmission providers to compete to build transmission.

The ISO submits that its proposed tariff changes are appropriate in order to effectively incorporate the cost allocation and construction responsibility distinctions between local and regional transmission facilities adopted in Order No. 1000. They are also necessary to adapt the requirements of Order No. 1000 to a planning framework in which the ISO plans for both the local transmission needs and regional transmission needs of its participating transmission owners. In particular, the ISO's provisions implement the principle contemplated in Order No. 1000 that the right to build a transmission facility should track the allocation of costs for that facility. As explained above, consistent with Order No. 1000, the ISO's tariff provisions require that all transmission facilities for which there is regional cost allocation (except upgrades to existing facilities) are subject to competitive solicitation,[90] and they permit the applicable participating transmission owner to build local transmission facilities located entirely within its existing footprint or retail service territory for which the costs are allocated to the participating transmission owner.

[90] Also, as indicated above, under-200 kV transmission facilities that extend beyond a participating transmission owner's service territory or are not located within its overall footprint are subject to competitive solicitation.

The ISO also submits that its tariff provisions are consistent with or superior to the specific requirements of the rule. Order No. 1000 would allow an existing transmission owner to build 230 kV, 500 kV, and even higher voltage, transmission facilities so long as the facilities are located entirely within its existing retail service territory or footprint and the transmission owner does not seek and obtain regional cost allocation for such facilities. Further, Order No. 1000 does not require that local transmission facilities be subject to approval at the regional level unless the incumbent transmission provider seeks regional cost allocation for them. [91]

On the other hand, the ISO proposes to limit the local transmission facilities that would be built by participating transmission owners to those with voltage levels below 200 kV. Further, under the ISO's framework the right to build a facility is not dependent on whether the participating transmission owner decides to seek regional cost allocation for such facility. Rather, the ISO's process eliminates any discretion on the part of the individual transmission owner and sets forth *ex ante* which transmission facilities are eligible for regional cost allocation and which are not. The ISO's framework will provide more construction opportunities for independent transmission providers that under the framework enunciated in Order No. 1000.

That the ISO's proposal will increase opportunities for non-incumbent transmission providers compared to the framework permitted under Order No. 1000 (which permits a right of first refusal for all local transmission facilities regardless of voltage) is demonstrated by a review of the ISO's transmission plans for the last two years. For example, if the ISO's Order No. 1000 compliance tariff had been in effect during the 2011-2012 planning cycle, four approved reliability projects (at a total estimated cost of $99-125 million) would have been considered local transmission facilities subject to a right of first refusal, four projects (at a total estimated cost of $185-230 million) would have been treated as regional transmission projects subject to competitive solicitation, and one project (at a total cost of $25-40 million) would have had individual elements that would have been treated as regional transmission facilities subject to competitive solicitation and other elements that would have been considered upgrades to existing transmission facilities (which the incumbent transmission provider is entitled to build under the ISO tariff and Order No. 1000). For the 2010-2011 planning cycle, eight projects (at a total estimated cost of $173.6-$218.6 million) would have been local transmission facilities subject to a right of first refusal, two projects (at a total estimated cost of $395-$405 million) would have been regional transmission facilities subject to competitive solicitation, three projects had

[91] Order No. 1000 at PP 262, 318; Order No. 1000-A at P 190.

some local transmission elements to which a right of first refusal would apply , and some regional transmission elements would have been subject to competitive solicitation (with the total cost of the projects ranging from $113-$147 million).[92] Under Order No. 1000's principle, because all of these facilities are located entirely within the retail service territory or footprint of an incumbent transmission provider, the incumbent transmission provider would have a right to build them. The ISO's framework thus creates significant opportunities for independent transmission developers beyond those provided by Order No. 1000.

There are other reasons that the Commission should approve the ISO's treatment of local transmission facilities. For example, it will help ensure that near-term reliability needs are satisfied in a timely manner, consistent with Order No. 1000's recognition of the importance of maintaining reliability in the project selection process.[93] The ISO's experience shows that most local transmission facilities needed for reliability require completion within a short timeframe. [94] Under these circumstances, the ISO needs to ensure that there are no undue barriers that would jeopardize the timely completion of such facilities so that they can be in-service before the identified reliability need arises. The ISO's treatment of low voltage transmission facilities effectively addresses this issue by providing the applicable participating transmission owner -- which is well positioned to obtain the necessary permits and rights-of-way and complete the facility within this truncated timeframe – with the right to build local transmission facilities located entirely within its existing retail service territory or footprint.[95] Undertaking a competitive solicitation for these low cost, low voltage local facilities could potentially delay the timely completion of projects needed to meet near-term reliability needs.

Finally, the proposed revisions incorporate the Order No. 1000 construction rights structure into the ISO's planning process in a manner that recognizes, and facilities the continuation of, the benefits of the ISO's responsibility for both local and regional planning. The ISO's framework ensures that ISO participating transmission owners are treated somewhat comparably to transmission owners in other regions; although, the ISO

[92] There were also two projects that involved local transmission facilities and upgrades to existing transmission facilities (at a total cost of $25-$40 million) to which a right of first refusal would apply.

[93] Order No. 1000 at P 342.

[94] ISO 2011-2012 Transmission Plan at Table 8.2-1; ISO 2010-2011 Transmission Plan at Table7.2-1

[95] This is consistent with P 392 of Order No. 1000, which provides, "As we have explained elsewhere in this Final Rule, nothing herein restricts an incumbent transmission provider from developing a local transmission solution that is not eligible for regional cost allocation to meet its reliability needs or service obligations in its own retail distribution service territory or footprint..."

recognizes that, relatively speaking, they will still face different (and arguably less favorable) treatment because their right to build local transmission facilities will be limited to facilities under 200 kV. This is an important issue for the ISO because it could impact new entrants to the ISO's Balancing Authority Area.[96] Whether a transmission owner retains the ability to build local transmission facilities located within its service territory is an important factor transmission owners will consider when they assess the benefits of joining the ISO.

2. Right of first refusal for Upgrades to Existing Transmission Facilities and on Existing Rights-Of-Way

In Order No. 1000, the Commission ruled that incumbent transmission owners may maintain a federal right of first refusal for upgrades to its own transmission facilities.[97] The Commission also stated that it was not altering an incumbent transmission provider's use and control of its existing rights-of-way, which is governed by state law.[98] Order No. 1000-A provided additional clarification on these points. Specifically, the Commission clarified that "upgrade" means an improvement to, addition to, or replacement of a part of an existing transmission facility, but does not refer to an entirely new transmission facility.[99] The Commission further clarified that its non-incumbent transmission developer reforms were not intended to alter an incumbent transmission provider's use and control of its existing rights-of-way under state law.[100]

Section 24.5.2 of the ISO tariff currently provides participating transmission owners with the exclusive right to build upgrades to their existing transmission facilities and on their existing rights-of-way. In compliance with Order Nos. 1000 and 1000-A, the ISO proposes to (1) eliminate the existing tariff language that accords a right of first refusal for transmission providers to build on their own rights-of-way, and (2) clarify the right of first refusal that transmission owners have with respect to

[96] Attracting new entrants would serve to promote the Commission's goals regarding increased opportunities for demand response, storage and other advanced technologies, energy efficiency, more effective regional coordination, and increased opportunities for independent transmission developers.

[97] Order No. 1000 at P 319.

[98] *Id.* The Commission stressed that the retention, modification, or transfer of rights-of-way are subject to relevant law or regulation granting the rights-of-way. *Id.*

[99] Order No. 1000-A at P 426.

[100] *Id.* at P 427.

upgrades on their existing transmission facilities. Specifically, the ISO proposes to revise section 24.5.2 of its tariff to read as follows:

> If the selected project involves an upgrade or improvement to, addition on, or replacement of a part of an existing Participating TO transmission facility, the Participating TO will construct and own such upgrade or addition facilities unless the Project Sponsor and Participating TO agree to a different arrangement.

This language is consistent with the specific clarification of the term "upgrade" provided in Order No. 1000-A.[101]

Certain existing transmission owners argued during the stakeholder process that Order No. 1000 does not eliminate a right of first refusal for transmission owners to build facilities on their existing rights-of-way. The ISO, however, interprets the order as requiring that the tariff not include such a right of first refusal. The elimination of the existing right of first refusal for facilities on existing rights-of-way does not expressly, and is not intended to, alter a transmission owner's use and control of its existing right-of-way under state law.

In the stakeholder process, one stakeholder argued that the definition of existing facility should incorporate certain language from Order No. 1000: "such as reconductoring or a tower changeout." In Order No. 1000-A, however, the Commission clarified that that reconductoring and tower changeouts were merely examples of potential upgrades to an existing transmission facility, and stated that "it is not feasible . . . however, to list every type of improvement or addition, or name all the parts of lines, towers and other equipment that may be replaced or otherwise upgrades, and we will not do so here."[102] Accordingly, the ISO did not adopt the proposed limiting language.[103]

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[101] Order No. 1000-A at P 426. One stakeholder recommended elimination of the word "replacement" in the proposed revised tariff language. The ISO has declined to do so because Order No. 1000-A expressly recognizes that the replacement of facilities constitutes an upgrade to an existing transmission facility, which is the responsibility of the incumbent transmission provider. *Id.*

[102] *Id.*

[103] The stakeholder also recommended that the ISO list in its tariff facilities that would not constitute upgrades to existing facilities. Just as Order No. 1000 does not require a transmission provider to list examples of what constitutes an upgrade to an existing facility, it does not require a transmission provider to list examples of what would not constitute an upgrade to an existing facility. Such a listing would be counterproductive because these often can be fact-specific determinations.

3. Generator Interconnection Network Upgrades and Location Constrained Resource Interconnection Facilities

Under section 24.4.6.3 and Appendices S-Z of the ISO tariff, participating transmission owners construct interconnection-related network upgrades and location-constrained resource interconnection facilities. A couple of stakeholders advocated (1) including these facilities in the competitive solicitation process or (2) adding other language to tariff section 24.4.6.5 to expand the scope of generation interconnection facilities that would be considered in this section or refer to specific changes resulting from the Commission's approval of the Generator Interconnection and Deliverability Allocation Procedures tariff amendment.[104]

Interconnection facilities[105] are governed by the Commission's generator interconnection rulemakings and not by Order No. 1000.[106] In Order No. 1000, the Commission ruled that issues related to the generator interconnection process and to interconnection facility cost recovery were beyond the scope of the final rule. The ISO notes that Commission approved the location constrained resource interconnection facility program as a just and reasonable variation from Order No. 2003's

[104] In Docket No. ER12-1855, the Commission approved revisions to the ISO tariff implementing a revised procedure known as the Generation Interconnection and Deliverability Allocation Process. As the ISO noted in the transmittal letter accompanying the proposed tariff revisions, the ISO's proposal was intended to achieve several important objectives including (1) providing incentives for generation developers to choose interconnection points that are consistent with public-policy transmission development, (2) limiting ratepayer responsibility for inefficient or underutilized upgrades, and (3) providing increased opportunities for independent transmission developers to build and own transmission. The ISO did not believe that any tariff changes to section 24.4.6.5 were necessary to implement the proposed generator interconnection and delivery allocation procedures, and the Commission did not order any such changes. There is no express compliance obligation under Order No. 1000 that would require the ISO to revise tariff section 24.4.6.5 to reflect or implement the tariff amendments that arose out of the generator interconnection and delivery allocation process filing. . The ISO notes that the generation interconnection and delivery allocation process approved by the Commission addresses many of the issues raised by the two stakeholders. Delivery network upgrades needed for generation that is identified in the ISO's baseline resource portfolio will be approved as public policy projects under the transmission plan, not as generator interconnection network upgrades under the LGIP. Delivery network upgrades associated with all other generation will be paid for by the generator, which can then select any project developer it desires to build such upgrades.

[105] As defined in the *pro forma* LGIA in Appendix Z of the ISO tariff, Interconnection Facilities are facilities between a generating facility and the point of interconnection with the PTO's transmission system.

[106] Order No. 1000 at P 760.

generator interconnection policies.[107] Further, location constrained resource interconnection facilities will be reflected in LGIAs as interconnection facilities. In other words, location constrained interconnection facilities remain gen-tie facilities, whose costs are in part temporarily recovered region wide as a variation of Order No. 2003 requirements, but they ultimately are charged to generators that will use such facilities as they come on-line.[108] Thus, changes to tariff sections addressing network upgrades identified in the ISO's *pro forma* large and small generator interconnection agreements and to location constrained interconnection facility tariff provisions are expressly beyond the scope of any compliance filing in response to Order No. 1000.

D. Project Sponsor Qualification and Selection Process

In Order No. 1000, the Commission required each public utility transmission provider to demonstrate that the regional transmission planning process in which it participates has established qualification criteria that are not unduly discriminatory or preferential for determining an entity's eligibility to propose a transmission project for selection in the regional transmission plan, whether that entity is an incumbent transmission provider or non-incumbent transmission developer.[109] The Commission explained that the criteria must provide each potential transmission developer the opportunity to demonstrate that it has the necessary financial resources and technical expertise to develop, construct, own, operate and maintain transmission facilities.[110] The Commission indicated that it was important for each transmission planning region to have the flexibility to formulate qualification criteria that best fits its transmission planning process and addresses the particular needs of the region.[111] Finally, the Commission stated that such criteria should be fair and not unreasonably stringent.[112]

Further, Order No. 1000 requires transmission providers to amend their tariffs to describe an Order No. 890 compliant, transparent, and not unduly discriminatory process for evaluating whether to select a proposed transmission facility in the regional transmission plan for purposes of cost

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[107] *California Independent System Operator Corporation,* 121 FERC ¶61,286 (2007) ("LCRIF Order"), *order on reh'g*, 127 FERC ¶61,178 (2008); *California Independent System Operator Corporation,* 119 FERC ¶61,061 (2007) ("LCRIF Declaratory Order"). *See also* RTPP 1 Order at n. 128.

[108] *RTPP 1 Order* at n. 128; LCRIF Order at P 6; LCRIF Declaratory Order at P 2, 69.

[109] Order No. 1000 at P 323.

[110] *Id.*

[111] *Id.* at P 324.

[112] *Id.*

allocation.[113] The evaluation process must culminate in a determination that is sufficiently detailed for stakeholders to understand why a particular transmission solution was selected in the regional plan for cost allocation purposes.[114] Order No. 1000 expressly permits a region to retain an existing mechanism that relies on competitive solicitation to identify preferred solutions to regional transmission needs. The Commission also stated that in regions relying primarily on a "top down" mechanism in which regional planners independently identify regional needs and more efficient cost effective solutions (such as the ISO's transmission planning process), existing procedures can serve as a foundation for the framework adopted in Order No. 1000.[115]

As discussed below, the ISO believes that its current qualification criteria and competitive solicitation process comply with the requirements of Order No. 1000. However, the ISO is proposing a few clarifications and refinements to enhance the process, maximize participation, and provide increased transparency with respect to the ISO's decision making process.

1. Project Sponsor Qualification

a. Qualification Criteria

Section 24.5.2.1 of the ISO tariff sets forth the following project sponsor qualifications that the ISO will consider to determine whether a project sponsor meets the basic qualifications to finance, own, construct, operate, and maintain transmission facilities:

> (a) whether the proposed project is consistent with needed transmission elements identified in the comprehensive transmission plan;
>
> (b) whether the proposed project satisfies applicable reliability criteria and ISO planning standards; and
>
> (c) whether the project sponsor and its team are physically, technically and financially capable of (i) completing the project in a timely and competent manner, and (ii) operating and maintaining the facilities consistent with good utility practice and applicable reliability criteria for the life of the project.

[113] Order No. 1000 at P 328.

[114] *Id.*

[115] *Id.*

The ISO proposes to retain these qualification criteria, which are consistent with the basic qualification criteria that the Commission identified in Order No. 1000. In the *RTPP 1 Order*, the Commission found that these qualification criteria, which ensure that the developer is qualified, are just and reasonable and not unduly discriminatory.[116] In addition, no stakeholder raised objections to these qualification criteria.

Under the ISO's Phase 3 competitive process, all interested entities are eligible to submit proposals to build and own the regional transmission facilities that the ISO finds to be needed in Phase 2 of the transmission planning process. Thus, there are no up-front barriers to participation in the competitive solicitation process. This is consistent with or superior to Order No. 1000's qualification provisions.

Following ISO board approval of the transmission plan, the ISO provides at least two months for project sponsors to submit specific proposals to build and own identified regional transmission plan elements.[117] The project proposals must include plan of service details and supporting information sufficient to enable the ISO to determine whether the proposal meets the qualification criteria specified in tariff section 24.5.2.1 and the project sponsor selection criteria in tariff section 24.5.2.4.[118] Section 25.2.1 of the ISO's BPM for the Transmission Planning Process sets forth the extensive, detailed information that project sponsors must submit with their proposals to enable the ISO to evaluate their qualifications and satisfaction of project sponsor selection criteria (in the event there are multiple project sponsors seeking to build and own the same needed transmission facility, and they are seeking siting authorizations from different agencies). The ISO proposes to retain these granular information requirements in the BPM.

Under section 24.5.1, the project sponsor must also identify the governmental body with the authority to approve the siting of the specific needed transmission element from which the project sponsor will seek siting approval. This information is necessary in order for the ISO to determine the appropriate methodology for deciding among competing proposals to build a particular element of the plan.

Section 24.5.2.2 provides that, if there is only one proposal for construction of a transmission element, and it satisfies the qualification criteria of in section 24.5.2.1, then the project sponsor submitting the proposal may proceed to obtain the necessary permits from the siting authority of its choice and then build the project. Where there are multiple

[116] *RTPP 1 Order* at P 231.

[117] ISO Tariff § 24.5.1

[118] *Id.*

qualified proposals, section 24.5.2.3 sets forth the method for selecting an approved project sponsor.

The ISO is proposing some modifications to section 24.5.2.3 to facilitate participation in the open solicitation and address a circumstance that the existing tariff language fails to address. Under revised section 24.5.2.3, if two or more project sponsors submit proposals to finance, construct, and own the same transmission project, the ISO will provide a formal opportunity for the project sponsors to collaborate and potentially develop a single joint proposal (or possibly multiple joint proposals). The ISO is removing the requirement that a project sponsor must first be deemed qualified by the ISO before it can participate in the collaborative process. The ISO believes that encouraging and facilitating collaboration among project sponsors is the fairest and most efficient means for resolving competing proposals and provides the best opportunity for development of a proposal that best meets the ISO's needs and benefits ratepayers. Accordingly, it would be inappropriate to unduly limit collaboration or exclude project sponsors that may provide unique strengths or are able to provide unique benefits if they were a cosponsor of a joint proposal. In any event, the relevant consideration should be whether the joint project sponsors as a "team" are qualified, even if one of the joint sponsors might not be qualified if evaluated on an individual basis.

If the project sponsors cannot reach agreement on a single joint project, the method for selecting the approved project sponsor depends upon the proposed approach for obtaining siting approval for the proposals.[119] The ISO proposes to retain its existing tariff framework, which provides that, to the extent multiple project sponsors remain and all such project sponsors designate the same state (or federal) agency as the agency from which they will seek siting approval, then the ISO will (1) merely determine whether such project sponsors are qualified, and (2) allow those project sponsors to seek siting approval from the agency they have designated. In those circumstances, the agency will designate an approved project sponsor (from among the qualified project sponsors) through its certificate of public convenience and necessity process or other applicable process, and that approved project sponsor will be the entity that builds and owns the needed transmission facility and is authorized to recover its costs through the ISO's transmission access charge.

[119] The ISO notes that the existing provisions of tariff section 24.2.5.3(a) assume that collaboration will result in a single joint project. That may not be the case. Even after collaboration, there potentially could be multiple joint projects and/or project proposals with only individual project sponsors. The ISO is proposing to revise tariff section 24.2.5.3(a) to account for this possibility that the existing tariff does not address.

If multiple project sponsors designate different agencies and the agencies from which they will seek siting approval, the ISO will select an approved project sponsor by applying the project sponsor selection criteria set forth in tariff section 24.5.2.4 and the analysis set forth in tariff section 24.5.2.3(c). The ISO's project sponsor selection process is discussed in the next section.

b. Pre-Qualification

The information project sponsors submit to be considered in the open solicitation process includes, among other information, information to enable the ISO to assess the project sponsor's qualification to finance, build, own, operate, and maintain the needed transmission facility (as well as for the ISO to undertake a comparative analysis of competing project sponsors).

During the stakeholder process, the ISO considered the concept of a separate pre-qualification process during the annual planning process, but ultimately determined that such process would be problematic and not provide any significant benefits. There are two possible options for a pre-qualification process. One is a generic prequalification based on project sponsors' financial resources and technical expertise to develop, construct, own, operate and maintain transmission facilities. Order No. 1000 mentions this type of qualification process.[120] This pre-qualification would occur at some point during the planning process prior to the approval of the final plan and before the ISO knows the specific transmission facilities that will be subject to competitive solicitation. The second option is pre-qualifying project sponsors after the ISO has finalized the transmission plan and determined the specific transmission facilities that will be subject to competitive solicitation. The ISO submits that there are drawbacks to each approach.

The ISO does not believe that the first option would be a meaningful undertaking because it fails to take into account any qualification-related issues that are project-specific (because the project for which a sponsor would be competing to build would not be known at the time of pre-qualification). For example, a generic pre-qualification could not take into account a project sponsor's resources and ability to construct in a timely manner a project that has a near-term deadline for completion. Also, generic pre-qualification cannot effectively address the fact that a project sponsor's qualification to build specific facilities can be affected by the specific scope and nature of the facility, as well as other project-specific circumstances. In other words, there are qualification-related issues that may be project-specific and for which a generic pre-

[120] Order No. 1000 at P 323.

qualification criterion would be difficult to apply. For example, a particular project sponsor may be financially able to build a $50 million transmission line, but is not financially able to build a one-billion dollar transmission line. Similarly, a project sponsor may be technically capable of building and operating a storage facility (that performs a transmission function), but is not technically capable of building, operating, and maintaining a 500 kV, 300-mile transmission line that interconnects with multiple transmission owners. There are countless permutations along these lines that would be difficult to effectively account for in advance if the ISO were to use a generic pre-qualification.

Moreover, any pre-qualification process that is done too far in advance would require project sponsors to update their information at the time specific transmission elements are identified and immediately prior to the competitive solicitation process. Negative updates could result in a previously qualified project sponsor becoming unqualified.

There are also specific problems associated with the second approach. First, it would delay the start of (1) the competitive solicitation process which begins immediately after Board approval of the transmission plan, and (2) the ISO's comparative analysis of project sponsors. This likely would delay the date of the ISO's project sponsor selections. That could be especially problematic for transmission facilities that are required to meet near-term reliability needs. The second approach essentially makes the competitive solicitation process a two-step process, not a one step process. Further, this approach -- as opposed to an approach that allows all potential project sponsors compete to build a project without any up-front "thinning process"-- would create an additional decision point that would be fertile ground for disputes and litigation. That would add uncertainty and likely delay the project sponsor selection decisions. Although this concern exists with respect to both approaches, it is particularly conspicuous with respect to the second approach (because the first approach is fairly generic and, as such, would likely not result in any significant project sponsor disqualifications).

Finally, the ISO has general concerns applicable to both approaches that further support the ISO's decision not to implement a separate pre-qualification step. Pre-qualification does not account for the possibility that a project sponsor might propose multiple projects. If project sponsors are applying to build, own, operate, and maintain multiple regional transmission facilities, the ISO cannot know at the qualification stage what projects they might be awarded. Being awarded multiple projects could affect their "qualification" to build a particular individual project; however, that analysis needs to be undertaken in the project sponsor selection process when the ISO knows the total number of projects that a project sponsor might seek to build. Stated differently,

project sponsors may be qualified to build, operate and maintain individual projects when evaluated in isolation, but might not be if they were awarded additional projects. It is not appropriate or meaningful for the ISO to pre-qualify a project sponsor for a specific individual project under these circumstances.

A presumption that project sponsor qualification and selection are entirely separate and distinct, or that if someone meets the bare minimum qualifications, then it is equally as able as every other competing project sponsors to permit, finance, build, own, reliably operate, and maintain a specific transmission facility, would be misplaced. It is important and necessary to recognize the degree of difference between project sponsors with respect to their qualifications (and each of the selection criteria). The Commission inherently recognized this in approving the comparative analysis provisions of the ISO's competitive solicitation process in the RTTP. Indeed, most "service contract" type decisions are based on a comparative assessment of the various candidates' qualifications, experience, and capabilities. In instances where there are several well-qualified applicants, important, complex, and significant projects typically are not awarded to the entity that only meets the bare minimum qualification requirements.

Also, pre-qualification would not provide any significant benefits. It would create additional workload for the ISO by requiring the ISO to undertake a two-step qualification and selection process, thereby adding another decisional point in the process and potentially delaying project sponsor selection decisions. Implementing a separate pre-qualification step would not significantly reduce a project sponsor's burden initial burden of providing the requisite information required by the Phase 3 application process.[121]

In conclusion, the ISO would prefer not to preclude a potential project sponsor *ab initio* from competing based on qualification grounds, but would rather maximize the number of competing sponsors and then sort out the issues in the project sponsor selection process. Similarly, the ISO does not want to foreclose an opportunity for potential project sponsors to collaborate with other project sponsors on a joint project though the formal collaboration process. A project sponsor may not be

[121] 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 burden on project sponsors.

qualified to build and own a particular project by itself, but it may have some important strengths and advantages that would benefit ISO ratepayers that it could bring to the table if it were given the opportunity to potentially collaborate on a joint project during the ISO's collaborative process. Consistent with Order No. 1000, the ISO's qualification process removes potential barriers to competition and therefore promotes competition to the maximum extent practicable. Order Nos. 1000 and 1000-A expressly grant a regional planning entity the flexibility to determine the type of qualification process and criteria that works best in its region and best fits the overall planning framework the regional planner utilizes,[122] so long the qualification criteria are not discriminatory or preferential and do not raise any undue barriers to competition.[123] The ISO's qualification process and criteria are consistent with these objectives.

c. Other Issues

One stakeholder suggested that there should be a qualification requirement to ensure that the project developer is financially capable to pay penalties for a North American Electric Reliability Corporation ("NERC") violation from delay in constructing a reliability element and that the qualifications for developing reliability elements should be aligned with the heightened importance of these projects. This implies lower qualification requirements for other transmission categories. The ISO does not support lower qualification requirements for other types of projects, because once a transmission element is energized and turned over to ISO operational control, it must perform to the same standards regardless of the reason the ISO included it in the transmission plan. The qualification criteria in the tariff address this concern by considering a project sponsor's financial and technical capability to operate and maintain the facility consistent with good utility practice and applicable reliability criteria. The Commission has also recognized, in the *RTPP 1 Order*, that the ISO's qualification and selection criteria will help ensure that a project sponsor is able to continue to maintain and operate a facility once it is in service and that the risk of abandoned projects is minimized.[124]

Another stakeholder suggested that "concentration risk" must be taken into account – *i.e*., the potential risk incurred in the event that multiple projects from the same sponsor are selected – and recommended

[122] Order No. 1000 at P 324; Order No. 1000-A at PP 439-40.

[123] Order No. 1000 at PP 323; Order No. 100-A at P 439, 441.

[124] The ISO recognizes that the consequences of delay for reliability projects can be more severe than delays affecting economic and policy projects and has proposed tariff modifications to address that situation, consistent with the directives of Order No. 1000. Those new tariff provisions are discussed *infra.*

that ISO require a "bid deposit" fee – once a bidder is accepted, those not selected would have their fee returned; however, the fee would be forfeited if a winning bidder fails to honor its bid. Although the ISO agrees that concentration risk needs to be taken into account, it does not agree that implementation of a bid deposit fee is the best approach. Instead, as mentioned earlier, the ISO proposes to evaluate whether a project sponsor can build and own multiple projects as part of its comprehensive evaluation in the Phase 3 project sponsor selection process. To the extent project sponsors have any limitations in the total number of projects they can build or if their selection to build one project would prevent them from building another project, they are free to indicate those preferences and limitations when they submit their qualifications. The ISO does not desire to unduly limit the ability of project sponsors to compete to build projects at the early stages of the process.[125] To the extent project sponsors do not participate in good faith or immediately back out of projects they are selected to build, the ISO expects that it would take such behavior into account the next time the project sponsor seeks to bid on a project in the competitive solicitation process or refer the matter to the Commission, if appropriate.

2. Selection Criteria for the Competitive Solicitation

The Commission has previously concluded that the ISO's competitive solicitation framework, the criteria the ISO considers in selecting approved project sponsors, and the comparative analysis the ISO undertakes are just and reasonable and not unduly discriminatory or preferential and allow all interested developers to submit proposals to compete to sponsor needed economically and policy driven transmission facilities approved in the ISO's transmission plan.[126] The Commission recognized that the ISO's criteria contained in sections 24.5.2.1 and 24.5.2.4 of the tariff are aimed at ensuring that the project sponsors are qualified and have the capability to construct, operate and maintain the facilities.[127] The Commission also found that the ISO tariff includes sufficient criteria and factors for determining the project sponsors and choosing between competing sponsors who submit qualified proposals to

[125] The ISO notes that Section 5.2.1 of the transmission planning process business practice manual (BPM) already provides the following:

> For each question, if the Project Sponsor is proposing to finance, construct, and own multiple transmission elements, the Project Sponsor should also indicate how its response would change depending on how many of its proposals are approved. For example, the Project Sponsor should describe how the projected in-service date of a project would be affected if two or more of the Projects Sponsor's proposals are approved.

[126] *RTPP 1 Order* at PP 219- 20.

[127] *Id.* at P 220.

build the same transmission element found to be needed by the ISO.[128] The Commission concluded that the ISO's selection criteria are objective and will ensure that a project sponsor's able to carry a project through to completion and continue to operate and maintain it once it is in service.[129] The Commission pointed out that, while all transmission developers have different experience and qualifications to offer, the ISO's criteria provide for a reasonable balance in considering many different factors and allowing all interested project sponsors to demonstrate their individual abilities, experience and assets.[130]

The Commission also noted that the ISO's voluntary agreement to use an expert consultant to assist in the evaluation and selection of proposed sponsors would avoid discriminatory selections.[131] Finally, the Commission found that the ISO's RTPP tariff provisions, including the project sponsor selection framework, are open and transparent, consistent with the Order No. 890 transmission planning principles, and provide sufficient safeguards to customers.[132]

In light of the Commission's previous ruling, the ISO believes that its open solicitation framework complies with Order No. 1000's requirement that regional transmission providers have a transparent and not unduly discriminatory evaluation process. Nonetheless, based on input from stakeholders, the ISO is using this compliance filing to enhance its existing project sponsor selection framework to provide greater clarity and transparency to the process.

Section 24.5.2.3(c) of the tariff provides that the ISO will undertake a comparative analysis of the degree to which each project sponsor's proposals meet the qualification and selection criteria. To add greater transparency to the decision making process, the ISO proposes to add the following tariff language:

> The purpose of this comparative analysis will be to determine, taking into account all regional transmission elements for which the competing Project Sponsors have been approved or are seeking approval, the qualified Project Sponsor which is best able to design, finance, license, construct, maintain, and operate the regional transmission element(s) in a cost-effective, prudent, reliable, and capable

[128] *Id.* at P 221.

[129] *Id.* at P 231.

[130] *Id.* at P 234.

[131] *Id.* at P 254-55.

[132] *Id.* at PP 3, 27, 158, 166, 197, 255.

> manner over the lifetime of the transmission element(s), while maximizing overall benefits and minimizing the risk of untimely project completion, project abandonment, and future reliability, operational and other relevant problems, consistent with Good Utility Practice, applicable reliability criteria, and CAISO Documents.

This new tariff language is intended to synthesize the ISO's application of the various selection and qualification criteria into certain principles that will drive the ISO's selection of an approved project sponsor. This new tariff language reflects the purpose (and expected end result) of the comparative analysis process and essentially sets forth the standard that the ISO will apply in its comparative analysis for purposes of selecting a project sponsor. For example, the ISO is not considering experience just for the sake of experience. The ISO will evaluate a project sponsor's and its team's experience for the purpose of assessing their relative ability to license, build, operate and maintain the transmission facility in a reliable and competent manner, and complete the project in a timely manner.

To add even more transparency to the process and offer guidance to project sponsors in the preparation of their project proposals, the ISO is also proposing in new section 24.5.2.3(d) that within 30 days after the revised draft comprehensive Transmission Plan is posted, the ISO will post those factors and considerations, in addition to any binding cost containment commitments, that the ISO believes are key for purposes of selecting an approved project sponsor for each regional transmission facility that is subject to open solicitation. The ISO's posting must be consistent with the new comparative analysis standard in section 24.5.2.3(c) and the project sponsor qualification and selection criteria in section 25.4.2.4. This provision recognizes and attempts to address the fact that the range of projects that will be subject to competitive solicitation (and the needs for such projects) will be extremely varied and that the main drivers for selecting an approved project sponsor will be different for each individual project.

In response to stakeholder comments, the ISO is also proposing to move from section 25.2.1 of the BPM for the Transmission Planning Process to tariff section 24.5.3 the obligation to publish a report detailing the ISO's project sponsor selection decisions. The ISO will post this report within 10 business days after the ISO makes its project sponsor selection decision(s). This report will set forth in a transparent manner the results of the ISO's comparative analysis, the reason for the ISO's decisions, and their consistency with the new comparative analysis objectives set forth in section 24.5.2.3(c). This reporting obligation will further Order No. 1000's express requirement that transmission providers provide stakeholders with a sufficient basis to understand the reasoning

underlying transmission planning decisions. To the extent parties disagree with the ISO's decisions, reasoning, or findings, or believe that the ISO has not followed its tariff, they will have sufficient information to seek recourse through dispute resolution options under the tariff or file a complaint with the Commission.

The ISO also proposes some minor modifications to the selection criteria in section 24.4.2.4 to add clarity and enhance the selection process. For example, the ISO is adding language to provide that, in addition to considering any particular strengths or advantages a project sponsor and its team may have to build and own the needed transmission solution, the ISO will also consider any specific efficiencies or benefits demonstrated in a project sponsor's proposal. The ISO's goal is to maximize the opportunity for project sponsors to demonstrate why they should be selected to build and own a particular project. The tariff revision expressly recognizes that such project sponsor advantages might include additional efficiencies or benefits (*e.g*., operational efficiencies, operational flexibility, economies of scale, or environmental benefits associated with their particular proposal).

With respect to cost containment capabilities, the ISO is adding language to clarify that it will consider other types of binding cost control measures the Project sponsor agrees to accept, not just a total cost cap on the project. The ISO will also consider whether the siting authority a particular project sponsor has selected has the authority to impose cost caps or other cost containment measures on such project sponsor and what its history of imposing such measures is. Particularly in instances where no project sponsor proposes a project cost cap, it would be beneficial for the ISO to take into account the likelihood that the chosen siting authority will impose some type of cost containment measures, and how effective those measures will be. The ISO notes that potential transmission developers other than municipal utilities and investor-owned utilities may have a choice of where to seek siting authority.

Finally, the ISO is retaining the requirement in section 24.5.2.3(c) that the ISO retain an expert consultant to assist the ISO in the selection of project sponsors. As the Commission has recognized, this expertise will benefit the ISO and circumvent allegations of discriminatory selections.[133]

a. Flexibility vs. Pre-Set Formulas and Bright-Line Metrics

[133] *RTPP 1 Order* at P 254.

During the stakeholder process, two stakeholders contended that Order No. 1000 requires the ISO to set forth in its tariff a pre-established set of weights to be accorded each of the specified selection criteria evaluated by the ISO in the project sponsor selection process. They also argued that Order No. 1000 requires that the ISO tariff include a pre-determined formula for determining which competing project sponsor to select.

The Commission has previously concluded in the *RTTP 1 Order* that the ISO's existing selection criteria, which do not include any formula or weighted criteria, are just and reasonable. The Commission also found that the ISO's process for determining which policy projects are needed was open and transparent. That process lists ten criteria that the ISO will assess to determine which policy projects are needed. The Commission rejected proposals to require the ISO to assign specific weights to each of these criteria, finding that the ISO needed flexibility in applying the criteria.[134] Moreover, in the *RTPP 1 Order*, the Commission rejected parties' arguments that a project sponsor's willingness to forego rate incentives should be a stronger criterion in the ISO's selection between competing project sponsors.[135] On rehearing, the Commission again declined to require that cost containment be given more weight than non-cost selection criteria.[136]

Nothing in Order No. 1000 requires the significant changes to the ISO's Commission-approved project sponsor selection framework proposed by these two stakeholders. Order No. 1000 does not require that transmission provider tariffs include a pre-established mathematical formula for determining which project sponsor should be selected in the open solicitation process or that the tariff include pre-established weights for every individual selection criterion.[137] Order No. 1000 expressly

[134] *RTPP 1 Order* at P 197. The Commission stated that this approach was open and transparent and would allow stakeholders to monitor the process to ensure that no undue discrimination was occurring and to take appropriate action if there was such behavior.

[135] *Id.* at P 222.

[136] *RTPP Reh'g Order* at P 27.

[137] One stakeholder cited to Paragraph 315 of Order No. 1000 as supporting its position. Paragraph 315, however, does not impose any specific new requirements for the selection process other than the removal of federal rights of first refusal. The question posed in Paragraph 315 is whether or not a right of first refusal interferes with the implementation of the selection procedures that have been implemented, and whether additional measures are needed. Because the ISO will not retain any rights of first refusal for regional transmission facilities, the ISO is ensuring, consistent with Paragraph 315, that its open solicitation process will not be "adversely affected by a federal rights of first refusal." Importantly, Paragraph 315 cites a New York ISO order where the Commission found that, in order to comply with the transparency requirement, tariff language setting forth how a transmission provider would evaluate and select among competing solutions could state "that solutions will be evaluated against each other

provides that the "Final Rule permits a region to use an existing mechanism that relies on a competitive solicitation to identify preferred solutions to regional transmission needs and, as such, an existing process may require little or no modifications to comply with the framework adopted in this Final Rule."[138] The Commission also specifically mentioned the competitive solicitation process it had approved for the ISO as an example of the type of process that complies with Order No. 1000. The significant changes proposed by these two stakeholders do not constitute "little or no modification" to the ISO's competitive solicitation process.

In Order No. 1000-A, the Commission expressly rejected requests for rehearing to require (1) minimum or standardized qualification and selection criteria, as opposed to a flexible approach, or (2) a specific mechanism to select among competing sponsors for a project.[139] The Commission stressed that Order No. 1000 merely requires regional transmission providers to establish criteria to assess a transmission developers qualifications and adopt transparent and not unduly discriminatory criteria for selecting a new transmission project in a regional transmission plan, consistent with the transmission planning principles of Order No. 890.[140] The Commission recognized that selection criteria and processes may vary depending on the needs of the region and declined to set any other minimum standards for the criteria used to select a transmission facility in a regional transmission plan other than the requirement that they be transparent and not unduly discriminatory.[141]

Further, Order No. 1000-A expressly rejects the argument that flexibility is inappropriate.[142] To the contrary, the Commission affirmed that public utility transmission providers may utilize either flexible criteria or bright-line metrics and indicated that flexible criteria may be more appropriate than bright-line metrics.[143]

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based on a comparison of their relative economics and effectiveness of performance." *N.Y. Indep. Sys Operator Inc.,* 129 FERC ¶ 61,244 at n.26 (2009) (*"New York ISO"*). Thus, the Commission did not find that only pre-assigned weights and reliance on some mathematical formula would satisfy its directives. The project sponsor tariff provisions that the ISO is proposing in compliance with Order No. 1000 are far more detailed and transparent.

[138] Order No. 1000 at P 321.

[139] Order No. 1000-A at PP 440, 455.

[140] *Id.* at P 455.

[141] *Id.; see also,* Order No. 1000 at P 324.

[142] Order No. 1000-A at PP 440, 455, 283.

[143] *Id.* at P 283.

Thus, the Commission intended the reforms in Order No. 1000 to produce a regional transmission plan that "will be able to highlight whether public utility transmission providers are engaging in undue discrimination against others.[144] The evaluation process must culminate in a decision that is sufficiently detailed for stakeholders to understand why a particular project was selected or not selected in a regional plan.[145] These Order No. 1000 transparency reforms do not require mathematical formulas or pre-established weights for selection criteria; they only require that sufficient information be provided so that stakeholders will know the reasons why a specific proposal was selected or not selected.

There are many practical reasons why having pre-set weights for each of the selection criteria is not workable. First, the importance of individual selection factors can vary according to the category of transmission being built, the type and scope of project being built, the specific facts underlying the need for the transmission facility, whether a specific transmission facility needs to be completed by a certain date, and the potential adverse economic, policy or reliability impacts of not completing the specific project in a timely manner, among other things. Accordingly, the selection factors that will be most important for each project will be different depending on the particular circumstances of each individual project. One simple example illustrating the need for flexibility is where a facility is required to meet an extremely near-term reliability problem. The overarching goal in this instance should be assurance that the project will be completed before the reliability need arises. Otherwise, the system operator may be forced to use very expensive measures or even operational actions such as load shedding to preserve reliability. Reliance on pre-assigned weights or some mathematical formula might fail to properly account for this project specific requirement and result in the selection of a project sponsor who cannot complete the project in a timely manner, but the ISO's flexible and transparent application of the selection criteria would enable the ISO to appropriately consider the criticality of this factor on a case-by-case basis.

The Commission should also recognize that lower cost, short-distance, lower-voltage transmission projects designed to deliver power into a local area present very different challenges from higher cost, long distance, high voltage lines that may cross multiple transmission owners' service territories. In the latter types of projects, the potential for system-wide operational and reliability impacts are greater, and there is a corresponding greater set of financial risks. Also, the latter types of projects could pose greater permitting hurdles and other potential pitfalls compared to smaller-scale projects. A one-size-fits-all approach based on

[144] Order No. 1000 at P 328.

[145] *Id.*

a mathematical formula and pre-assigned weights fails to take into account the differences between projects and the fact that different considerations will drive project sponsor selections depending on the circumstances pertaining to the individual transmission facility. On the other hand, the provisions of proposed section 24.5.2.3(d) will allow the ISO to effectively increase transparency, while adequately addressing the issue of which criteria factored into a selection decision.

The number of projects a project sponsor is seeking to build also can affect the application of the various selection factors. Generic pre-established criteria would only look a project sponsor's capabilities with regard to the specific individual project being considered. The fact that a project sponsor is bidding on multiple projects and may be awarded more than one a project could impact its ability to adequately finance or timely complete another project on which it is bidding.

Pre-set weights for each criterion fail to fully account for the degree of difference between potential project sponsors with respect to each of the selection criteria and essentially embed arbitrariness into the tariff. Under some circumstances, a specific project sponsor may "barely nose out other competitors" under one or more criteria but be woefully inadequate compared to other project sponsors when it comes to other criteria.[146] In sum, the Commission previously has recognized that flexibility is necessary and appropriate and that all project sponsors should be given the opportunity to demonstrate the full panoply of benefits they can provide. The ISO tariff provisions appropriately preserve that flexibility.

b. Cost as the Driver in Selection Decisions

Some stakeholders stated that cost should be the predominant driver in the project sponsor selection process, weighted significantly higher than all other selection criteria or even determinative of the ISO's project sponsor selection decisions. The ISO does not believe that this is appropriate, and Order No. 1000 does not require it. In Order No. 1000-A, the Commission rejected rehearing requests arguing the transmission planning process should select among multiple sponsors of identical

[146] Further, the ISO's selection process allows all project sponsors to highlight any and all of their strengths and advantages to support their request to be awarded a specific project, and any specific efficiencies or benefits demonstrated by their project proposal. The ISO does not -- and cannot -- know in advance what each and every one of those advantages will be, how significant or valuable they might be, or how they should be weighted. Innovation would be "chilled" or even worse, prohibited, if the ISO were forced to rely on metrics with pre-established weights.

projects by assigning the project to the entity that is willing to guarantee the lowest net present value of its annual revenue requirement.[147]

Moreover, the Commission rejected arguments that cost must be the primary driver or be given greater weight than other criteria in the project sponsor selection process when it approved the ISO tariff revisions that implement the ISO's RTTP. The Commission found that "it was inappropriate to give cost containment, regardless of the form in which it is provided more weight than non-cost project sponsor selection factors (such as capabilities and financial resources of project sponsor and team)."[148]

One stakeholder cited statements in Order Nos. 1000 and 1000-A as demonstrating the Commission's intent that cost is the overriding consideration in all project sponsor selection decisions. This position takes the Commission's statements out-of-context. These statements pertain either to (1) the selection of transmission facilities in the regional transmission plan that efficiently or cost effectively meet identified transmission needs compared to other alternative transmission (or non-transmission) facilities being considered,[149] or (2) the effect of elimination of rights of first refusal on the identification and evaluation of more efficient and cost-effective alternatives.[150] These statements do not pertain to the criteria and methodology used in a competitive solicitation process like the ISO's to select a project sponsor to build and own transmission facilities that regional planning entity already has found to be needed and the most cost-effective solution. Nowhere in the cited paragraphs does the Commission expressly require that cost considerations be given the greatest weight.

The ISO's proposal is consistent with the cited statements. The ISO determines the "most efficient or cost-effective" solution during Phase 2 of its planning process, not during the Phase 3 competitive solicitation. As Commission precedent recognizes, this standard requires the transmission planner to evaluate the relative efficiencies and overall effectiveness of the various transmission alternatives being considered, in

[147] Order No. 1000-A at PP 450-455. This is essentially the situation that exists in Phase 3 of the ISO's transmission planning process. Project sponsors compete to build and own the specific transmission facilities that the ISO has identified as being needed; they are not proposing alternative transmission solutions.

[148] *RTPP Reh'g Order* at P 27. The *RTPP Reh'g Order* was issued after issuance of Order No. 1000. *See also RTPP 1 Order* at P 222 (rejecting arguments that a project sponsor's willingness to forego rate incentives should be a stronger criterion in the ISO's selection of competing project sponsors).

[149] Order No. 1000 at PP 3, 5, 11, 63, 68, 78, 148, 225-26, 255.

[150] *Id.* at PP 226, 291, 307.

addition to cost.[151] Moreover, as the Commission stressed in Order No. 1000, a proposed transmission facility's impact on reliability is an important factor that is considered during evaluation of a proposed transmission facility.[152] Stakeholders suggesting that cost should be the primary driver in competitive solicitation decisions completely ignore this finding.

The ISO already selects the most prudent and cost-effective transmission (or non-transmission) solution when evaluating alternative transmission and non-transmission solutions to meet an identified need, [153] and the ISO is proposing to add language to tariff sections 24.4.6.2 and 24.4.6.4 to make such practice an express requirement in the tariff.

The ISO also addresses the concerns that led to the second of the Commission's statements referred to by stakeholders because the ISO is proposing to eliminate rights of first refusal for all regional transmission facilities. Not only is the ISO's treatment of cost considerations consistent with Order No. 1000 and the *RTTP 1 Order*, but there are also practical reasons why basing selection decisions primarily on cost would be inappropriate. Relying on cost as the main driver would, among other matters, inappropriately devalue or eliminate considerations pertaining to reliability, financial ability to build and maintain the project, and the project

[151] *See New York ISO* at n. 26*; Transmission Technology Solutions, LLC v. California Independent System Operator Corporation,* 135 FERC ¶ 61,077 at PP 82-86 (2011) ("*TTS*"). One stakeholder cited to the Commission's recent decision in *Primary Power LLC v. PJM Interconnection LLC*, 140 FERC ¶ 61,054 (2012), as supporting its position that cost should be the driving consideration in any project sponsor selection process. In *Primary Power,* however, cost was only one consideration among many that led to the selection of the incumbent transmission providers as the approved project sponsors. No where did the Commission state that cost was -- and should be -- the overriding factor in the decisional process. Indeed, the Commission recognized that PJM's decision was based on significant factors weighing in favor of the incumbents building the project. *Id.* at PP 72-73. The ISO also notes that PJM does not utilize a mathematical formula for selecting projects and does not utilize pre-assigned weights for selection criteria, nor did the Commission direct PJM to do so. PJM based its review on "relative costs and benefits, the ability of the alternative to supply the required level of transmission service, and its impact on the reliability of the Transmission Facilities." *Id.* at P 69.

[152] Order No. 1000 at P 342.

[153] *RTPP 1 Order* at PP 217, 224; *TTS* at PP 82-86. The ISO's determination of which alternative solution is the most efficient or cost-effective occurs during Phase 2 of the transmission planning process. During Phase 3, the ISO is only seeking to determine which competing project sponsor is best positioned to finance, construct, own, operate, and maintain the regional transmission solution that the ISO has already found to be the most cost-effective solution. This analysis requires consideration of a greater number and different set of factors than does a comparative analysis of which specific transmission or non-transmission solution should be adopted when there are several alternatives. Thus, the selection of a project sponsor to build, operate, and maintain the transmission solution that the ISO finds to be needed required a different standard.

sponsor's capabilities to license, construct, construct, operate and maintain the facility in a timely and proper manner. For example, relying on cost as a driving factor could result, *inter alia,* in the ISO having to approve project sponsors that (1) use lower quality materials that could affect the life of the project or eventually lead to increased operating and maintenance problems and costs; (2) use unproven technologies that once completed, prove inadequate, thereby forcing delays in project completion, increased costs, or operational problems; (3) have low staffing levels and less operational experience, thereby increasing the risk of potential reliability or operational problems; (4) will be at increased risk for outages and inadequate maintenance in future years; (5) cannot demonstrate a sufficient ability to comply with applicable reliability criteria; (6) might have insufficient capital or insurance to handle facility failures, emergencies, undertake proper maintenance or construct necessary facility upgrades; (7) are at increased risk compared to other project sponsors of not being able to complete the project in a timely manner or not constructing, operating and maintaining the project properly; or (8) provide fewer overall benefits and efficiencies than other project sponsors.

The flaw in according a cost criterion (or any selection criterion set forth in the tariff) undue weight or a pre-assigned weight can be demonstrated by applying that approach to determine which project sponsor the ISO should select to build regional transmission facilities that are needed to address near-term reliability needs. A review of the last two ISO transmission plans shows that there were some regional reliability transmission solutions (at or above 200 kV) that were required to address reliability concerns arising 2-3 years out.[154] For regional transmission facilities intended to meet these near-term needs, the ISO must have confidence that they will be completed in a timely manner. Because Order No. 1000 requires regional transmission facilities to be open to competition, the only means available to the ISO to facilitate achievement of this objective is for the ISO to have sufficient flexibility to accord timing needs and reliability concerns the appropriate level of consideration during the competitive solicitation process. Order No. 1000 permits the flexibility that the ISO needs, and the Commission should adhere to its precedent on this issue as well as its findings in Order No. 1000.

Finally, with respect to the ISO's consideration of cost, the ISO's project sponsor selection criteria enable project sponsors to demonstrate their cost containment capabilities and propose any binding measures to reduce or contain their overall costs. The new tariff language in proposed section 25.5.2.3(d) ensures that cost will be an important consideration in the ISO's project sponsor selection process for each regional transmission

[154] *See* ISO 2011-2012 Transmission Plan at Table 7.2.1; ISO 2010-2011 Transmission Plan at Table 8.2-1.

facility subject to competitive solicitation. Likewise, the standard for the ISO's comparative analysis of competing project sponsors, contained in revised tariff section 24.5.2.3 (c), recognizes cost as a factor. Order No. 1000 does not require more than this.

c. Treatment of Cost Estimates

In its comments on one of the ISO's Order No. 1000 straw proposals, one stakeholder recommended that the ISO use independent cost estimates in reviewing both incumbent and non-incumbent project proposals. There is no need for "independent" cost estimates during Phase 2, however, because that process does not determine the rights of prospective transmission developers. As the Commission has recognized,[155] the ISO uses planning level costs in Phase 2 to determine the most cost-effective solutions for meeting identified needs.[156] The ISO provides stakeholders with planning cost estimates for alternative proposals so that they can comment on the costs to construct particular alternative transmission and non-transmission solutions.[157] There is no need to have an independent entity provide cost estimates for all of the alternative solutions the ISO considers during Phase 2 because no construction or ownership rights are accorded to such solutions during the evaluation process.

During Phase 3, when the ISO selects an approved project sponsor, the ISO, tariff requires the ISO to retain an expert consultant to assist it, even though the ISO itself is an independent entity and has no financial ties to any project sponsors that will be seeking to build transmission facilities which the ISO finds to be needed. The ISO is *not* evaluating alternative transmission solutions at this time and there is no need for independent cost estimates. The ISO is only considering binding cost caps and cost containment measures. There is therefore no reason to require the ISO and ratepayers to incur additional costs to pay for some third-party to provide independent cost estimates. In both Order No. 890

[155] *RTPP 1 Order* at PP 224.

[156] Planning level costs reflect relevant current cost benchmarks, such as cost per mile of transmission line construction, sub-station equipment, or transformers. Essentially, the planning level costs reflect current costs in California. Planning cost levels enable the ISO to conduct a relative comparative cost comparison between materially different transmission and non-transmission solutions. Planning level costs cannot usefully distinguish between competing proposals during Phase 3 because such proposals would be essentially for the same facility.

[157] Also, when the ISO posts the specific transmission facilities that it finds are needed upon the culmination of the planning process (including the transmission facilities that will be subject to open solicitation), the ISO will post the planning cost estimates associated with such facilities. ISO tariff section 24.4.7.

and Order No.1000, the Commission declined to require transmission providers to use an independent evaluator.[158]

There is also no value in adding cost estimates to the factors that the ISO considers in selecting among competing proposals. Selecting an approved project sponsor based on a cost estimate is problematic because it can be unreliable and easily manipulated.[159] If project sponsor cost estimates were a selection criterion, project sponsors would have an incentive to "underestimate" or "low-ball" their costs in order to be selected as an approved project sponsor. Most importantly, the ISO is not a regulatory agency or an enforcement agency and, as such, has no means to enforce an approved project sponsor's adherence to any cost estimate.

Rather than requiring the ISO (or for that matter some third party) to analyze cost estimates that will not be enforceable in the future, the ISO's selection criteria consider binding commitments by project sponsors to cap costs (either total project costs, a single cost item, or a sub-set of costs), forgo particular rate incentives, or implement other specific cost containment measures -- all of which will be enforceable with the project sponsor seeks cost recovery. If a project sponsor believes that it can compete based on cost, then it should be able to agree to such a binding commitment.

In approving the RTPP, the Commission noted that cost estimates are considered early in the RTPP process when deciding the transmission elements that will most effectively (costs included) address the identified transmission needs.[160] The Commission acknowledged that there was no opportunity for project sponsors to submit cost estimates, but agreed with the ISO, finding that it would not be appropriate to incorporate criteria for selecting competing sponsors based on the estimated costs of a project because such cost estimates are not enforceable by the ISO and not binding.[161] Order No. 1000 provides no reason to change these conclusions, nor does it impose any requirements to the contrary.

d. Consideration of Cost Caps and Cost Containment Measures that a Regulatory Agency Might Impose as Conditions on a Certificate of Public Convenience and Necessity

[158] Order No. 890 at P 567; Order No. 1000-A at P 452; *see also RTPP 1 Order* at n. 134, 142 and PP 255.

[159] RTPP Transmittal Letter at n. 74.

[160] *Id.* at P 224.

[161] *RTPP 1 Order* at P 223-24.

One of the cost-related selection factors that the ISO has included in its project sponsor selection criteria is the authority of the project sponsor's selected siting authority to impose binding cost caps or cost containment measures on the project sponsor and its history of approving such measures.[162] One stakeholder pointed out that that the Commission ultimately determines the level of just and reasonable transmission rates, not the state siting authority.[163]

As an initial matter, a binding cost cap may be important to the Commission, and the Commission may well take such cost caps into consideration in determining recoverable costs.[164] When a transmission developer accepts a certificate of public convenience and necessity to build a transmission facility that is conditioned with a cost cap or some other cost containment measure, the project developer is essentially agreeing to accept a cost cap. The acceptance of such a cap by the transmission developer may be highly relevant to a determination of whether costs to be recovered through rates subject to the Commission's jurisdiction are prudently incurred. Thus, in many ways, it is similar to any binding cost cap or cost containment measure that a project sponsor agrees to when it submits its proposal to the ISO to build and own a needed transmission facility. The state jurisdictional authorities may also

[162] ISO tariff section 24.5.2.4(j).

[163] Another stakeholder expressed concern that the criterion could be read to require siting authorities to make submissions to the ISO demonstrating their authority to and experience in imposing cost containments measures in connection with the issuance of certificates of public convenience and necessity. The ISO revised the tariff language to address this concern.

[164] The ISO notes that since adoption of Assembly Bill 1890, establishing electric restructuring in California, several electrical corporations have challenged the CPUC's jurisdiction to establish cost caps for transmission projects. In general, these parties asserted that, as a result of electric restructuring in California, the CPUC had lost jurisdiction over transmission rates to the Commission and could no longer impose cost caps pursuant to section 1005.5. In each case, the CPUC rejected the argument that it does not have jurisdiction to adopt cost caps. For example, in Tri Valley 2002 Capacity Increase Project, Decision 01-10-029, the CPUC concluded:

> [W]hile the FERC ultimately will decide how much of the costs for this project PG&E may recoup in transmission rates, we [the CPUC] believe our cost cap has bearing on the amount [an electrical corporation] may seek from the FERC.

Tri Valley, mimeo at 137. Citing the Federal Power Act, the CPUC further found that "states retain[ed] control over transmission siting" and that, under section 1005.5, the CPUC "must determine whether costs for the Project are reasonable." Id. at 8. Jefferson-Martin 230 kV Transmission Project, Decision 04-08-046, mimeo at 129, the CPUC re-affirmed its obligation to adopt cost caps for transmission projects consistent with section 1005.5. As these orders recognize, the CPUC is essentially asking the Commission to recognize (and take into consideration) the conditions of any certificate of public convenience and necessity that would have been known in advance and accepted by the project developer before it started construction of the project.

have an incentive to intervene in Commission proceedings in order to achieve compliance with any cost cap or cost containment measures they impose.

Moreover, although the Commission is indeed responsible for determining just and reasonable rates, regulatory agencies may have the authority to impose cost caps or other cost containment measures on the entities subject to their jurisdiction as a condition of any certificate of public convenience and necessity granted to such regulated entity. For example, the CPUC uses project costs to set a maximum cost for the project (*i.e.*, cost cap). In that regard, for all transmission projects estimated to cost more than $50 million, the CPUC is statutorily required to establish a maximum cost for the project that the electrical corporation may seek to recover in rates.[165]

The ISO recognizes that state and local authorities cannot prevent the pass through of cost recovery that the Commission approves. Nonetheless, to the extent project costs are projected to exceed any cost cap imposed by the regulatory authority, that regulatory authority can revoke the certificate of public convenience and necessity or reconsider the project. In that regard, if project costs are increasing, and the project's benefit/cost ratio is thereby decreasing, a project may no longer be sustainable.

The ISO therefore believes that the authority of a local jurisdictional authority to impose cost caps is a relevant factor that the ISO should take into consideration in any project sponsor selection decision it might be required to make.

e. Selection of an Approved Project Sponsor When All Project Sponsors Elect to Obtain Their Authorizations from the Same Regulatory Authority

The ISO's current tariff provides that if all the project sponsors that submit proposals to build and own a proposed transmission project state that they will seek their siting authorizations from the same regulatory agency, the ISO will defer to that regulatory agency to make the decision as to which qualified project sponsor should build and own the project.[166] The ISO proposes to retain these provisions. During the stakeholder process, only one stakeholder submitted comments objecting to this framework. It contended that the same process should apply whether project sponsors are going to the same siting authority or different siting

[165] Cal. Pub. Util. Code section 1005.5(a).

[166] ISO tariff section 24.5.2.1(b).

authorities and that having the ISO select the approved project sponsor in one instance and having a governmental authority selecting the winner in the other circumstance will lead to gaming.

These tariff provisions were implemented as part of the revised transmission planning process approved by the Commission. The Commission agreed with the ISO that there are sound reasons for this framework whereby the ISO defers to the state siting authority when all project sponsors will seek their authorizations from the same siting authority, and the ISO will decide when competing project sponsors elect to go to different siting authorities.[167] Nothing in Order No. 1000 requires any change to this process.

Deference to state siting authorities when all project sponsors indicate their intent to obtain their siting authorizations from the same government agency is not a novel idea. The ISO modeled it after the NYISO's transmission planning process in which the NYISO merely determines the need for new reliability projects, but the New York Public Service Commission ("NYPSC") chooses among competing solutions and determines who builds the transmission facilities it ultimately certificates. The Commission found that the NYPSC was well situated to make these determinations, and that such approach could expedite the siting of facilities.[168]

The ISO's existing approach appropriately recognizes that it is ultimately state regulatory agencies, not the ISO, that determine which facilities get sited and who builds them. When all of the project sponsors intend to seek their siting authorizations from the same siting authority, there is no compelling reason for the ISO to interpose itself as an additional decisional layer that would only serve to slow down the overall process, result in duplication of effort, and potentially delay the construction of needed facilities. The CPUC and other local regulatory authorities have considerable experience in evaluating siting proposals, are well attuned to state and local policy concerns, are well equipped to decide who should build a given project, can address cost issues, and have experience deciding among alternative proposals. Indeed, siting authorities are obligated to consider alternatives. This will serve to expedite the siting process. The ISO's approach is rational because it avoids any duplication of effort and will allow needed projects to be sited more quickly.

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[167] *RTPP 1 Order* at PP 202, 211, 218, 237-40; RTPP Transmittal Letter at 62-64 (June 4, 2010); Answer to Protests, Motion for Leave to Answer and Answer to Protests Of The California Independent System Operator Corporation, pp. 80-82 (July 15, 2010).

[168] *New York Independent System Operator, Inc.,* 109 FERC ¶ 61,372 at P 19 (2004).

Moreover, even if the ISO were to determine who should build a specific transmission facility under these circumstances, the siting authority could revisit the ISO's decision and reject the project, modify the project, or make a different determination of who should build the project. As the Commission noted in approving the RTTP, although the ISO has the authority to determine which projects are included in the transmission plan and are eligible for cost recovery under the ISO tariff, it does not have the authority to determine who gets to build transmission facilities. That authority rests with the relevant jurisdictional agency.[169]

Project sponsors who were not selected by the ISO could thus get "another bite of the apple" by going to the CPUC and requesting that the CPUC authorize them to build a project, essentially doing an end run around the ISO's decision. The ISO would be in the position of either accepting the siting agency's decision or foregoing the construction of a project the ISO has found to be needed. The latter is not a tenable option. Given this potentiality, the ISO believes that it is simply more efficient to let the applicable state agency decide among competing project proposals when all project sponsors intend to go to the same siting authority.

On the other hand, there is a legitimate reason why the ISO must make the project sponsor selection decision if project sponsors choose to go to different siting authorities. There are a number of agencies in California with overlapping authority to site projects, and there is no state process for choosing between competing projects and sponsors when they are subject to different siting authorities. The RTPP tariff provisions resolve this issue by assigning the responsibility for selecting an approved project sponsor to the ISO. This approach reduces the potential for duplicative and unnecessary siting efforts and potential prolonged litigation, ensures more expedited receipt of siting approvals and ensures that no project sponsor is unduly advantaged or disadvantaged based on the regulatory authority from which it will obtain its siting authorizations. Absent this approach, competing project sponsors would be unnecessarily duplicating efforts before different siting authorities and incurring significant costs on projects that ultimately only project sponsor could build and own. This could lead to multiple siting agencies authorizing different entities to build the project -- which would likely result in prolonged litigation or both sponsors trying to race forward to obtain siting authorizations ahead of the other in order to "get the jump" on rights-of-way acquisition and construction in order to deter the other project sponsor from proceeding with the project. Because the siting authorities retain the final approval authority, the ISO cannot eliminate this possibility completely. The ISO's approach, however, significantly reduces this possibility.

[169] *RTPP 1 Order* at P 240.

Finally, nothing in Order No. 1000 suggests that the ISO's existing process is contrary to the Commission's requirements for elimination of a federal right of first refusal. Nowhere in Order 1000 does the Commission overturn, let alone address, the ISO's and NYISO's previously approved tariff provisions reflecting the role of state siting authorities. To the contrary, Order No. 1000-A specifically states that the transmission planning requirements of Order No. 1000 are associated with the processes used to identify and evaluate transmission needs and potential solutions to those needs and in no way involves an exercise of authority over the specific substantive matters traditionally reserved for the states including, the siting, permitting and construction of transmission facilities.[170] The Commission stressed that Order No. 1000's reforms concerned process and were not intended to dictate substantive outcomes such as what transmission facilities will be built and where. Rather, Order No. 1000 only intended to ensure that there is an open and transparent process that produces a regional plan. If regional utility transmission providers' regional transmission plans satisfy these requirements, then they will be in compliance with Order No. 1000.[171] The ISO's planning process achieves that result and, as such, the ISO is in full compliance with Order No. 1000.

f. Consideration of Project Sponsor Strengths and Advantages

One stakeholder objected to the selection criterion that allows individual project sponsors to highlight their strengths or advantages, as well as any efficiencies or benefits demonstrated in their proposal, claiming that it gives the ISO unfettered discretion. The ISO included the underlying tariff language in the RTPP filing to accord potential project sponsors the maximum ability to show any specific advantages they might have vis-à-vis competitors to construct and own transmission facilities. The Commission found the ISO's proposed selection criteria were just and reasonable and not unduly discriminatory or preferential.[172] Nothing in Order No. 1000 requires elimination of this tariff provision; indeed Order No. 1000 embraces it.

Indeed, Order No. 1000 recognizes that individual transmission developers may have certain strengths, and they should not be precluded

[170] Order No. 1000-A at P 188.

[171] *Id.*

[172] *RTPP 1 Order* at P 220. In two separate sections of its order, the Commission noted that the ISO's selection criteria allow project sponsors to demonstrate their individual abilities, advantages and qualifications "appropriately." *Id.* at PP 221, 234.

from presenting their strengths to support a proposal.[173] The Commission re-affirmed this position in Order No. 1000-A stating that a transparent and not unduly discriminatory evaluation process "does not preclude public utility transmission providers in the regional transmission planning process from taking into consideration the particular strengths of either an incumbent transmission provider or a non-incumbent transmission provider during its evaluation."[174] Consistent with Order Nos. 1000 and 1000-A, the ISO tariff allows both incumbent and non-incumbent transmission developers alike to demonstrate any and all strengths they have to build and own a particular needed transmission facility.[175]

3. Consideration of Rights-of-Way

Section 24.5.2.4 in the existing ISO tariff, which sets forth the criteria that the ISO will consider in selecting a project sponsor under the ISO's competitive solicitation process, includes the following two selection criteria (among others):

> (b) the Project Sponsor's existing rights-of-way and substations that would contribute to the project in question;
>
> (c) the experience of the Project Sponsor in acquiring rights-of-way and the authority to acquire rights-of-way, by eminent domain if necessary, that would facilitate approval and construction.

During the ISO stakeholder process, one stakeholder commented that rights-of-way should not be a factor in selecting project sponsors and requested that the ISO remove these two selection criteria from its tariff. The ISO, however, believes that these criteria serve a legitimate purpose and that Order No. 1000 does not require their elimination.

When the Commission approved the ISO's revised transmission planning process in December 2010, it approved the project sponsor selection criteria proposed by the ISO, including the two aforementioned

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[173] Order No. 1000 at P 260.

[174] Order No. 1000-A at P 454.

[175] The ISO does not know and cannot predict all the strengths and advantages a particular project sponsor may have or benefits a project sponsor proposal might provide and, as such, the ISO does not believe it is appropriate to place any undue limitations on project sponsors' demonstrations. Following the ISO's selection of an approved project sponsor, the ISO will post a report detailing its comparative analysis of the selection criteria and the reasons for its determinations. Thus, all stakeholders will be able to assess whether the ISO's selections are consistent with the specified purpose of the project selection and comparative analysis process.

criteria, as just and reasonable, transparent, balanced, not unduly discriminatory or preferential, and sufficient to allow all interested project sponsors to demonstrate their individual abilities, experience, and assets.[176] There is nothing in Order No. 1000 that overturns this finding; indeed, statements in Order Nos. 1000 and 1000-A support the retention of these selection criteria in the tariff.[177]

The ISO recognizes that, in Order No. 1000-A, the Commission clarified that transmission providers cannot include in their project sponsor qualification criteria a requirement that a transmission developer demonstrate that it either has or can obtain state approvals necessary to operate in a state, including state public utility status and the right to eminent domain, to be eligible to propose a transmission facility.[178] The two right-of-way related project sponsor selection criteria set forth in tariff sections 24.5.2.4 (b) and (c) are not qualification criteria and therefore do not contravene this requirement. A potential project sponsor need not prove that it has or can obtain necessary state approvals in order to be eligible to propose a project and to participate in the competitive solicitation process. Sections 24.5.2.4 (b) and (c) are merely two criteria, among many, that the ISO will consider in selecting a project sponsor for a needed transmission element. The project sponsor qualification criteria -- which would disqualify a potential project sponsor if they are not met -- are set forth separately in a different ISO tariff section, section 24.5.2.1, and do not contain any references to rights-of-way.[179]

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[176] *RTPP 1 Order* at PP 219-24, 231, 234.

[177] The ISO also notes that the criteria considered by the Public Utilities Commission of Texas in its competitive solicitation process for the construction of Competitive Renewable Energy Zone-related transmission facilities include in addition to cost considerations (1) a transmission developer's preexisting procedures and historical practices for acquiring rights-of-way and land acquisition for transmission facilities (and if the transmission developer has no existing procedures, then a description of the plan for acquiring rights-of-way and land and managing the acquisition of such land and rights-of-way), (2) a discussion of the transmission developer's business practices that demonstrates its business practices with respect to right-of-way acquisition are consistent with good utility practice, and (3) the relative capability and experience of the persons that used for rights-of-way and land acquisition. *See* Tex Admin. Code, Tit. 16, R 25.216 (e) (1) (D), (H) and (L). As the Commission is aware, the ISO's competitive solicitation process approved as part of the RTPP tariff amendments largely was modeled after the competitive solicitation process adopted by the Texas Public Utilities Commission.

[178] Order No. 1000-A at P 441.

[179] Stated differently, these tariff provisions do not give an existing participating transmission owner the automatic right to build all or any portion of a project just because it possesses rights-of-way on which the facility can be constructed. To the extent a project sponsor has rights-of-way that can contribute to its ability to construct a project in a timely and cost-effective manner, the ISO will take that into account along with numerous other factors in the selection process.

Nonetheless, to eliminate potential confusion, the ISO proposes to modify tariff section 24.5.2.4(c) by eliminating the words "and the authority to acquire rights-of-way by eminent domain, if necessary." This is consistent with the aforementioned clarification in Order No. 1000-A. As a result, the existing language in section 24.5.2.4(c) would be revised to provide as follows:

> (c) the experience of the Project Sponsor in acquiring rights-of-way that would facilitate approval and construction.

The ISO does not believe that any other changes to these two project sponsor selection criteria are appropriate or required by Order No. 1000.

These two criteria, with the revision discussed above, continue to be relevant and appropriate in the project sponsor selection process because they provide information that will assist the ISO in determining the entity that can most efficiently and cost-effectively construct a needed transmission project. Building on existing rights-of-way, as opposed to having to purchase new land and rights-of-way, or paying to use another transmission owner's existing rights-of-way, could reduce the total cost of a project. In addition, possession of rights-of-way and experience in acquiring rights-of-way may reduce the number of siting approvals that are needed, facilitate the timely acquisition of rights-of-way and completion of a project, promote efficiency, reduce the environmental impacts of a project, and potentially reduce or mitigate opposition to a project, all of which reduce the risk of project delays (or abandonment).

Possession of rights-of-way potentially could eliminate the need to obtain a certificate of public convenience and necessity or permit to construct from state regulators.[180] It can avoid the need for additional regulatory proceedings to determine whether a transmission developer will be permitted to utilize the rights-of-way of an existing transmission owner or what the appropriate level of compensation is for the use of such

[180] Under General Order No. 131-D of the California Public Utilities Commission, a certificate of public convenience and necessity is required for major electric transmission line facilities of 200 kV or more (except for the replacement of existing power line facilities or supporting structures with equivalent facilities or structures, the minor relocation of existing power line facilities up to 2,000 feet in length or the intersetting of additional supporting structures already built, and the placing of new or additional conductors, insulators, or their accessories on supporting structures already built). A permit to construct is required for any new electric power line facilities or substations operating between 50 kV and 200 kV or new or upgraded sub-stations with high side voltage exceeding 50 kV. An upgraded substation is defined as one where there is an increase in substation land beyond the existing utility owned property or an increase in the voltage rating of the sub-station above 50 kV. Also a permit to construct is not required for power line facilities or substations located in an existing franchise, road-widening setback easement, or public utility easement.

existing rights-of-way.[181] It may also avoid potentially increased insurance costs associated with joint usage of the same right-of-way.

Although incumbent transmission owners may have certain rights-of-way, that is not a basis for disregarding these factors during the project sponsor selection process.[182] As the Commission recognized in Order No. 1000, "an incumbent utility transmission provider is free to highlight its strengths to support transmission project(s) in the regional transmission plan, or bids to undertake transmission projects in regions that choose to use solicitation processes."[183] For example, the Commission recognized that incumbent transmission providers may have unique knowledge of their own transmission systems, familiarities with the communities they serve, economies of scale, experience in building and maintaining transmission facilities, and access to funds needed to maintain reliability, and stated that removal of the right of first refusal did not diminish the importance of these factors or preclude an incumbent (or any other project sponsor) from highlighting their strengths to support a transmission project.[184] Possession of rights-of-way and experience in acquiring rights-of-way clearly fall within the categories of factors the Commission found in Order No. 1000 to be valid project selection criteria.

Order No. 1000-A clarifies that nothing in Order No. 1000 is intended to preclude the transmission provider from taking into account the particular strengths of either an incumbent transmission provider or a non-incumbent transmission developer during its evaluation.[185] Indeed, in

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[181] State law requires that before public utilities can lease, assign, or otherwise dispose of their rights-of-way to a third-party, they must secure approval from the CPUC (*see* California Public Utilities Code Section 851). Under Section 1001 of the California Public Utilities Code, where any public utility seeks to construct or extend facilities that interfere, or are about to interfere with the operation of the line, plant or system of another public utility, the CPUC, on the complaint of the affected public utility or public agency may after hearing make such order and prescribe such terms and conditions for the location of the lines, plants or systems affected as it may deem just and reasonable. A public utility includes any corporation or person owning, controlling, operating, or managing transmission facilities within California (see California Public Utilities Code Sections 216, 217, 218, and 767).

[182] It is important to note that the ISO's criteria relating to rights-of-way are not applicable only to existing ISO participating transmission owners. To the extent, any transmission developer -- transmission owners that are not participating transmission owners, municipal utilities, federal power authorities, merchant transmission developers, or independent transmission developers -- has already acquired rights-of-way that could be used to support a project, that entity will be able to make that demonstration in its submission to the ISO, and the ISO will take that into consideration on a non-discriminatory basis. Any transmission developer can also highlight its experience in acquiring rights-of-way that would facilitate approval and construction of the project.

[183] Order No. 1000 at P 260.

[184] *Id.*

[185] *Id.* at P 454.

Order No. 1000-A, the Commission recognized that incumbent transmission developers/providers may have certain advantages "such as *rights of way*" (emphasis added),[186] and in some situations may be well-equipped to prevail in a competitive process. Thus, the Commission expressly contemplated that rights-of-way could be a strength to be highlighted in a competitive solicitation process. The ISO's existing tariff language is consistent with these express findings in Order Nos. 1000 and 1000-A.

Further, in a recent order, the Commission recognized that possession of existing rights-of-way (in that instance existing substations) that could be used for construction of a new project was an important factor supporting the decision to designate incumbent transmission providers to build the project. The order recognized that construction of the project at existing sub-stations would result in lower project costs and require fewer siting approvals, thereby reducing the risk of delay.[187]

In addition, California law provides that, in approving new transmission to achieve renewable portfolio standard goals, the following should be considered: (1) the utilization of rights-of-way by upgrading existing transmission facilities instead of building new transmission facilities, where technically and economically justifiable; (2) the expansion of existing rights-of-way, if technically and economically feasible when construction of new transmission is required; and (3) the creation of new rights-of-way when justified by environmental, technical and economic reasons.[188] The ISO's consideration of right-of-way factors is consistent with this State law.

4. Information Requirements During Permitting and Construction; Delays in Construction and Mitigation Plans; Backstop Obligations

Order No. 1000 requires each public utility transmission provider to amend its tariff to provide for reevaluation of the regional transmission plan to determine if delays in the development of a transmission facility require evaluation of alternative solutions, including those proposed by the incumbent, to ensure incumbent transmission providers can meet reliability needs or service obligations.[189] The ISO conducts its transmission planning process on an annual basis and includes status updates on previously approved projects in each transmission plan. The

[186] Order No. 1000-A at P 88.

[187] *Primary Power, LLC v. PJM Interconnection, L.L.C.,* 140 FERC ¶ 61,054 at PP 12-13, 72-73 (2012).

[188] California Public Utilities Code, Section 1005.1.

[189] Order No. 1000 at P 329.

ISO takes project delays into consideration and, to the extent a delay in a project created a need for other mitigation solutions, the ISO would identify these solutions. However, in light of the Order No. 1000 provisions discussed above, several stakeholders, expressed the need for additional tariff provisions that would require additional information from project sponsors during the project permitting and construction phase to ensure that the ISO can accurately track progress and promptly address potential delays, particularly in connection with reliability-driven projects.

The ISO agreed with these stakeholders and developed tariff language that sets forth reporting requirements for approved project sponsors that begin soon after the sponsor is selected. The proposed tariff language also includes a process by which the ISO will notify participating transmission owners to prepare a mitigation plan if project delays or other failures to reach milestones might cause reliability violations. No party raised substantive objections to these tariff provisions during the stakeholder process on the Order No. 1000 compliance tariff language.

In this filing, the ISO proposes a new tariff section 24.6.1, which provides that approved project sponsors must submit a construction plan within 120 days of receiving approved project sponsor selection notification. The construction plan must include information about land acquisition and permitting, materials procurement, project financing and other data as specified in the BPM. Every 90 days thereafter, the project sponsor must submit a construction plan status report. The ISO will provide copies of the status report to the participating transmission owner(s) in whose service territory the facility is located and connected, unless the participating transmission owners is the approved project sponsor. According to a schedule established in the BPM for the Transmission Planning Process, the ISO will schedule calls with participating transmission owners to discuss the project schedule and consider whether it is feasible to complete the project within the established timeframe.

In addition to these regular reporting requirements, the ISO also proposes new tariff sections addressing the consequences of project delays, development and submittal of mitigation plans under circumstances where a delay could cause a NERC reliability standard violation, and the steps that the ISO will take in the event that an approved project sponsor is unable to construct a transmission upgrade or addition.[190] Section 24.6.2 of the ISO tariff as revised by this filing provides that the ISO will notify stakeholders that the approved project sponsor (if the project has not been abandoned) and the applicable participating

[190] *See* ISO tariff sections 24.6.2, 24.6.3 and 24.6.4.

transmission owners will develop a plan to address potential reliability standard violations, including the possibility that an alternative project sponsor be selected. Under section 24.6.3, the ISO will identify the potential criteria violations and direct the impacted participating transmission owner(s) to develop mitigation plans, submit such plans to NERC and the Western Electricity Coordinating Council and to take all other actions reasonably required to address such violations.[191]

Section 24.6.4 describes the process that the ISO will follow when an approved project sponsor is unable to complete construction of the project or if, pursuant to section 24.6.2, the ISO determines that an alternative project sponsor should be selected. Under these circumstances, the ISO will notify its stakeholders and develop alternative proposals, which could include non-transmission alternatives. For regional transmission reliability solutions, the ISO at its discretion may either open a new competitive solicitation or direct the participating transmission owner with a service territory or footprint in which either terminus of the project connects to finance, own or construct the project. This reflects existing tariff language that was approved in the *RTPP 1 Order*, and no stakeholder objected to this provision.

Finally, the ISO is proposing revisions to its existing tariff regarding the backstop obligation for economic and public policy projects. In that regard, during the stakeholder process, one participating transmission owner objected to the imposition of a backstop obligation for unsponsored economic and public policy projects on participating owners with a PTO Service Territory, and urged the ISO to revise its existing tariff provisions to remove such backstop obligation. That participating transmission owner expressed concern that it is required to maintain additional reserve capital to the extent it has such a backstop obligation, and that this increases its costs, harms it competitively, and prevents it from using its limited funds on other projects. Under the existing tariff, to the extent an approved project sponsor is unable or unwilling to complete an economic or public policy project that the ISO has awarded to it, the ISO has the discretion either to conduct a new competitive solicitation or direct the participating transmission owner with a service territory or footprint in which either terminus of the project connects to finance, own or construct the project. This is the same backstop provision that applies to reliability transmission solutions.

In response to the stakeholder's concerns, the ISO is proposing tariff revisions regarding the backstop for economic and public policy projects to minimize the exposure that participating transmission owners

[191] Section 24.6.3 was developed to address the Commission's discussion about mitigation plans at paragraph 1000 of Order No. 1000.

might have with respect to backstopping economic or public policy projects while still recognizing that some entity ultimately must be obligated to construct projects that the ISO finds to be needed and which no other project sponsor has agreed to build. Specifically, in section 24.6.4, the ISO is proposing that for non-reliability transmission solutions where the approved project sponsor is unable to construct the project or unable to obtain the necessary approvals or property rights, the ISO will open a new competitive solicitation for such transmission facilities. Only if there is no approved project sponsor after the second competitive solicitation will the ISO direct the applicable participating transmission owner to build the facility. This should reduce a participating owner's exposure to backstop obligations and will provide increased opportunities for independent transmission providers to compete to build needed regional transmission solutions.

The ISO's proposal also recognizes that ISO cannot simply eliminate any backstop obligation altogether because that could result in needed economic and public policy projects not being built. This is an untenable result and one with which the Commission implicitly agreed in approving the ISO's current backstop provisions. The participating transmission owners with service territories are the franchised electric service providers in their service territory; they have the obligation to provide the transmission facilities needed to serve load reliably and efficiently. They are the providers of last resort, and they are the transmission building entities with which the ISO has a contractual relationship. Where no one else steps up to build needed transmission facilities, the ISO must have the ability to require these participating transmission owners to build such facilities as an ultimate backstop.

E. Other Issues

1. Interregional Transmission Planning

During the stakeholder process, one stakeholder indicated concern that the ISO was "postponing" adopting any interregional planning tariff provisions until April 2013. Order No. 1000 required that each public utility transmission provider submit a compliance filing within 12 months of the effective date of Order No. 1000 demonstrating its compliance with the local and regional transmission planning and cost allocation requirements set forth in Order No. 1000. The instant compliance filing is intended to comply with that obligation. Order No. 1000 also required that each public utility transmission provider submit a separate compliance filing within 18 months of the effective date of Order No. 1000 demonstrating that it meets the requirements with respect to interregional transmission coordination and interregional cost allocation. Order No. 1000 does not require the interregional planning reforms to be proposed in a compliance filing until

April 2013. Thus, the stakeholder's request is beyond the scope of the instant compliance filing.

Moreover, the ISO cannot unilaterally implement interregional planning and cost allocation reforms. It requires close collaboration and agreement among the various regional entities with which the ISO interconnects, and most of which are still in the process of formulating their processes for complying with the regional planning reforms adopted in Order No. 1000. The stakeholder's request is thus also impractical.

2. Funding for Stakeholders Participating in the Planning Process

In comments submitted during the stakeholder process, a couple of stakeholders requested that the ISO consider the issue of mechanisms for funding stakeholder participation in the ISO's transmission planning process. Order No. 1000 expressly does not require adoption of such a stakeholder funding mechanism, although the Commission noted that nothing in the order precludes transmission providers from choosing to provide such funding to consumer advocacy groups or other stakeholders.[192] The ISO is not proposing any stakeholder funding mechanism in the instant compliance filing. Accordingly, the request to implement a stakeholder funding mechanism goes beyond the scope of Order No. 1000 compliance.

3. Consideration of Non-Transmission Alternatives

A couple of stakeholders suggested that the ISO had not provided any discussion on how it will address non-transmission alternatives. These stakeholders asked that the ISO pro-actively discuss potential approaches for addressing non-transmission matters. The ISO notes that Order No. 890 required transmission providers to implement tariff provisions requiring that all resources – both transmission and non-transmission resources – be treated comparably in the planning process.[193] In Order No. 1000, the Commission stated that it was merely ensuring that the requirement previously adopted in Order No. 890, *i.e.,* "that generation, demand resources, and transmission be treated comparably in the regional transmission planning process," are applied to regional transmission planning.[194]

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[192] Order No. 1000 at P 467.

[193] Order No. 890 at P 494; Order No. 890-A at P 215- 16. Order Nos. 890 and 890-A recognized the need for comparable treatment of demand response and generation resources.

[194] Order No. 1000 at PP 154-56, 779. As the Commission recognized, "[O]n compliance with Order No. 890, each public utility transmission provider already has put into place regional transmission planning processes that provide for the evaluation of proposed

In its Order No. 890 compliance filing, the ISO added provisions to its tariff to ensure the comparable treatment of transmission and non-transmission alternatives. The Commission found the ISO's tariff provisions to be just and reasonable and in compliance with the non-transmission alternative requirements of Order No. 890.[195] In particular, the Commission found that the ISO's tariff provisions satisfied the comparability principle and that the ISO adequately described in its tariff how demand resources and interruptible loads would be treated comparably.[196] The Commission also found that demand response programs and generation projects would be subject to the same screening criteria as other projects and that the ISO would consider the costs and benefits of viable alternatives to transmission projects.[197]

In the RTPP tariff amendment, the ISO proposed several tariff modifications involving demand response and non-transmission alternatives to enhance the efficiency and comprehensiveness of the existing planning process. The Commission found that these tariff changes "continue[d] to comply with Order No. 890."[198] The Commission noted that the ISO's existing tariff adequately described how demand response resources would be treated comparably and confirmed that the relevant RTPP tariff provisions included and explained with sufficient transparency the consideration and evaluation of alternatives to transmission upgrades.[199] Order No. 1000 does not expressly impose any new or different requirements on the ISO with respect to its consideration of non-transmission alternatives.

As a result of the ISO's Order No. 890 and RTPP tariff amendments, in developing the Unified Planning Assumptions and Study Plan during Phase 1 of each annual cycle of the ISO transmission planning process, the ISO considers demand response programs and generation and other non-transmission solutions that are proposed for inclusion in long-term planning studies as alternatives to transmission additions or upgrades.[200] During Phase 1, stakeholders also have an express opportunity to submit proposals for demand response programs

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solutions on a comparable basis. In this Final Rule, the Commission is applying to regional transmission planning the comparability planning principles stated in Order Nos. 890 and 890-A." (footnotes omitted). Order No. 1000 at P 156.

[195] *ISO 890 Compliance Order* at PP 104-06; *ISO 890 Compliance Reh'g Order* at P 82.

[196] *ISO 890 Compliance Order* at PP 104-06.

[197] *Id.* at P 106.

[198] *RTPP 1 Order* at P 180.

[199] *Id.* at PP 180-181.

[200] ISO tariff section 24.3.1 (k) and (j); 24.3.3 (a)

and generation and other non-transmission alternatives for consideration in the development of the Uniform Planning Assumptions and Study Plan.[201] Further, during Phase 2 of the transmission planning process, the ISO opens a request window for the submission of demand response or generation projects proposed as alternatives to transmission additions or upgrades.[202] The ISO also offers stakeholders the opportunity to identify non-transmission alternatives in their comments on the conceptual statewide plan.[203] Finally, ISO tariff sections 24.4.6.2, 24.4.6.4, and 24.4.6.7 expressly provide that the ISO will consider the comparative costs and benefits of viable non-transmission alternatives in determining the best solutions to meet reliability and economically-driven needs, and the need to maintain the simultaneous feasibility of long-term CRRs. The ISO applies the same criteria for determining whether to adopt a transmission solution or a non-transmission solution to meet an identified need.

Because the ISO tariff already satisfies the comparability requirements for non-transmission alternatives in its regional transmission planning process, and the ISO qualifies as a regional planning entity under Order No. 1000, the ISO's tariff complies with both Order Nos. 890 and 1000 in this respect. Order No. 1000 does not expressly impose any additional comparability requirements on the ISO with regard to the consideration of non-transmission alternatives.

However, to provide further clarity regarding the ISO's assessment of alternative transmission and non-transmission solutions, the ISO proposes to add language to tariff sections 24.4.6.2 and 24.4.6.4 indicating that the ISO will determine the solution the meets the identified need (or needs) in the most prudent and cost-effective manner. This language is consistent with the Commission's stated objective in Order No. 1000 (*i.e.,* more efficient or cost-effective solutions to meet identified needs),[204] the provisions of the ISO's BPM for the Transmission Planning Process,[205] the ISO's current practice in determining which specific transmission or non-transmission solutions are needed, [206] and other

[201] ISO tariff section 24.3.3.

[202] ISO tariff section 24.4.3(a).

[203] ISO tariff section 24.4.4.

[204] Order No. 1000 at PP 5, 255.

[205] ISO Business Practice Manual for the Transmission Planning Process, Section 4.7.1.

[206] *See also, RTPP 1 Order* at PP 165, 181.On a stakeholder call regarding the Order No. 1000 compliance tariff language, one stakeholder raised the question how the ISO would know what the most prudent and cost-effective approach to address an identified need is given that the ISO will not yet have conducted its competitive solicitation. To clarify the ISO's intent, the ISO revised the tariff language to provide that during Phase 2 of the planning process the ISO is merely identifying the most prudent and cost-effective

Commission precedent. Specifically, in its Order Denying Complaint in Docket No. EL11-8, the Commission recognized and reaffirmed the standard applied by the ISO to determine which alternative transmission or non-transmission solution among multiple options is the best solution for meeting an identified reliability need(s) -- namely, "the most prudent and cost-effective solution."[207] That order also recognizes that this standard provides the ISO with the ability to determine that a solution that cost-effectively meets multiple needs may be more prudent than a solution that meets only one need.[208]

Further, it is important to recognize that the ISO employs a "top down" approach to transmission planning, not a "bottoms up" or project sponsorship" model; individual projects are evaluated on a project-by-project basis to determine if they are needed. During Phase 3 of the ISO's planning process, all potential project sponsors then have the opportunity to compete to build the regional transmission solution which the ISO finds to be most prudent and cost-effective in meeting the identified need(s). No party is prejudiced by this approach because no transmission developer has an ownership right in the regional solutions that are suggested or in the regional solution the ISO ultimately adopts, and all needed regional transmission solutions are subject to competitive solicitation. To the extent any requirements of Order No. 1000 apply to a bottoms up model based on an evaluation of competing projects before needs are identified, the ISO's "top down" approach is superior to such an approach for all the reasons set forth above. As the Commission has previously recognized, stakeholders have numerous opportunities during the ISO's planning

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transmission or non-transmission "*solution"* (among many possible transmission and non-transmission solutions) to meet an identified need. The ISO has similar standards in its tariff for both the public policy and economic categories of transmission, and felt it was appropriate to add reflect the standard the ISO applies in approving solutions to meet reliability and long-term CRR needs, especially given that such standard reflects existing BPM provisions and Commission's own description of the standard applied by the ISO to approve specific solutions to meet identified reliability needs and maintain the simultaneous feasibility of long-term CRRs.

[207] *TTS* at PP 82-84. The Commission's decision in *TTS* also shows how the ISO compares traditional transmission solutions to alternative solutions.

[208] The ISO also notes that at its September meeting in which it approved the ISO's proposed Order No. 1000 compliance filing, the ISO Board directed ISO management to discuss further with stakeholders (1) how the ISO considers non-transmission alternatives during the transmission planning process and (2) seek input on how the ISO might further enhance its efforts to consider such solutions (including exploring how the ISO might be more proactive in identifying non-transmission solutions. The ISO intends to address these matters with stakeholders in an upcoming transmission planning stakeholder meeting during this planning cycle and will report back to the ISO Board in early 2013.

process to demonstrate why a particular solution constitutes the most prudent and cost-effective solution to meet an identified need.[209]

One stakeholder noted that section 24.4.3 of the ISO tariff only mentions demand response and generation as non-transmission alternatives that can be submitted during the Phase 2 request window, and suggested that the section should expressly mention storage alternatives. As indicated above, both Order No. 890 and Order No. 1000 expressly identify only demand response and generation as non-transmission alternatives, not storage. The Commission previously has found that electricity storage devices do not readily fit into only one of the traditional asset functions of generation, transmission, or distribution, and depending on the circumstances storage devices can resemble any of these functions, or even load.[210] For these reasons, the Commission has addressed the classification of energy storage devices on a case-by-case basis.[211] In other words, storage can be either a transmission facility or a non-transmission alternative depending on the specific functions that it will perform in a given situation.

Under these circumstances, and consistent with the Commission's prior pronouncements, the ISO does not consider it appropriate to generically state in the tariff that storage is a non-transmission asset. Further, it is unnecessary to add such tariff language because the ISO tariff already permits the ISO to consider storage as either a transmission solution or a non-transmission alternative. Identifying storage only as a non-transmission alternative in the tariff could potentially create confusion among stakeholders and inappropriately infer that storage cannot also be considered as a transmission solution under the proper circumstances.

A stakeholder also argued that non-wires alternatives, including storage, should be subject to competitive solicitation regardless of whether they are substitutes for local or regional facilities. This reflects a misunderstanding of the ISO's planning process. The ISO only conducts a competitive solicitation process for needed transmission solutions. Non-transmission solutions are considered for the purpose of determining whether or not a transmission solution is needed. To the extent an identified non-transmission solution constitutes the most prudent and cost-effective solution for meeting a need, the ISO will simply decline to

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[209] *RTPP 1 Order* at PP 2-3, 29, 1518. 173, 180-81 and 224.

[210] *Western Grid Development, LLC,* 130 FERC ¶ 61,056 at P 44 (2010) ("*WGD*"). In this order, the Commission "paved the way" for the ISO to consider storage facilities as transmission facilities in its transmission planning process, to the extent they satisfy the conditions set forth in that order. The ISO's 2010 and 2011 transmission plans included an evaluation of storage projects proposed as transmission solutions.

[211] *Id.; see also Nevada Hydro Co.,* 122 FERC ¶ 61,272 at P 84 (2008).

approve a transmission solution. The ISO does not approve specific non-transmission solutions, nor does it have tariff authority to do so.[212]

Further, to the extent the ISO accepts a proposed storage solution as a transmission solution (as opposed to a non-transmission solution), it will determine the construction and ownership responsibility for such storage resource based on whether the storage-transmission solution substitutes for some other local transmission facility or a regional transmission facility. It would be inappropriate and inconsistent with Order No. 1000 to provide that an incumbent transmission owner can only build certain types of local transmission facilities, but not other types, depending on the technology involved.

E. Request Window for Reliability Projects

Under the ISO's existing tariff, the ISO identifies the reliability needs that need to be resolved by either a transmission solution or a non-transmission solution. After the ISO posts the results of the reliability studies and identifies the reliability needs that need to be resolved, the ISO opens a request window under which participating transmission owners and other interested parties may submit suggested reliability solutions. The participating transmission owners are required to submit their proposals to address each of the identified reliability needs on their respective systems within 30 days of the ISO's posting of its reliability assessment.[213] All other interested parties are permitted to submit their suggested reliability solutions in accordance with the schedule set forth in the Business Practice Manual for the Transmission Planning Process.[214] Currently, under the BPM, all interested parties are permitted to submit their proposals for resolving any identified reliability needs up to one-month after the deadline for the participating transmission owner solutions.[215] The ISO proposes to retain this framework for reliability solutions under Order No. 1000.

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[212] All market participants are able to implement any non-transmission solutions they have to address needs identified in the planning process by following the applicable ISO tariff provisions. For example, new generation must follow the generator interconnection procedures and applicable market rules. The ISO cannot direct a specific stakeholder to construct a generation plant or storage facility to address an identified need and preclude others from building facilities that also might meet that same need. Demand response providers must follow the tariff provisions applicable to demand response participation in the ISO markets.

[213] ISO tariff section 24.4.2.

[214] Business Practice Manual for the Transmission Planning Process at Table 2-3.

[215] ISO tariff section 24.4.3. Interested parties can also submit non-transmission solutions during this period.

One stakeholder suggested that the tariff did not provide non-participating transmission owners with an opportunity to submit recommended reliability solutions. The ISO pointed that stakeholder to the tariff section 24.4.3, which in fact provides non-participating transmission owners (and other interested stakeholders) with the opportunity to submit reliability solutions. This stakeholder then stated that there is no basis for participating transmission owners to submit their proposed reliability solutions under a different schedule than everyone else. The Commission should not direct this change. The schedule in no way prejudices non-participating transmission owners; indeed, it benefits them (particularly smaller transmission developers, consumer representatives, and governmental entities) by enabling them to avoid the unnecessary expenditure of time and resources, and incurrence of additional costs, to prepare and submit solutions that a participating transmission owner will already be submitting.

The stakeholder's argument fails to recognize that under the ISO's proposed Order No. 1000 compliance tariff, no "ownership rights" apply to any reliability solution that a participating transmission owner, or any other stakeholder, submits, that is a regional transmission facility. Stated differently, the submission of a regional transmission solution by a participating transmission owner does not give such participating transmission owner the right to build that project if the ISO determines that it is the most prudent and cost-effective solution because, as described above, the ISO is eliminating the right-of-first refusal for reliability upgrades and additions that constitute regional transmission facilities. Also, as previously discussed, the ISO's approach to transmission planning is a "top down" approach whereby the ISO, with stakeholder input, determines the most prudent and cost-effective transmission (or non-transmission) solution that should be built to meet the ISO identified reliability need. That solution may be a solution recommended by a participating transmission owner, some other stakeholder, or a wholly separate ISO solution. All regional transmission solutions are subject to competitive solicitation. Thus, under the ISO's framework for determining the appropriate reliability solution to meet an identified reliability need, independent transmission developers are not prejudiced in any way by the timing of the submission of suggested reliability solutions.

On the other hand, obtaining the initial proposals to address reliability needs from participating transmission owners facilitates the logical development of the transmission plan. The participating transmission owners are the NERC-registered functional entities for purposes of maintaining reliability on their systems. Further, they have a statutorily imposed obligation to construct and maintain the facilities on their systems necessary to provide safe and reliable service to their

customers.[216] As such, they are uniquely situated to evaluate reliability needs on their systems in the first instance, and the information that they provide can assist others in developing alternatives. Under these circumstances, the ISO believes that it is appropriate that the participating transmission owners take "the first stab" at recommending solutions to meeting the reliability needs that exist on their systems, particularly given that no party is prejudiced by this approach and no ownership rights apply to a participating transmission owner's proposed regional transmission reliability solutions.[217] Order No. 1000 does not preclude the approach taken by the ISO and expressly acknowledges the role of existing transmission owners with respect to reliability.[218]

Moreover, the ISO's approach saves stakeholders time, money, and resources that might otherwise be expended on developing reliability solutions that a participating transmission owner is already submitting. The ISO believes that it is more valuable to the planning process for stakeholders to identify alternative solutions for consideration by the ISO or identify improvements to the participating transmission owners' solutions that to prepare duplicative solutions. Finally, the ISO's approach reduces the administrative burden on the ISO (and its limited resources) of sifting through duplicative recommendations.

In any event, to address the stakeholder's concern, the ISO is adding language to section to clarify that if a stakeholder desires to submit its reliability solutions under the same timeframe as a participating transmission owner it may do so, but is not required to do so if the BPM grants a longer period of time to submit their recommended solutions.

G. Effective Date of the ISO's Compliance with Order No. 1000

In Paragraph 65 of Order No. 1000, the Commission stated that the requirements of the Final Rule apply only to new transmission facilities, which are those transmission facilities that are subject to evaluation within a public utility transmission provider's local or regional planning process after the effective date of the public utility transmission provider's filing adopting the relevant requirements of the final rule. The Commission recognized that the final rule may be issued in the middle of a transmission planning cycle and directed transmission providers to explain

[216] California Public Utilities Code, Sections 45, 761, and 762.

[217] This approach also enables the ISO to begin consideration of reliability solutions earlier with the input of entities that have reliability responsibilities under NERC requirements.

[218] Order No. 1000 at PP 262-64, 344.

in their respective compliance filings how they intend to implement the requirements of the Final Rule.

The ISO is currently in the middle of Phase 2 of the 2012-2013 transmission planning process. As of October 11, 2012, the ISO has already identified reliability needs, opened the submission window for reliability project submissions and non-transmission alternatives (which submission window will close in four days), identified the resource portfolios to determine if any public policy-driven projects are needed, and is evaluating solutions to meet identified needs. The ISO will post its final reliability study results and mitigation solutions by the end of October and expects to post its update on the preliminary policy driven and economic planning study results during the fourth quarter of 2012. The ISO will post its draft comprehensive transmission plan sometime in January 2013 and will seek stakeholder input on that draft plan, conduct a stakeholder meeting, and finalize the draft plan in February. The ISO will then provide its Board of Governors with revised draft comprehensive transmission plan for approval at the March 2013 board meeting.

With respect to the 2013-2014 transmission planning cycle, the ISO will undertake the following activities during the first half of 2013, in accordance with Table 2-3 of the BPM for the Transmission Planning Process: (1) post a draft Study Plan in the second week of February, (2) shortly thereafter host a stakeholder meeting and seek written comments from stakeholders on the draft Study plan, including recommendations regarding public policy requirements or directives to consider in the planning process;[219] (3) specify a provisional list of high priority economic planning studies and post a final Study Plan by the end of March, 2013; and (4) initiate development of the Conceptual Statewide Plan during the second quarter of 2013. Phase 2 of the 2013-2014 planning cycle will commence after the completion of Phase 1. Phase 3 of the 2013-2014 planning process would commence on February 1, 2014.

In light of the numerous compliance filings on which the Commission must act and given the current status of the 2012-2013 transmission planning cycle, the ISO anticipates that the Commission will not be able to issue an order on the ISO's compliance filing until well after completion of the 2012-2013 planning cycle and sometime during the course of the 2013-2014 planning cycle. Accordingly, the ISO is not affirmatively requesting that the Commission approve the proposed Order No. 1000 compliance tariff provisions in time to be implemented for Phase 3 of the 2012-2013 transmission planning cycle. However, to ensure that the ISO's Order No. 1000 compliance, including any changes ordered by

[219] These actions implicate the public policy tariff revisions that the ISO is proposing herein.

the Commission, can be implemented by Phase 3 of the 2013-2014 planning cycle, the ISO requests that the Commission issue an order on the ISO's compliance filing by October 1, 2013.

Notwithstanding the foregoing, the ISO is prepared to apply its Order No. 1000 tariff provisions to Phase 3 of the 2012-2013 transmission planning process if the Commission issues an order approving the ISO's Order No. 1000 compliance filing without significant modification by February 1, 2013. Receiving a Commission order after that date would make it impractical for the ISO to apply such provisions to Phase 3 of the current planning cycle. In that regard, during February 2013, the ISO will be fully engaged in finalizing the 2013 transmission plan and engaging with stakeholders so that plan can be submitted to the ISO Board of Governors for approval in March 2013, and undertaking the requisite Phase 1 activities for the 2013-2014 planning cycle that are required during that month. Receipt of an order after February 1, 2013 requiring compliance in Phase 3 of the 2012-2013 planning cycle (and Phase 1 of the 2013-2014 planning cycle) could cause the ISO to be in violation of certain of its proposed tariff revisions in the compliance filing (*e.g.*, the requirement that the ISO post the key considerations for each transmission project that is subject to the Phase 3 open solicitation shortly after posting of the draft revised comprehensive transmission plan, which will occur at the end of January). Likewise, if the Commission's order materially modifies the ISO's proposed tariff amendments,[220] it could be problematic for the ISO to implement such revisions in time for the 2012-2013 Phase 3 solicitation process given the ISO's significant workload in January and February 2013.

H. The Commission Should Rule on All Elements of this Filing as a Compliance Filing

Many of the directives in Order No. 1000 merely identify general principles for public utility transmission providers to follow in their compliance filings, but do not set forth concrete tariff revisions that must be adopted. In some cases, the Commission has indicated that utilities have discretion to decide whether to address certain issues in their Order No. 1000 compliance filings. This potentially creates a very fine and unclear line between which tariff revisions constitute compliance with Order No. 1000 and which revisions require a separate section 205 filing to implement. Under these circumstances, the Commission should not be

[220] The ISO recognizes that because this is a Section 206 proceeding, depending on the scope, nature and specificity of any modifications the Commission orders, certain modifications may not become effective until the date the Commission issues an order approving a subsequent compliance filing. *Public Service Company of New Mexico v. FERC,* 832 F.2d 1201 (1987); *Transwestern Pipeline Company v. FERC,* 897 F.2d 570 (1990); Electrical District No. 1, et al. v. FERC, 774 F. 2d 490 (1984).

overly technical in delineating what constitutes compliance with Order No. 1000 and what is not. If a proposed revision is not strictly required by Order No. 1000, but is part of a package designed to achieve the principles or concepts enunciated in Order No. 1000, or is a corollary to other changes that are required to comply with the Order, the Commission should treat them as compliance. Requiring separate section 205 filings to implement certain tariff revisions that are intrinsically linked to Order No. 1000 compliance issues would be contrary to the interests of all parties by delaying and fragmenting the most efficient presentation of planning and cost allocation-related tariff changes to the Commission.

In some cases, where utilities are incorporating terms and conditions to their tariffs already approved in other regions, a separate Section 205 filing requirement would simply lead to a later litigation regarding whether any disparate treatment is just and reasonable and not arbitrary or capricious (*i.e.,* in which the Commission would not be able to rely on a mere finding that that the section 205 filing goes beyond compliance with Order No. 1000). The ISO therefore respectfully requests that the Commission rule on this filing in its entirety.

V. 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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VI. 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.

VII. ATTACHMENTS

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

Attachment A	Revised ISO tariff sheets to comply with the regional elements of Order No. 1000
Attachment B	Tariff revisions shown in black-line format[221]
Attachment C	Materials presented to the ISO Board of Governors regarding the Order No. 1000 stakeholder initiative and compliance filing.
Attachment D	Prepared Testimony of Neil Millar

[221] The revised ISO tariff sheets and the clean tariff language shown on Attachment B include proposed revisions to section 24 pending in Docket No. ER12-2552.

VIII. CONCLUSION

For the foregoing reasons, the Commission should accept the instant filing as satisfying the ISO's compliance obligations under Order No. 1000 and grant all necessary waivers. To the extent any elements of the ISO's transmission planning process and cost allocation mechanism, as modified by this compliance filing, could be found to vary from specific provisions in Order No. 1000, the Commission should find that the tariff provisions as modified by this filing are consistent with or superior to requirements of Order No. 1000 and should be accepted as an appropriate regional variation in implementing the order.

Respectfully submitted,

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Attachment A – Clean Tariff

California Independent System Operator Corporation

Order 1000 Compliance Filing

October 11, 2012

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11.1.2 Settlement Charges And Payments

The CAISO shall settle the following charges in accordance with this CAISO Tariff: (1) Grid Management Charge; (2) Bid Cost Recovery; (3) IFM charges and payments, including Energy and Ancillary Services; (4) RUC charges and payments; (5) Real-Time Market charges and payments, including Energy and Ancillary Services; (6) HASP charges and payments for Energy and Ancillary Services; (7) Regional Access Charges; (8) Wheeling Access Charges; (9) Voltage Support and Black Start charges; (10) Excess Cost Payments; (11) default interest charges; (12) CRR Charges and Payments, (13) Inter-SC Trades charges and payments; (14) neutrality adjustments; (15) FERC Annual Charges; (16) distribution of excess Marginal Losses; (17) Virtual Bid Submission Charges; (18) miscellaneous charges and payments; and (19) Participating Intermittent Resource Fees.

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11.11 RACs And Wheeling Transactions

11.11.1 Regional Access Charges

Regional Access Charges will be levied in accordance with Section 26.1 and Appendix F, Schedule 3.

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24. Comprehensive Transmission Planning Process

24.1 Overview

The CAISO will develop a comprehensive Transmission Plan and approve transmission upgrades or additions using the Transmission Planning Process set forth in this Section 24. The CAISO will analyze the need for transmission upgrades and additions in accordance with the methodologies and criteria set forth in this Section 24, the Transmission Control Agreement, and the applicable Business Practice Manuals. The comprehensive Transmission Plan will identify transmission upgrades or additions needed (1) to maintain System Reliability; (2) to satisfy the requirements of a Location Constrained Resource Interconnection Facility; (3) to maintain the simultaneous feasibility of allocated Long-Term CRRs; (4) as

additional components or expansions to LGIP Network Upgrades identified pursuant to Section 24.4.6.5; (5) to meet state and federal policy requirements and directives that are not inconsistent with the Federal Power Act, including renewable portfolio standards policies; (6) to reduce congestion costs, production supply costs, transmission losses, or other electric supply costs resulting from improved access to cost-effective resources; and (7) to reflect Merchant Facilities meeting the requirements for inclusion in the Transmission Plan. For purposes of this Section 24, the term "the year X/(X+1) planning cycle" will refer to the Transmission Planning Process initiated during year X to complete a comprehensive Transmission Plan in year X+1.

24.1.1 [NOT USED]

24.1.2 [NOT USED]

24.1.3 [NOT USED]

24.1.4 [NOT USED]

24.2 Nature of the Transmission Planning Process

The CAISO will develop the annual comprehensive Transmission Plan and approve transmission upgrades or additions using a Transmission Planning Process with three (3) phases. In Phase 1, the CAISO will develop and complete the Unified Planning Assumptions and Study Plan and, in parallel, begin development of a conceptual statewide plan. In Phase 2, the CAISO will complete the comprehensive Transmission Plan. In Phase 3, the CAISO will evaluate proposals to construct and own specific transmission upgrade or addition elements specified in the comprehensive Transmission Plan. The Transmission Planning Process shall, at a minimum:

(a) Coordinate and consolidate in a single plan the transmission needs of the CAISO Balancing Authority Area for maintaining the reliability of the CAISO Controlled Grid in accordance with Applicable Reliability Criteria and CAISO Planning Standards, in a manner that promotes the economic efficiency of the CAISO Controlled Grid and considers federal and state environmental and other policies

affecting the provision of Energy;

(b) Reflect a planning horizon covering a minimum of ten (10) years that considers previously approved transmission upgrades and additions, Demand Forecasts, Demand-side management, capacity forecasts relating to generation technology type, additions and retirements, and such other factors as the CAISO determines are relevant;

(c) Seek to avoid unnecessary duplication of facilities and ensure the simultaneous feasibility of the CAISO Transmission Plan and the transmission plans of interconnected Balancing Authority Areas, and otherwise coordinate with regional and sub-regional transmission planning processes and entities, including interconnected Balancing Authority Areas;

(d) Identify existing and projected limitations of the CAISO Controlled Grid's physical, economic or operational capability or performance and identify transmission upgrades and additions, including alternatives thereto, deemed needed to address the existing and projected limitations;

(e) Account for any effects on the CAISO Controlled Grid of the interconnection of Generating Units, including an assessment of the deliverability of such Generating Units in a manner consistent with CAISO interconnection procedures.

24.2.1 [NOT USED]

24.2.2 [NOT USED]

24.2.3 [NOT USED]

24.2.4 [NOT USED]

24.2.5 [NOT USED]

24.3 Transmission Planning Process Phase 1

Phase 1 consists of two (2) parallel processes: (1) the development of the Unified Planning Assumptions and Study Plan; and, (2) initiation of the development of the statewide conceptual transmission plan, as discussed in Section 24.4.4.

24.3.1 Inputs to the Unified Planning Assumptions and Study Plan

The CAISO will develop Unified Planning Assumptions and a Study Plan using information and data from the approved Transmission Plan developed in the previous planning cycle. The CAISO will consider the following in the development of the Unified Planning Assumptions and Study Plan:

(a) WECC base cases, as may be modified for the relevant planning horizon;

(b) Transmission upgrades and additions approved by the CAISO in past Transmission Planning Process cycles, including upgrades and additions which the CAISO has determined address transmission elements in the comprehensive Transmission Plan developed in the previous planning cycle;

(c) Category 2 policy-driven transmission upgrade and addition elements from a prior planning cycle as described in Section 24.4.6.6;

(d) Location Constrained Resource Interconnection Facilities conditionally approved under Section 24.4.6.3;

(e) Network Upgrades identified pursuant to Section 25, Appendix U, Appendix V, Appendix Y or Appendix Z relating to the CAISO's Large Generator Interconnection Procedures and Appendices S and T relating to the CAISO's Small Generator Interconnection Procedures that were not otherwise included in the comprehensive Transmission Plan from the previous annual cycle;

(f) Operational solutions validated by the CAISO in the Local Capacity Technical Study under Section 40.3.1;

(g) Policy requirements and directives, as appropriate, including programs initiated by state and federal regulatory agencies;

(h) Energy Resource Areas or similar resource areas identified by Local Regulatory Authorities;

(i) Demand response programs that are proposed for inclusion in the base case or assumptions for the comprehensive Transmission Plan;

(j) Generation and other non-transmission projects that are proposed for inclusion in long-term planning studies as alternatives to transmission additions or upgrades;

(k) Beginning with the 2011/2012 planning cycle, Economic Planning Study requests submitted in comments on the draft Unified Planning Assumptions and Study.

(l) Planned facilities in interconnected Balancing Authority Areas.

24.3.2 Contents of the Unified Planning Assumptions and Study Plan

The Unified Planning Assumptions and Study Plan shall, at a minimum, provide:

(a) The planning data and assumptions to be used in the Transmission Planning Process cycle, including, but not limited to, those related to Demand Forecasts and distribution, potential generation capacity additions and retirements, and transmission system modifications;

(b) A description of the computer models, methodology and other criteria used in each technical study performed in the Transmission Planning Process cycle;

(c) A list of each technical study to be performed in the Transmission Planning Process cycle and a summary of each technical study's objective or purpose;

(d) A description of significant modifications to the planning data and assumptions as allowed by Section 24.3.1(a) and consistent with Section 24.3.2;

(e) The identification of any entities directed to perform a particular technical study or portions of a technical study;

(f) A proposed schedule for all stakeholder meetings to be held as part of the Transmission Planning Process cycle and the means for notification of any changes thereto, the location on the CAISO Website of information relating to the technical studies performed in the Transmission Planning Process cycle, and the name of a contact person at the CAISO for each technical study performed in the Transmission Planning Process cycle;

(g) To the maximum extent practicable, and where applicable, appropriate sensitivity analyses, including project or solution alternatives, to be performed as part of the technical studies;

(h) Descriptions of the High Priority Economic Planning Studies as determined by the CAISO under section 24.3.4.2; and

(i) Identification of state or federal requirements or directives that the CAISO will utilize, pursuant to Section 24.4.6.6, to identify policy-driven transmission elements.

24.3.3 Stakeholder Input - Unified Planning Assumptions/Study Plan

(a) Beginning with the 2011/2012 planning cycle and in accordance with the schedule set forth in the Business Practice Manual, the CAISO will provide a comment period during which Market Participants, electric utility regulatory agencies and all other interested parties may submit the following proposals for consideration in the development of the draft Unified Planning Assumptions and Study Plan:

(i) Demand response programs for inclusion in the base case or assumptions;

(ii) Generation and other non-transmission alternatives, consistent with Section 24.3.2(a) proposed as alternatives to transmission additions or upgrades; and

(iii) State or federal policy requirements or directives that are not inconsistent with the Federal Power Act.

(b) Following review of relevant information, including stakeholder comments submitted pursuant to Section 24.3.3(a), the CAISO will prepare and post on the CAISO Website a draft of the Unified Planning Assumptions and Study Plan. The CAISO will issue a Market Notice announcing the availability of such draft, soliciting comments, and scheduling a public conference(s) as required by Section 24.3.3(c);

(c) No less than one (1) week subsequent to the posting of the draft Unified Planning Assumptions and Study Plan, the CAISO will conduct a minimum of one (1) public meeting open to Market Participants, electric utility regulatory agencies, and other interested parties to review, discuss, and recommend modifications to the draft Unified Planning Assumptions and Study Plan. Additional meetings, web conferences, or teleconferences may be scheduled as needed. All stakeholder meetings, web conferences, or teleconferences shall be noticed by Market Notice;

(d) Interested parties will be provided a minimum of two (2) weeks following the first public meeting to provide comments on the draft Unified Planning Assumptions and Study Plan. Such comments may include Economic Planning Study requests based on the comprehensive Transmission Plan from the prior cycle. All comments on the draft Unified Planning Assumptions and the Study Plan will be posted by the CAISO to the CAISO Website;

(e) Following the public conference(s), and under the schedule set forth in the Business Practice Manual, the CAISO will determine and publish to the CAISO Website the final Unified Planning Assumptions and Study Plan in accordance with the procedures set forth in the Business Practice Manual. The final Unified Planning Assumptions and Study Plan will include an explanation as to the public policy requirements or directives that were selected for consideration in the current planning cycle as well as the suggested public policy requirements and directives that were not selected for consideration and the reasons therefor. The CAISO will post the base cases to be used in the technical studies to its secured website as soon as possible after the final Unified Planning Assumptions and Study Plan have been published.

(f) A public policy requirement or directive selected for consideration in a transmission planning cycle will be carried over into subsequent transmission planning cycles unless the ISO determines that such public policy requirement or directive has been eliminated, modified, or is otherwise not applicable or relevant for transmission planning purposes in a current transmission planning cycle. The ISO will provide an explanation of any decision not to consider a previously identified public policy requirement or directive from consideration in the current transmission planning process cycle.

24.3.4 Economic Planning Studies

24.3.4.1 CAISO Assessment of Requests for Economic Planning Studies

Following the submittal of a request for an Economic Planning Study, the CAISO will determine whether the request shall be designated as a High Priority Economic Planning Study for consideration in the development of the comprehensive Transmission Plan. In making the determination, the CAISO will consider:

(a) Whether the requested Economic Planning Study seeks to assess Congestion not identified or identified and not mitigated by the CAISO in previous Transmission Planning Process cycles;

(b) Whether the requested Economic Planning Study addresses delivery of Generation from Location Constrained Resource Interconnection Generators or network transmission facilities intended to access Generation from an Energy Resource Area or similar resource area assigned a high priority by the CPUC or CEC;

(c) Whether the requested Economic Planning Study is intended to address Local Capacity Area Resource requirements;

(d) Whether resource and Demand information indicates that Congestion described in the Economic Planning Study request is projected to increase over the planning horizon used in the Transmission Planning Process and the magnitude of that Congestion; or

(e) Whether the Economic Planning Study is intended to encompass the upgrades necessary to integrate new generation resources or loads on an aggregated or regional basis.

24.3.4.2 Selection of High Priority Economic Planning Studies

In accordance with the schedule and procedures set forth in the Business Practice Manual, the CAISO will post to the CAISO Website the list of selected High Priority Economic Planning Studies to be included in the draft Unified Planning Assumptions and Study Plan. The CAISO may assess requests for Economic Planning Studies individually or in combination where such requests may have common or complementary effects on the CAISO Controlled Grid. As appropriate, the CAISO will perform requested High Priority Economic Planning Studies, up to five (5); however, the CAISO retains discretion to perform more than five (5) High Priority Economic Planning Studies should stakeholder requests or patterns of Congestion or anticipated Congestion so warrant. Market Participants may, consistent with Section

24.3.1 and 24.3.2, conduct Economic Planning Studies that have not been designated as High Priority Economic Planning Studies at their own expense and may submit such studies for consideration in the development of the comprehensive Transmission Plan.

24.4 Transmission Planning Process Phase 2

24.4.1 Conducting Technical Studies

(a) In accordance with the Unified Planning Assumptions and Study Plan and with the procedures and deadlines in the Business Practice Manual, the CAISO will perform, or direct the performance by third parties of, technical studies and other assessments necessary to develop the comprehensive Transmission Plan, including such technical studies and other assessments as are necessary in order to determine whether and how to include elements from the conceptual statewide transmission plan, Regional Transmission Facilities, or other alternative elements identified by the CAISO during the Phase 2 studies in the comprehensive Transmission Plan. According to the schedule set forth in the applicable Business Practice Manual, the CAISO will post the preliminary results of its technical studies and proposed mitigation solutions on the CAISO Website. The CAISO's technical study results and mitigation solutions shall be posted not less than one-hundred and twenty (120) days after the final Unified Planning Assumptions and Study Plan are published, along with the results of the technical studies conducted by Participating TOs or other third parties at the direction of the CAISO;

(b) All technical studies, whether performed by the CAISO, the Participating TOs or other third parties under the direction of the CAISO, must utilize the Unified Planning Assumptions for the particular technical study to the maximum extent practical, and deviations from the Unified Planning Assumptions for the particular technical study must be documented in results of each technical study. The CAISO will measure the results of the studies against Applicable Reliability

Criteria, the CAISO Planning Standards, and other criteria established by the Business Practice Manual. After consideration of the comments received on the preliminary results, the CAISO will complete, or direct the completion of, the technical studies and post the final study results on the CAISO Website;

(c) The CAISO technical study results will identify needs and proposed solutions to meet Applicable Reliability Criteria, CAISO planning standards, and other applicable planning standards. The CAISO and Participating TOs shall coordinate their respective transmission planning responsibilities required for compliance with the NERC Reliability Standards and for the purposes of developing the annual Transmission Plan according to the requirements and time schedules set forth in the Business Practice Manual.

24.4.2 Submission of Reliability Driven Projects

Pursuant to the schedule described in the Business Practice Manual and based on the technical study results, the CAISO, CEC, CPUC, and other interested parties may propose any transmission upgrades or additions deemed necessary to ensure System Reliability consistent with Applicable Reliability Criteria and CAISO Planning Standards through the Phase 2 Request Window. Participating TOs will submit such proposed transmission solutions through the Phase 2 Request Window within thirty (30) days after the CAISO posts its preliminary technical study results. The substantive description of reliability driven projects is set forth in Section 24.4.6.2.

24.4.3 Phase 2 Request Window

(a) Following publication of the results of the technical studies, and in accordance with the schedule set forth in the Business Practice Manual, the CAISO will open a Request Window during Phase 2 for the submission of proposed transmission solutions for reliability-driven needs identified in the studies, proposed Location Constrained Resource Interconnection Facility projects, demand response or generation solutions proposed as alternatives to transmission additions or upgrades to meet reliability needs, proposals for Merchant Transmission Facility

projects, proposed transmission solutions needed to maintain the feasibility of long-term CRRs and efficient or cost effective Regional Transmission Facility alternatives for meeting identified needs. The CEC, CPUC, and interested parties may submit potential reliability transmission solutions within the same timeframe established for Participating TOs to submit reliability transmission solutions, but they are not required to do so to the extent the Business Practice Manual grants them a longer period of time.

(b) All facilities proposed during the Request Window must use the forms and satisfy the information and technical requirements set forth in the Business Practice Manual. Transmission addition or upgrade solutions must be within or connect to the CAISO Balancing Authority Area or CAISO Controlled Grid. The CAISO will determine whether each of these solutions will be considered in the development of the comprehensive Transmission Plan. In accordance with the schedule and procedures set forth in the Business Practice Manual, the CAISO will notify the party submitting the proposed solution of any deficiencies in the proposal and provide the party an opportunity to correct the deficiencies. Such proposed solutions can only be considered in the development of the comprehensive Transmission Plan if the CAISO determines that:

(i) the proposed solution satisfies the information requirements for the particular type of project submitted as set forth in templates included in the Business Practice Manual;

(ii) the proposed solution is not functionally duplicative of transmission upgrades or additions that have previously been approved by the CAISO; and

(iii) the proposed solution , if a sub-regional or regional project that affects other interconnected Balancing Authority Areas, has been reviewed by the appropriate sub-regional or regional planning entity, is not

inconsistent with such sub-regional or regional planning entity's preferred solution or project, and has been determined to be appropriate for inclusion in the CAISO Study Plan, rather than, or in addition to, being included in or deferred to the planning process of the sub-regional or regional planning entity.

(c) The duration of the Request Window will be set forth in the Business Practice Manual.

24.4.4 Comment Period of Conceptual Statewide Plan

Beginning in Phase 1, the CAISO will develop, or, in coordination with other regional or sub-regional transmission planning groups or entities, including interconnected Balancing Authority Areas, will participate in the development of a conceptual statewide transmission plan that, among other things, may identify potential transmission upgrade or addition elements needed to meet state and federal policy requirements and directives. The conceptual statewide transmission plan will be an input into the CAISO's Transmission Planning Process. The CAISO will post the conceptual statewide transmission plan to the CAISO Website and will issue a Market Notice providing notice of the availability of such plan. In the month immediately following the publication of the conceptual statewide transmission plan, the CAISO will provide an opportunity for interested parties to submit comments and recommend modifications to the conceptual statewide transmission plan and alternative transmission elements, including potential interstate transmission lines and proposals for access to resources located in areas not identified in the conceptual statewide transmission plan, and non-transmission elements.

24.4.5 Determination of Needed Transmission Projects and Elements

To determine which projects and additional elements should be included in the comprehensive Transmission Plan, the CAISO will evaluate the conceptual transmission elements identified in the statewide conceptual transmission plan or other alternative elements identified by the CAISO during the Phase 2 studies, reliability project proposals, LCRIF projects proposals, project proposals required to maintain the feasibility of long term CRRs, proposed Network Upgrades pursuant to Section 24.4.6.5 and

the results of Economic Planning Studies or other economic studies the CAISO has performed and will consider potential alternative transmission upgrade and addition elements and non-transmission or generation solutions proposed by interested parties. In determining which projects and additional elements should be included in the comprehensive Transmission Plan, (1) the CAISO shall consider the degree to which a Regional Transmission Facility may be substituted for one or more Local Transmission Facilities as a more efficient or cost effective solution to identified needs, and (2) the CAISO will not give undue weight or preference to the conceptual statewide plan or any other input in its planning process.

24.4.6 Categories of Transmission Projects

24.4.6.1 Merchant Transmission Project Proposals

The CAISO may include a transmission addition or upgrade in the comprehensive Transmission Plan if a Project Sponsor proposes a Merchant Transmission Facility and demonstrates to the CAISO the financial capability to pay the full cost of construction and operation of the Merchant Transmission Facility. The Merchant Transmission Facility must mitigate all operational concerns identified by the CAISO to the satisfaction of the CAISO, in consultation with the Participating TO(s) in whose PTO Service Territory the Merchant Transmission Facility will be located, and ensure the continuing feasibility of allocated Long Term CRRs over the length of their terms. To ensure that the Project Sponsor is financially able to pay the construction and operating costs of the Merchant Transmission Facility, and where the Participating TO is not the Project Sponsor and is to construct the Merchant Transmission Facility under Section 24.4.1, the CAISO in cooperation with the Participating TO may require (1) a demonstration of creditworthiness (e.g., an appropriate credit rating), or (2) sufficient security in the form of an unconditional and irrevocable letter of credit or other similar security sufficient to meet its responsibilities and obligations for the full costs of the transmission addition or upgrade.

24.4.6.2 Reliability Driven Projects

The CAISO, in coordination with each Participating TO with a PTO Service Territory will, as part of the Transmission Planning Process and consistent with the procedures set forth in the Business Practice Manual, identify the need for any transmission additions or upgrades required to ensure System

Reliability consistent with all Applicable Reliability Criteria and CAISO Planning Standards. In making this determination, the CAISO, in coordination with each Participating TO with a PTO Service Territory and other Market Participants, shall consider lower cost alternatives to the construction of transmission additions or upgrades, such as acceleration or expansion of existing projects, Demand-side management, Remedial Action Schemes, appropriate Generation, interruptible Loads, storage facilities or reactive support. The CAISO shall direct each Participating TO with a PTO Service Area, as a registered Transmission Planner with NERC, to perform the necessary studies, based on the Unified Planning Assumptions and Study Plan and any applicable Interconnection Study, and in accordance with the Business Practice Manual, to determine the facilities needed to meet all Applicable Reliability Criteria and CAISO Planning Standards. The Participating TO with a PTO Service Area shall provide the CAISO and other Market Participants with all information relating to the studies performed under this Section, subject to any limitation provided in Section 20.2 or the applicable LGIP. The CAISO will determine the solution, transmission or non-transmission that meets the identified reliability need in the most prudent and cost effective manner.

24.4.6.3 LCRIF Projects

24.4.6.3.1 Proposals for LCRIFs

The CAISO, CPUC, CEC, a Participating TO, or any other interested parties may propose a transmission addition as a Location Constrained Resource Interconnection Facility. A proposal shall include the following information, to the extent available:

(a) Information showing that the proposal meets the requirements of Section 24.4.6.3.2; and

(b) A description of the proposed facility, including the following information:

(1) Transmission studies demonstrating that the proposed facility satisfies Applicable Reliability Criteria and CAISO Planning Standards;

(2) Identification of the most feasible and cost-effective alternative transmission additions, which may include network upgrades, that would accomplish the objective of the proposal;

(3) A planning level cost estimate for the proposed facility and all proposed alternatives;

(4) An assessment of the potential for the future connection of further transmission additions that would convert the proposed facility into a network transmission facility, including conceptual plans;

(5) The estimated in-service date of the proposed facility; and

(6) A conceptual plan for connecting potential LCRIGs, if known, to the proposed facility.

24.4.6.3.2 Criteria for Qualification as a LCRIF

(a) The CAISO shall conditionally approve a facility as a Location Constrained Resource Interconnection Facility if it determines that the facility is needed and all of the following requirements are met:

(1) The facility is to be constructed for the primary purpose of connecting to the CAISO Controlled Grid two (2) or more Location Constrained Resource Interconnection Generators in an Energy Resource Area, and at least one of the Location Constrained Resource Interconnection Generators is to be owned by an entity(ies) that is not an Affiliate of the owner(s) of another Location Constrained Resource Interconnection Generator in that Energy Resource Area;

(2) The facility will operate at or above 200 kV;

(3) At the time of its in-service date, the facility will not be a network facility and would not be eligible for inclusion in a Participating TO's TRR other than as an LCRIF; and

(4) The facility meets Applicable Reliability Criteria and CAISO Planning Standards.

(b) The proponent of a facility that has been determined by the CAISO to meet the requirements of Section 24.4.6.3.2(a) shall provide the CAISO with information concerning the requirements of this subsection not less than ninety (90) days prior to the planned commencement of construction, and the facility shall qualify as a Location Constrained Resource Interconnection Facility if the CAISO determines that both of the following requirements are met:

(1) The addition of the capital cost of the facility to the RTRR of a Participating TO will not cause the aggregate of the net investment of all LCRIFs (net of the amount of the capital costs of LCRIFs to be recovered from LCRIGs pursuant to Section 26.6) included in the RTRRs of all Participating TOs to exceed fifteen (15) percent of the aggregate of the net investment of all Participating TOs in all transmission facilities reflected in their RTRRs (net of the amount of the capital costs of LCRIFs to be recovered from LCRIGs pursuant to Section 26.6) in effect at the time of the CAISO's evaluation of the facility; and

(2) Existing or prospective owners of LCRIGs have demonstrated their interest in connecting LCRIGs to the facility consistent with the requirements of Section 24.4.6.3.4, which establishes the necessary demonstration of interest.

24.4.6.3.3 Responsibilities of Participating Transmission Owner

Each Participating TO shall report annually to the CAISO the amount of its net investment in LCRIFs (net

of the amount of the capital costs of LCRIFs to be recovered from LCRIGs pursuant to Section 26.6), and its net investment in transmission facilities reflected in its RTRR (net of the amount of the capital costs of LCRIFs to be recovered from LCRIGs pursuant to Section 26.6), to enable the CAISO to make the determination required under Section 24.4.6.3.2(b)(1).

24.4.6.3.4 Demonstration of Interest in a LCRIF

A proponent of an LCRIF must demonstrate interest in the LCRIF equal to sixty (60) percent or more of the capacity of the facility in the following manner:

(a) the proponent's demonstration must include a showing that LCRIGs that would connect to the facility and would have a combined capacity equal to at least twenty-five (25) percent of the capacity of the facility have executed Large Generator Interconnection Agreements or Small Generator Interconnection Agreements, as applicable; and

(b) to the extent the showing pursuant to Section 24.4.6.3.4(a) does not constitute sixty (60) percent of the capacity of the LCRIF, the proponent's demonstration of the remainder of the required minimum level of interest must include a showing that additional LCRIGs:

(1) in the case of Large Generating Facilities subject to the LGIP set forth in Appendix Y, have obtained Site Exclusivity or paid the Site Exclusivity Deposit in lieu of Site Exclusivity, provided that any Site Exclusivity Deposit paid pursuant to Section 3.5 of the LGIP set forth in Appendix Y shall satisfy this requirement, or, in the case of Large Generating Facilities subject to the LGIP set forth in Appendix U and Small Generating Facilities, have obtained control over their site or paid a deposit to the CAISO in the amount of $250,000, which deposit shall be refundable if the LCRIF is not approved or is withdrawn by the proponent; and

(2) have demonstrated interest in the LCRIF by one of the following methods:

(i) executing a firm power sales agreement for the output of the LCRIG for a period of five (5) years or longer; or

(ii) in the case of Large Generating Facilities subject to the LGIP set forth in Appendix Y, filing an Interconnection Request and paying the Interconnection Study Deposit required by Section 3.5 of the LGIP set forth in Appendix Y; or

(iii) in the case of Large Generating Facilities subject to the LGIP set forth in Appendix U and Small Generating Facilities, being in the CAISO's interconnection queue and paying a deposit to the CAISO equal to the sum of the minimum deposits required of an Interconnection Customer for all studies performed in accordance with the Large Generator Interconnection Procedures (Appendix U) or Small Generator Interconnection Procedures (Appendix S), as applicable to the LCRIG, less the amount of any deposits actually paid by the LCRIG for such studies. The deposit shall be credited toward such study costs. If the LCRIF is not approved or is withdrawn by the proponent, any deposit paid under this provision shall be refundable to the extent it exceeds costs incurred by the CAISO for such studies; or

(iv) paying a deposit to the CAISO equal to five (5) percent of the LCRIG's pro rata share of the capital costs of a proposed LCRIF. The deposit shall be credited toward costs of Interconnection Studies performed in connection with the Large Generator

Interconnection Procedures (Appendix U or Appendix Y, as applicable) or Small Generator Interconnection Procedures (Appendix S), whichever is applicable. If the LCRIF is not approved or is withdrawn by the proponent, any deposit paid under this provision shall be refundable to the extent it exceeds the costs incurred by the CAISO for such studies.

24.4.6.3.5 Coordination With Non-Participating TOs

In the event that a facility proposed as an LCRIF would connect to LCRIGs in an Energy Resource Area that would also be connected by a transmission facility that is in existence or is proposed to be constructed by an entity that is not a Participating TO and that does not intend to place that facility under the Operational Control of the CAISO, the CAISO shall coordinate with the entity owning or proposing that transmission facility through any regional planning process to avoid the unnecessary construction of duplicative transmission additions to connect the same LCRIGs to the CAISO Controlled Grid.

24.4.6.3.6 Evaluation of LCRIFs

In evaluating whether a proposed LCRIF that meets the requirements of Section 24.4.6.3.2 is needed, and for purposes of ranking and prioritizing LCRIF projects, the CAISO will consider the following factors:

(a) Whether, and if so, the extent to which, the facility meets or exceeds applicable CAISO Planning Standards, including standards that are Applicable Reliability Criteria.

(b) Whether, and if so, the extent to which, the facility has the capability and flexibility both to interconnect potential LCRIGs in the Energy Resource Area and to be converted in the future to a network transmission facility.

(c) Whether the projected cost of the facility is reasonable in light of its projected benefits, in comparison to the costs and benefits of other alternatives for connecting Generating Units or otherwise meeting a need identified in the CAISO

Transmission Planning Process, including alternatives that are not LCRIFs. In making this determination, the CAISO shall take into account, among other factors, the following:

(1) The potential capacity of LCRIGs and the potential Energy that could be produced by LCRIGs in each Energy Resource Area;

(2) The capacity of LCRIGs in the CAISO's interconnection process for each Energy Resource Area;

(3) The projected cost and in-service date of the facility in comparison with other transmission facilities that could connect LCRIGs to the CAISO Controlled Grid;

(4) Whether, and if so, the extent to which, the facility would provide additional reliability or economic benefits to the CAISO Controlled Grid; and

(5) Whether, and if so, the extent to which, the facility would create a risk of stranded costs.

24.4.6.4 Projects to Maintain the Feasibility of Long Term CRRs

The CAISO is obligated to ensure the continuing feasibility of Long Term CRRs that are allocated by the CAISO over the length of their terms. In furtherance of this requirement the CAISO shall, as part of its annual Transmission Planning Process cycle, test and evaluate the simultaneous feasibility of allocated Long Term CRRs, including, but not limited to, when acting on the following types of projects: (a) planned or proposed transmission projects; (b) Generating Unit or transmission retirements; (c) Generating Unit interconnections; and (d) the interconnection of new Load. Pursuant to such evaluations, the CAISO shall identify the need for any transmission additions or upgrades required to ensure the continuing feasibility of allocated Long Term CRRs over the length of their terms and shall publish Congestion Data Summary along with the results of the CAISO technical studies. In assessing the need for transmission additions or upgrades to maintain the feasibility of allocated Long Term CRRs, the CAISO, in coordination

with the Participating TOs and other Market Participants, shall consider lower cost alternatives to the construction of transmission additions or upgrades, such as acceleration or expansion of existing projects; Demand-side management; Remedial Action Schemes; constrained-on Generation; interruptible Loads; reactive support; or in cases where the infeasible Long Term CRRs involve a small magnitude of megawatts, ensuring against the risk of any potential revenue shortfall using the CRR Balancing Account and uplift mechanism in Section 11.2.4. As part of the CAISO's Transmission Planning Process, the Participating TOs and Market Participants shall provide the necessary assistance and information to the CAISO to allow it to assess and identify transmission additions or upgrades that may be necessary under Section 24.4.6.4. The CAISO will determine the solution that meets the identified need to maintain the feasibility of long-term CRRs in the most prudent and cost effective manner.

24.4.6.5 LGIP Network Upgrades

Beginning with the 2011/2012 planning cycle, Network Upgrades originally identified during the Phase II Interconnection Study or Interconnection Facilities Study Process of the Large Generation Interconnection Process as set forth in Section 7 of Appendix Y that are not already included in a signed LGIA may be assessed as part of the comprehensive Transmission Plan if these Network Upgrades satisfy the following criteria:

(a) The Network Upgrades consist of new transmission lines 200 kV or above, and have capital costs of $100 million or greater;

(b) The Network Upgrade is a new 500 kV substation that has capital costs of $100 million or greater; or,

(c) The Network Upgrades have a capital cost of $200 million or more.

The CAISO will post a list of the Network Upgrades eligible for assessment in the Transmission Planning Process in accordance with the schedule set forth in the applicable Business Practice Manual. Network Upgrades included in the comprehensive Transmission Plan may include additional components not included in the Network Upgrades originally identified during the Phase II Interconnection Study or may be expansions of the Network Upgrades originally identified during the Phase II Interconnection Study if

the CAISO determines during the Transmission Planning Process that such components or expansions are needed as additional elements under section 24.1. Network Upgrades identified in the LGIP Phase II studies but not assessed in the Transmission Planning Process will be included in Large Generator Interconnection Agreements, as appropriate. Network Upgrades assessed in the Transmission Planning Process but not modified or replaced will be included in Large Generator Interconnection Agreements, as appropriate. Construction and ownership of Network Upgrades specified in the comprehensive Transmission Plan under this section, including any needed additional components or expansions, will be the responsibility of the Participating TO if the Phase II studies identified the original upgrade as needed and such upgrade has not yet been set forth in an executed Large Generator Interconnection Agreement. To the extent that additional components or expansions to Network Upgrades remain the responsibility of the Participating TO and such Network Upgrades are subsequently abandoned, the Participating TO shall be presumed to be eligible, subject to prudency and any other applicable review by FERC, to include in its TRR the costs of such Network Upgrades if the costs attributable to the abandonment of such Network Upgrades (as modified, replaced or otherwise reconfigured in the Transmission Planning Process) exceed the amounts funded by Interconnection Customers pursuant to Appendix Y. This presumption shall not apply in the case of Network Upgrades which the applicable Participating TO agreed to up-front fund independent of any obligation to fund pursuant to the Transmission Planning Process. If, through the Transmission Planning Process, the CAISO identifies any additional components or expansions of Network Upgrades that result in the need for other upgrades or additions, the responsibility to build and own such additions or upgrades will be determined by this Section 24, according to the category of those other upgrades or additions. Any decision in the Transmission Planning Process to modify Network Upgrades identified in the Large Generator Interconnection Process will not increase the cost responsibility of the Interconnection Customer as described in Appendix Y, Section 7. Category 1 policy-driven elements identified under Section 24.4.6.7 could supplant the need for LGIP Network Upgrades that would be developed in subsequent Generator Interconnection Process cycles. To the extent that a Category 1 policy-driven element eliminates or downsizes the need for a Network Upgrade, the Interconnection Customer's cost responsibility for such Network Upgrade shall be eliminated or reduced. Any financial security posting shall be adjusted accordingly.

24.4.6.6 Policy-Driven Elements

Once the CAISO has identified projects needed to maintain reliability, LCRIF projects eligible for conditional or final approval, projects needed to maintain long-term CRR feasibility, qualified Merchant Transmission Facility projects, and needed LGIP Network Upgrades as described in Section 24.4.6.5, the CAISO may evaluate transmission upgrade and addition elements needed to meet state or federal policy requirements or directives as specified in the Study Plan pursuant to Section 24.3.2(i). Policy-driven transmission upgrade or addition elements will be either Category 1 or Category 2. Category 1 are those elements which under the criteria of this section are found to be needed elements and are recommended for approval as part of the comprehensive Transmission Plan in the current cycle. Category 2 are those elements that could be needed to achieve state or federal policy requirements or directives but have not been found to be needed in the current planning cycle based on the criteria set forth in this section. The CAISO will determine the need for, and identify such policy-driven transmission upgrade or addition elements that efficiently and effectively meet applicable policies under alternative resource location and integration assumptions and scenarios, while mitigating the risk of stranded investment. The CAISO will create a baseline scenario reflecting the assumptions about resource locations that are most likely to occur and one or more reasonable stress scenarios that will be compared to the baseline scenario. Any transmission upgrade or addition elements that are included in the baseline scenario and at least a significant percentage of the stress scenarios may be Category 1 elements. Transmission upgrades or additions that are included in the base case, but which are not included in any of the stress scenarios or are included in an insignificant percentage of the stress scenarios, generally will be Category 2 elements, unless the CAISO finds that sufficient analytic justification exists to designate them as Category 1. In such cases, the ISO will make public the analysis upon which it based its justification for designating such facilities as Category 1 rather than Category 2. In this process, the CAISO will consider the following criteria:

(a) commercial interest in the resources in the applicable geographic area (including renewable energy zones) accessed by potential transmission elements as

evidenced by signed and approved power purchase agreements and interconnection agreements;

(b) the results and identified priorities of the California Public Utilities Commission's or California Local Regulatory Authorities' resource planning processes;

(c) the expected planning level cost of the transmission element as compared to the potential planning level costs of other alternative transmission elements;

(d) the potential capacity (MW) value and energy (MWh) value of resources in particular zones that will meet the policy requirements, as well as the cost supply function of the resources in such zones;

(e) the environmental evaluation, using best available public data, of the zones that the transmission is interconnecting as well as analysis of the environmental impacts of the transmission elements themselves; the extent to which the transmission element will be needed to meet Applicable Reliability Criteria or to provide additional reliability or economic benefits to the CAISO grid;

(f) potential future connections to other resource areas and transmission elements;

(g) resource integration requirements and the costs associated with these requirements in particular resource areas designated pursuant to policy initiatives;

(h) the potential for a particular transmission element to provide access to resources needed for integration, such as pumped storage in the case of renewable resources;

(i) the effect of uncertainty associated with the above criteria, and any other considerations, that could affect the risk of stranded investment; and

(j) the effects of other additions or upgrades being considered for approval during the planning process.

24.4.6.7 Economic Studies and Mitigation Solutions

Once the CAISO has identified projects needed to maintain reliability, LCRIF projects eligible for conditional or final approval, qualified merchant transmission projects and policy driven elements, the

CAISO will conduct the High Priority Economic Planning Studies selected under Section 24.4.4 and any other studies that the CAISO concludes are necessary to determine whether additional transmission upgrades and additions, or modifications to identified transmission projects or elements, are necessary to address:

(a) Congestion identified by the CAISO in the Congestion Data Summary published for the applicable Transmission Planning Process cycle and the magnitude, duration, and frequency of that Congestion;

(b) Local Capacity Area Resource requirements;

(c) Congestion projected to increase over the planning horizon used in the Transmission Planning Process and the magnitude of that Congestion; or

(d) Integration of new generation resources or loads on an aggregated or regional basis.

In determining whether additional elements are needed, the CAISO shall consider the degree to which, if any, the benefits of the solutions outweigh the costs, in accordance with the procedures set forth in the Business Practice Manual. The benefits of the mitigation solutions may include a calculation of any reduction in production costs, Congestion costs, Transmission Losses, capacity or other electric supply costs resulting from improved access to cost-efficient resources. The cost of the mitigation solution must consider any estimated costs identified under Section 24.4.6.4 to maintain the simultaneous feasibility of allocated Long Term CRRs for the length of their term. The CAISO, in determining whether a particular solution is needed, shall also consider the comparative costs and benefits of viable alternatives to the particular transmission element, including: (1) other potential transmission upgrades or additions, including those being considered or proposed during the Transmission Planning Process; (2) acceleration or expansion of any transmission upgrade or addition already approved by the CAISO Governing Board or included in any CAISO annual Transmission Plan, and (3) non-transmission alternatives, including demand-side management.

24.4.6.8 [not used]

24.4.7 Description of Transmission Elements

The transmission elements identified in the draft and final comprehensive Transmission Plan will provide sufficient engineering detail to permit Project Sponsors to submit complete proposals, under section 24.5.1 to build certain transmission elements. As further described in the Business Practice Manual, such details may include, but are not limited to:

(a) Minimum Conductor Ampacity;

(b) Approximate Line impedance required;

(c) Approximate Series compensation levels;

(d) Substation bus and breaker configuration;

(e) Breaker clearing times;

(f) Transformer characteristics (capacity, impedance, tap range);

(g) Minimum Shunt capacitor and reactor sizes;

(h) Minimum FACTS device specifications;

(i) SPS requirements;

(j) Planning level cost estimates;

(k) Projected in-service date.

24.4.8 Additional Contents of Comprehensive Transmission Plan

In addition to the detailed descriptions of specific needed addition and upgrade projects and elements, the draft and final comprehensive Transmission Plan may include: (1) the results of technical studies performed under the Study Plan; (2) determinations and recommendations regarding the need for identified transmission upgrade and addition projects and elements and their identification as either Local or Regional Transmission Facilities; (3) assessments of transmission upgrades and additions submitted as alternatives to the potential solutions to transmission needs identified by the CAISO and studied during the Transmission Planning Process cycle; (4) results of Economic Planning Studies (except for the 2010/2011 cycle); (5) an update on the status of transmission upgrades or additions previously approved by the CAISO, including identification of mitigation plans, if necessary, to address any potential delay in the anticipated completion of an approved transmission upgrade or addition; and (6) a description of transmission addition and upgrade projects with an estimated capital investment of $50 million or more submitted through the Request Window and for which additional studies are required before being

presented to the CAISO Governing Board for approval following completion of the studies; and (7) a description of Category 2 transmission upgrade or addition elements recommended for consideration in future planning cycles.

24.4.9 Phase 2 Stakeholder Process

(a) According to the schedule and procedures set forth in the Business Practice Manual, the CAISO will schedule one (1) public meeting after the CAISO technical study results have been posted and Participating TOs have submitted (i) the results of technical studies conducted at the direction of the CAISO (if applicable); and (ii) reliability-driven projects and mitigation solutions. All stakeholder meetings, web conferences, or teleconferences shall be noticed by Market Notice. Interested parties will be provided a minimum two (2) week period to provide written comments regarding the technical study results and the proposals submitted by the Participating TOs.

(b) The CAISO will schedule at least one (1) other public meeting before the draft comprehensive Transmission Plan is posted to provide information about any policy-driven element evaluations or economic planning studies that have been completed since the prior public meeting was held, as well as updated information about any studies or evaluations that are still in progress. Notice of such meeting, web conference or teleconference will be provided to stakeholders via Market Notice.

(c) In accordance with the schedule and procedures in the Business Practice Manual, but not less than one-hundred and twenty (120) days after the results of the CAISO's technical studies are posted and not less than six (6) weeks after the Request Window closes, the CAISO will post a draft comprehensive Transmission Plan. The CAISO will subsequently conduct a public conference regarding the draft comprehensive Transmission Plan and solicit comments, consistent with the timelines and procedures set forth in the Business Practice

Manual. Additional meetings, web conferences, or teleconferences may be scheduled as needed. All stakeholder meetings, web conferences, or teleconferences shall be noticed by Market Notice and such notice shall be posted to the CAISO Website. After consideration of comments, the CAISO will post the revised draft comprehensive Transmission Plan to the CAISO Website.

24.4.10 Transmission Plan Approval Process

The revised draft comprehensive Transmission Plan, along with the stakeholder comments, will be presented to the CAISO Governing Board for consideration and approval. Upon approval of the plan, all needed transmission addition and upgrade projects and elements, net of all transmission and non-transmission alternatives considered in developing the comprehensive Transmission Plan, will be deemed approved by the CAISO Governing Board. Following Governing Board approval, the CAISO will post the final comprehensive Transmission Plan to the CAISO website. According to the schedule set forth in the Business Practice Manual, transmission upgrade and addition solutions and elements with capital costs of $50 million or less can be approved by CAISO management and may proceed to permitting and construction prior to Governing Board approval of the plan. Such CAISO management approved solutions or elements may be subject to a competitive solicitation process, consistent with Section 24.5, on an accelerated schedule that will allow the approved Project Sponsor to proceed to permitting and construction prior to Governing Board approval of the plan. CAISO management may also expedite approval of a solution or element ahead of the approval schedule for other solutions or elements with capital costs of $50 million or less if: 1) there is an urgent need for approval of the solution or elements ahead of the schedule established in the Business Practice Manual; 2) there is a high degree of certainty that approval of the upgrade or addition will not conflict with other solutions or elements being considered in Phase 2; and 3) the need to accelerate a solution or element is driven by the CAISO's study process or by external circumstances. Should the CAISO find that a policy-driven or economically-driven element with capital costs of $50 million or less is needed on an expedited basis, after a stakeholder consultation process, CAISO management shall brief the Governing Board at a regularly-scheduled or special public session prior to approving the element and conducting the competitive solicitation, if appropriate. A Participating Transmission Owner will have the responsibility to construct,

own, finance, and maintain any Local Transmission Facility deemed needed under this section 24 that is located entirely within such Participating Transmission Owner's PTO Service Territory or footprint. The provisions of Section 24.5 will apply to a Regional Transmission Facility deemed needed under this section 24. Section 24.5 will also apply to any transmission upgrades or additions that are associated with both Regional Transmission Facilities and Local Transmission Facilities but for which the CAISO determines that it is not reasonable to divide construction responsibility among multiple Project Sponsors.

24.5 Transmission Planning Process Phase 3

24.5.1 Competitive Solicitation Submissions

According to the schedule set forth in the Business Practice Manual, in the month following CAISO Governing Board approval of the comprehensive Transmission Plan, the CAISO will initiate a period of at least two (2) months that will provide an opportunity for Project Sponsors to submit specific transmission project proposals to finance, own, and construct the Regional Transmission Facilities identified in the comprehensive Transmission Plan. For solutions or elements with capital costs of $50 million or less that were approved by CAISO management before Governing Board approval of the comprehensive Transmission Plan, the two month period will be initiated following management approval of the element or solution, and the Project Sponsor selection process will follow an accelerated schedule described in the Business Practice Manual. Such project proposals must include plan of service details and supporting information as set forth in the Business Practice Manual sufficient to enable the CAISO to determine whether the proposal meets the criteria specified in section 24.5.2.1 and 24.5.2.4. The project proposal will identify the authorized governmental body from which the Project Sponsor will seek siting approval for the project.

24.5.2 Project Sponsor Selection

At the end of the project submission period, the CAISO will post a list of proposed projects and Project Sponsors to its Website, subject to the confidentiality provisions set forth in Tariff section 20 and as further described in the Business Practice Manual, and will select projects and Approved Project Sponsors pursuant to this section 24.5.2. If the selected project involves an upgrade or improvement to,

addition on, or a replacement of a part of an existing Participating TO facility, the Participating TO will construct and own such upgrade, improvement, addition or replacement facilities unless the Project Sponsor and the Participating TO agree to a different arrangement.

24.5.2.1 Project Sponsor and Proposal Evaluation

The CAISO will evaluate the proposals to finance, own and construct Regional Transmission Facilities, other than those which are governed by section 24.5.2, that are included in the approved comprehensive Transmission Plan to determine whether they meet the following criteria:

(a) whether the proposed project is consistent with needed transmission elements identified in the comprehensive Transmission Plan;

(b) whether the proposed project satisfies Applicable Reliability Criteria and CAISO Planning Standards; and

(c) whether the Project Sponsor and its team is physically, technically, and financially capable of (i) completing the project in a timely and competent manner; and (ii) operating and maintaining the facilities consistent with Good Utility Practice and applicable reliability criteria for the life of the project.

On the CAISO's request, the Project Sponsor will provide additional information that the CAISO reasonably determines is necessary to conduct its evaluation.

24.5.2.2 Single Qualified Project Proposal

If only one (1) Project Sponsor submits a proposal to finance, own, and construct a specific regional transmission element that meets the criteria under section 24.5.1, and the CAISO determines that the Project Sponsor is qualified to own and construct the project under the criteria set forth in section 24.5.2.1, the Project Sponsor must initiate the process of seeking siting approval, and any other necessary approvals, from the appropriate authority or authorities within one-hundred twenty (120) days of CAISO approval.

24.5.2.3 Multiple Project Proposals

(a) If two (2) or more Project Sponsors submit proposals to finance, own, and construct the same regional transmission element or elements under section 24.5.1, the CAISO will, upon request, facilitate an opportunity for the Project Sponsors to collaborate with each other to submit a joint project(s) to meet such need. Following the collaboration period, the CAISO will evaluate the remaining project proposal(s), including any joint proposal(s). If there remains only a single, joint proposal, and the CAISO determines that the Project Sponsors are qualified to own and construct the joint project under the criteria set forth in section 24.5.2.1, then the provisions of section 24.5.2.2 shall apply. If two (2) or more project proposals remain, then the Project Sponsors will be subject to the provisions of either section 24.5.2.3 (b) or section 24.5.2.3 (c), whichever is applicable.

(b) If the Project Sponsors are unable to collaborate on a single joint proposal and are applying to the same authorized governmental body to approve the project siting, the CAISO will determine whether the remaining Project Sponsors are qualified to own and construct the project under the criteria set forth in section 24.5.2.1. The qualified Project Sponsors must initiate the process of seeking siting approval within one hundred and twenty (120) days and the CAISO will accept the Project Sponsor determination by that authorized governmental authority.

(c) If the Project Sponsors are unable to collaborate on a single joint proposal and are applying to different authorized governmental bodies for project siting approval, 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 criteria set forth in section 24.5.2.1 and the selection factors set forth in 24.5.2.4. The purpose of this comparative analysis will be to

determine, taking into account all regional transmission elements for which the competing Project Sponsors have been approved or are seeking approval, the qualified Project Sponsor which is best able to design, finance, license, construct, maintain, and operate the regional transmission element(s) in a cost-effective, prudent, reliable, and capable manner over the lifetime of the transmission element(s), while maximizing overall benefits and minimizing the risk of untimely project completion, project abandonment, and future reliability, operational and other relevant problems, consistent with Good Utility Practice, applicable reliability criteria, and CAISO Documents. The CAISO will engage an expert consultant to assist with the selection of the Approved Project Sponsor. Thereafter, the Approved Project Sponsor must initiate the process of seeking siting approval, and any other necessary approvals, from the appropriate authority or authorities within one-hundred twenty (120) days of CAISO approval.

(d) Within 30 days after the CAISO posts the revised draft comprehensive Transmission Plan to its website, the CAISO will post, for each Regional Transmission Facility that is subject to competitive solicitation, those factors and considerations, in addition to any binding cost containment commitments, which the CAISO believes are key for purposes of selecting an Approved Project Sponsor for the particular transmission upgrade or addition, consistent with the comparative analysis purposes in section 24.5.2.3 (c) and the project sponsor selection criteria provisions of section 24.5.4.2.4.

24.5.2.4 Project Sponsor Selection Factors

In selecting an Approved Project Sponsor from among multiple project sponsor proposals, as described in section 24.5.2.3(c), the CAISO shall consider the following criteria, in addition to the criteria set forth in section 24.5.2:

(a) the current and expected capabilities of the Project Sponsor and its team to finance, license, and construct the facility and operate and maintain it for the life of the project;

(b) the Project Sponsor's existing rights of way and substations that would contribute to the project in question;

(c) the experience of the Project Sponsor and its team in acquiring rights of way, if necessary, that would facilitate approval and construction;

(d) the proposed schedule for development and completion of the project and demonstrated ability to meet that schedule of the Project Sponsor and its team;

(e) the financial resources of the Project Sponsor and its team;

(f) the technical and engineering qualifications and experience of the Project Sponsor and its team;

(g) if applicable, the previous record regarding construction and maintenance of transmission facilities, including facilities outside the CAISO Controlled Grid of the Project Sponsor and its team;

(h) demonstrated capability to adhere to standardized construction, maintenance and operating practices;

(i) demonstrated ability to assume liability for major losses resulting from failure of facilities;

(j) demonstrated cost containment capability, specific, binding cost control measures the Project Sponsor agrees to accept, including any binding agreement by the Project Sponsor and its team to accept a cost cap that would preclude project costs above the cap from being recovered through the CAISO's Transmission Access Charge, and the authority of the selected siting authority to impose binding cost caps or cost containment measures on the Project Sponsor, and its history of imposing such measures;

(k) any other strengths and advantages the Project Sponsor and its team may have to build and own the specific project, as well as any specific efficiencies or benefits demonstrated in their proposal.

The information that Project Sponsors must submit to enable the CAISO to conduct its evaluation of these criteria shall be specified in the Business Practice Manual.

24.5.3 Notice to Project Sponsors

The CAISO will notify Project Sponsors as to results of the project evaluation process in accordance with the schedule and procedures set forth in the Business Practice Manual. Within 10 Business Days after selecting an Approved Project Sponsor(s) for a needed regional transmission element(s), the CAISO will post on the CAISO website a report regarding the selection of the Approved Project Sponsor(s). The report will set forth in a detailed manner the results of the comparative analysis undertaken by the CAISO, the reasons for the CAISO's decision(s), and how the CAISO's decision is consistent with the objectives identified in section 24.5.2.3 (c). The report will specifically identify the role of the selection factors set forth in 24.5.2.4 in determining, or not determining, the ultimate selection of project sponsors.

24.6 Obligation to Construct Transmission Projects

The Approved Project Sponsor selected to construct needed transmission facilities 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 additions or upgrades. 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 element or elements being upgraded or added is located shall be obligated to construct all regional transmission additions and upgrade elements 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 project, or any element thereof, before the project has been energized and, if applicable, turned

over to the CAISO's Operational Control unless the CAISO has approved such proposed transfer.

24.6.1 Approved Project Sponsor Reporting Requirements

Starting one hundred and twenty (120) days after the Project Sponsor, or Participating TO with a service territory pursuant to section 24.6 above, has been notified by the CAISO that it has been selected as an Approved Project Sponsor, such Approved Project Sponsor must submit a construction plan to the CAISO. At a minimum, and as further described in the Business Practice Manual, the construction plan will provide information on the following: land acquisition and permitting, materials procurement, and construction financing. Every ninety (90) days thereafter until the project has been energized and placed under CAISO Operational Control, the Approved Project Sponsor shall provide to the CAISO a construction plan status report. The status report shall conform to the format specified in the Business Practice Manual and include, among other things, the following information: project schedule, status of obtaining necessary environmental permits and meeting licensing requirements, status of right-of-way acquisition, status of design and engineering, any changes in the continuing ability of the Approved Project Sponsor to meet the design specifications of the project and the date upon which the project was found to be needed in the Transmission Plan. Unless the Approved Project Sponsor is the Participating TO in whose Participating TO service territory the project is wholly located, the CAISO shall provide a copy of the Approved Project Sponsor's status report to the Participating TO(s) in whose Participating TO service territory the project or an element of the project is fully or partially located and to any Participating TO with which the project interconnects. According to the schedule set forth in the Business Practice Manual, the CAISO shall, after providing the Participating TO(s) a copy of the report, hold a call with the Participating TO(s) to review whether the project completion date proposed by the Approved Project Sponsor can reasonably be expected to be met and to review any other items of concern to either the CAISO or the Participating TO(s).

24.6.2 Delay in the Project In-Service Date

If the CAISO determines that the proposed completion date has been delayed beyond the date upon which the project was found to be needed, the CAISO shall issue a market notice stating that it is necessary for the CAISO, the Approved Project Sponsor (to the extent the Approved Project Sponsor has

not abandoned the project), and the applicable Participating TO(s) to develop a plan to address potential NERC reliability standards violations as set forth in Section 24.6.3 as well as any other issues that may be of material concern. If the potential NERC reliability standards violations, or other issues of material concern, cannot be promptly and adequately addressed, the CAISO will take appropriate action including but not limited to, determining that an alternate Approved Project Sponsor is necessary to complete the project as set forth in Section 24.6.4.

24.6.3 Development and Submittal of Mitigation Plans

If the CAISO determines that a delay in the date upon which a project is proposed to be energized may cause one or more Participating TO(s) or the CAISO to violate a NERC reliability standard, the CAISO shall identify the potential violation and direct the impacted Participating TO(s) to develop a mitigation plan. The CAISO or the impacted Participating TOs shall take any and all reasonable actions necessary to submit the mitigation plan to WECC and NERC and to meet the requirements of the mitigation plan.

24.6.4 Consequences of Sponsor Inability To Complete the Project

If the CAISO determines that the Approved Project Sponsor cannot secure necessary approvals or property rights or is otherwise unable to construct a transmission addition or upgrade, or if the CAISO finds that an alternative Project Sponsor is necessary pursuant to Section 24.6.2, or if the Approved Project Sponsor determines that it is unable to proceed with construction and so notifies the CAISO, the CAISO shall take such action as it reasonably considers appropriate, in coordination with the Participating TO and other affected Market Participants, to facilitate the development and evaluation of alternative proposals. For reliability driven transmission facilities, the CAISO may, at its discretion, direct the Participating TO in whose PTO Service Territory or footprint either terminus of the facility being upgraded or added is located, to build the element or elements, or the CAISO may open a new solicitation for Project Sponsors to seek to finance, own, and construct the element or elements. For all other projects the CAISO shall open a new solicitation for Project Sponsors to seek to finance, own, and construct the element or elements. Where there is no Approved Project Sponsor, the CAISO shall direct the Participating TO in whose PTO Service Territory or footprint either terminus of the facility being upgraded or added is located, to build the element or elements. The previous Approved Project Sponsor shall be

obligated to work cooperatively and in good faith with CAISO, the new Approved Project Sponsor (if any) and the affected Participating TO, to implement the transition. The obligations of the Participating TO to construct such transmission additions or upgrades will not alter the rights of any entity to construct and expand transmission facilities as those rights would exist in the absence of a Participating TO's obligations under this CAISO Tariff or as those rights may be conferred by the CAISO or may arise or exist pursuant to this CAISO Tariff.

24.7 Documentation of Compliance with NERC Reliability Standards

The Transmission Plan and underlying studies, assessments, information and analysis developed during the Transmission Planning Process, regardless of whether performed by CAISO or by Participating TOs or other third parties at the direction of CAISO, shall be used by the CAISO as part of its documentation of compliance with NERC Reliability Standards.

24.8 Additional Planning Information

24.8.1 Information Provided by Participating TOs

In addition to any information that must be provided to the CAISO under the NERC Reliability Standards, Participating TOs shall provide the CAISO on an annual or periodic basis in accordance with the schedule and procedures and in the form required by the Business Practice Manual any information and data reasonably required by the CAISO to perform the Transmission Planning Process, including, but not limited to: (1) modeling data for power flow, including reactive power, short-circuit and stability analysis; (2) a description of the total Demand to be served from each substation, including a description of any Energy efficiency programs reflected in the total Demand; (3) the amount of any interruptible Loads included in the total Demand (including conditions under which an interruption can be implemented and any limitations on the duration and frequency of interruptions); (4), a description of Generating Units to be interconnected to the Distribution System of the Participating TO, including generation type and anticipated Commercial Operation Date; (5) detailed power system models of their transmission systems that reflect transmission system changes, including equipment replacement not requiring approval by the CAISO; (6) Distribution System modifications; (7) transmission network information, including line ratings,

line length, conductor sizes and lengths, substation equipment ratings, circuits on common towers and with common rights-of-ways and cross-overs, special protection schemes, and protection setting information; and (8) Contingency lists.

24.8.2 Information Provided by Participating Generators

In addition to any information that must be provided to the CAISO under the NERC Reliability Standards, Participating Generators shall provide the CAISO on an annual or periodic basis in accordance with the schedule, procedures and in the form required by the Business Practice Manual any information and data reasonably required by the CAISO to perform the Transmission Planning Process, including, but not limited to: (1) modeling data for short-circuit and stability analysis and (2) data, such as term, and status of any environmental or land use permits or agreements the expiration of which may affect that the operation of the Generating Unit.

24.8.3 Information Requested from Load Serving Entities

In addition to any information that must be provided to the CAISO under the NERC Reliability Standards, the CAISO shall solicit from Load Serving Entities through their Scheduling Coordinators information required by, or anticipated to be useful to, the CAISO in its performance of the Transmission Planning Process, including, but not limited to: (1) long-term resource plans; (2) existing long-term contracts for resources and transmission service outside the CAISO Balancing Authority Area; and (3) Demand Forecasts, including forecasted effect of Energy efficiency and Demand response programs.

24.8.4 Information from Planning Groups, BAAs and Regulators

In accordance with Section 24.8 , the CAISO shall obtain or solicit from interconnected Balancing Authority Areas, regional and sub-regional planning groups within the WECC, the CPUC, the CEC, and Local Regulatory Authorities information required by, or anticipated to be useful to, the CAISO in its performance of the Transmission Planning Process, including, but not limited to: (1) long-term transmission system plans; (2) long-term resource plans; (3) generation interconnection process information; (4) Demand Forecasts; and (5) any other data necessary for the development of power flow, short-circuit, and stability cases over the planning horizon of the CAISO Transmission Planning Process.

24.8.5 Obligation to Provide Updated Information

If material changes to the information provided under Sections 24.8 occur during the annual Transmission Planning Process, the providers of the information must provide notice to the CAISO of the changes.

24.9 Participating TO Study Obligation

The Participating TO constructing or expanding facilities will be directed by the CAISO to coordinate with the Project Sponsor or Participating TO(s) with PTO Service Territories in which the transmission upgrade or addition will be located, neighboring Balancing Authority Areas, as appropriate, and other Market Participants to perform any study or studies necessary, including a Facility Study, to determine the appropriate facilities to be constructed in accordance with the CAISO Transmission Planning Process and the terms set forth in the TO Tariff.

24.10 Operational Review

The CAISO will perform an operational review of all facilities studied as part of the CAISO Transmission Planning Process that are proposed to be connected to, or made part of, the CAISO Controlled Grid to ensure that the proposed facilities provide for acceptable Operational Flexibility and meet all its requirements for proper integration with the CAISO Controlled Grid. If the CAISO finds that such facilities do not provide for acceptable Operational Flexibility or do not adequately integrate with the CAISO Controlled Grid, the CAISO shall coordinate with the Project Sponsor and, if different, the Participating TO with the PTO Service Territory, or the operators of neighboring Balancing Authority Areas, if applicable, in which the facilities will be located to reassess and redesign the facilities required to be constructed. Transmission upgrades or additions that do not provide acceptable Operational Flexibility or do not adequately integrate with the CAISO Controlled Grid cannot be included in the CAISO Transmission Plan or approved by CAISO management or the CAISO Governing Board, as applicable.

24.10.1 [NOT USED]

24.10.2 [NOT USED]

24.10.3 [[NOT USED]

24.10.4 [NOT USED]

24.11 [NOT USED]

24.11.1 [NOT USED]

24.11.2 [NOT USED]

24.11.3 [NOT USED]

24.12 WECC and Regional Coordination

The Project Sponsor will have responsibility for completing any applicable WECC requirements and rating study requirements to ensure that a proposed transmission addition or upgrade meets regional planning requirements. The Project Sponsor may request the Participating TO to perform this coordination on behalf of the Project Sponsor at the Project Sponsor's expense.

24.13 Regional and Sub-Regional Planning Process

The CAISO will be a member of the WECC and other applicable regional or sub-regional organizations and participate in WECC's operation and planning committees, and in other applicable regional and sub-regional coordinated planning processes.

24.13.1 Scope of Regional or Sub-Regional Planning Participation

The CAISO will collaborate with adjacent transmission providers and existing sub-regional planning organizations through existing processes. This collaboration involves a reciprocal exchange of information, to the maximum extent possible and subject to applicable confidentiality restrictions, in order to ensure the simultaneous feasibility of respective Transmission Plans, the identification of potential areas for increased efficiency, and the consistent use of common assumptions whenever possible. The details of the CAISO's participation in regional and sub-regional planning processes are set forth in the Business Practice Manual. At a minimum, the CAISO shall be required to:

(a) solicit the participation, whether through sub-regional planning groups or individually, of all interconnected Balancing Authority Areas in the development of the Unified Planning Assumptions and Study Plan and in reviewing the results of technical studies performed as part of the CAISO's Transmission Planning Process in order to:

(i) coordinate, to the maximum extent practicable, planning assumptions, data and methodologies utilized by the CAISO, regional and sub-regional planning groups or interconnected Balancing Authority Areas;

(ii) ensure transmission expansion plans of the CAISO, regional and sub-regional planning groups or interconnected Balancing Authority Areas are simultaneously feasible and seek to avoid duplication of facilities.

(b) coordinate with regional and sub-regional planning groups regarding the entity to perform requests for Economic Planning Studies or other Congestion related studies;

(c) transmit to applicable regional and sub-regional planning groups or interconnected Balancing Authority Areas information on technical studies performed as part of the CAISO Transmission Planning Process;

(d) post on the CAISO Website links to the planning activities of applicable regional and sub-regional planning groups or interconnected Balancing Authority Areas.

24.13.2 Limitation on Regional Activities

Neither the CAISO nor any Participating TO nor any Market Participant shall take any position before the WECC or a regional organization that is inconsistent with a binding decision reached through an arbitration proceeding pursuant to Section 13, in which the Participating TO or Market Participant voluntarily participated.

24.14 Cost Responsibility for Transmission Additions or Upgrades

Cost responsibility for transmission additions or upgrades constructed pursuant to this Section 24 (including the responsibility for any costs incurred under Section 24.11) shall be determined as follows:

24.14.1 Project Sponsor Commitment to Pay Full Cost

Where a Project Sponsor commits to pay the full cost of a transmission addition or upgrade as set forth in subsection (2) of Section 24.4.6.1, the full costs shall be borne by the Project Sponsor.

24.14.2 Cost of Needed Addition or Upgrade to be Borne by PTO

Where 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 or upgrade and shall be reflected in its Transmission Revenue Requirement.

24.14.3 CRR Entitlement for Project Sponsors Not Recovering Costs

Provided that the CAISO has Operational Control of the Merchant Transmission Facility, a Project Sponsor that does not recover the investment cost under a FERC-approved rate through the Access Charge or a reimbursement or direct payment from a Participating TO shall be entitled to receive Merchant CRRs as provided in Section 36.11. The full amount of capacity added to the system by such transmission upgrades or additions will be as determined through the regional reliability council process of the Western Electricity Coordinating Council or its successor.

24.14.3.1 Western Path 15

Pursuant to its Project Sponsor status as specified in Section 4.3.1.3, consistent with FERC's findings in Docket Nos. EL04-133-001, ER04-1198-000, and ER04-1198-001, issued on May 16, 2006 (115 FERC ¶ 61,178), Western Path 15 shall receive compensation associated with transmission usage rights modeled for Western Path 15. In the event that Western Path 15 has an approved rate schedule that returns excess revenue from any compensation obtained from the CAISO associated with the transmission usage rights for Western Path 15, such revenue shall be returned to the CAISO through a procedure established by the CAISO and the Western Area Power Administration for that purpose.

24.14.3.2 FPL Energy, LLC

Pursuant to its Project Sponsor status, consistent with FERC's findings in Docket No. ER03-407, issued on June 15, 2006 (115 FERC ¶ 61, 329), FPL Energy, LLC shall receive Merchant CRRs associated with transmission usage rights modeled for the Blythe Path 59 upgrade, such Merchant CRRs to be in effect for a period of thirty (30) years, or the pre-specified intended life of the Merchant Transmission Facility, whichever is less, from the date Blythe Path 59 was energized. For the purpose of allocating Merchant CRRs to FPL Energy, LLC over the Blythe Path 59 upgrade, the allocation of CRR Options in the import (east to west, from the Blythe Scheduling Point to the 230 kV side of the 161 kV to 230 kV transformer at the Eagle Mountain substation) as well as of CRR Options in the export (west to east) direction will be based on 57.1 percent of the total upgrade (96 MW out of the 168 MW), which is FPL Energy, LLC's share of the total upgrade as approved by FERC in the letter order issued by FERC on June 15, 2006 in Docket No. ER03-407 (115 FERC ¶ 61,329).

24.14.4 RAC Treatment Of New Regional Transmission Facilities Costs

Once a New Participating TO has executed the Transmission Control Agreement and it has become effective, the cost for new Regional Transmission Facilities for all Participating TOs shall be included in the CAISO Grid-wide component of the Regional Access Charge in accordance with Schedule 3 of Appendix F, unless and with respect to Western Path 15 only, cost recovery is provided in Section 24.14.3. The Participating TO who is supporting the cost of the new Regional Transmission Facility shall include such costs in its Regional Transmission Revenue Requirement.

24.15 Ownership of and Charges for Expansion Facilities

24.15.1 Transmission Additions and Upgrades under TCA

All transmission additions and upgrades constructed by Participating TOs in accordance with this Section 24 that form part of the CAISO Controlled Grid shall be operated and maintained by a Participating TO in accordance with the Transmission Control Agreement. Where such transmission additions and upgrades are jointly developed by Participating TOs and non-Participating TOs, nothing herein shall be construed to require that the non-Participating TO transfer its portion of the transmission additions or upgrades to the CAISO's Operational Control or place such facilities within the CAISO's Balancing Authority Area.

24.15.2 Access and Charges for Transmission Additions and Upgrades

Each Participating TO that owns or operates transmission additions and upgrades constructed in accordance with this Section 24 shall provide access to them and charge for their use in accordance with this CAISO Tariff and its TO Tariff.

24.16 Expansion by Local Furnishing Participating TOs

Notwithstanding any other provision of this CAISO Tariff, a Local Furnishing Participating TO shall not be obligated to construct or expand facilities (including interconnection facilities as described in Section 8 of the TO Tariff), unless the CAISO or Project Sponsor has tendered an application under FPA Section 211 that requests FERC to issue an order directing the Local Furnishing Participating TO to construct such facilities pursuant to Section 24. The Local Furnishing Participating TO shall, within ten (10) days of receiving a copy of the Section 211 application, waive its right to a request for service under FPA Section 213(a) and to the issuance of a proposed order under FPA Section 212(c). Upon receipt of a final order from FERC that is no longer subject to rehearing or appeal, such Local Furnishing Participating TO shall construct such facilities in accordance with this Section 24.

25 Interconnection Of Generating Units And Facilities

25.1 Applicability

This Section 25 and Appendix U (the Standard Large Generator Interconnection Procedures (LGIP)), Appendix Y (the Generator Interconnection Procedures (GIP)), Appendix S (the Small Generator Interconnection Procedures (SGIP)), or Appendix W, as applicable, shall apply to:

(a) each new Generating Unit that seeks to interconnect to the CAISO Controlled Grid;

(b) each existing Generating Unit connected to the CAISO Controlled Grid that will be modified with a resulting increase in the total capability of the power plant;

(c) each existing Generating Unit connected to the CAISO Controlled Grid that will be modified without increasing the total capability of the power plant but has changed the electrical characteristics of the power plant such that its re-energization may violate Applicable Reliability Criteria;

(d) each existing Generating Unit connected to the CAISO Controlled Grid whose total Generation was previously sold to a Participating TO or on-site customer but whose Generation, or any portion thereof, will now be sold in the wholesale market, subject to Section 25.1.2; and

(e) each existing Generating Unit that is a Qualifying Facility and that is converting to a Participating Generator without repowering or reconfiguring the existing Generating Unit, subject to Section 25.1.2.

25.1.1 Interconnection Request And Generating Unit Requirements

The owner of a Generating Unit described in Section 25.1 (a), (b), or (c), or its designee, shall be an Interconnection Customer required to submit an Interconnection Request and comply with Appendix U (the LGIP), Appendix Y (the GIP), Appendix S (the SGIP), or Appendix W, as applicable, which applicability shall be based on the maximum rated capacity of the new total capability of the power plant, including the capability of all of multiple energy production devices at a site, consistent with Section 4.10 of the SGIP.

25.1.2 Affidavit Requirement

If the owner of a Generating Unit described in Section 25.1(d), or its designee, represents that the total capability and electrical characteristics of the Generating Unit will be substantially unchanged, then that entity must submit an affidavit to the CAISO and the applicable Participating TO representing that the total capability and electrical characteristics of the Generating Unit will remain substantially unchanged. If there is any change to the total capability and electrical characteristics of the Generating Unit, however, the affidavit shall include supporting information describing any such changes. The CAISO and the applicable Participating TO shall have the right to verify whether or not the total capability or electrical characteristics of the Generating Unit have changed or will change. The CAISO may engage the services of the applicable Participating TO in the CAISO's conducting such verification activities, in which case such costs shall be borne by the party making the request under Section 25.1.2, and such costs shall be included in any CAISO invoice for verification activities.

25.1.2.1 If the CAISO and the applicable Participating TO confirm that the electrical characteristics are substantially unchanged, then that request will not be placed into the interconnection queue. However, the owner of the Generating Unit, or its designee, will be required to execute a Standard Large Generator Interconnection Agreement in accordance with Section 11 of Appendix U (the LGIP), a Large Generator Interconnection Agreement in accordance with Section 11 of Appendix Y (the GIP), a Small Generator Interconnection Agreement in accordance with Section 3.3.4, 3.4.5, or 3.5.7 and Section 4.8 of the SGIP, or an interconnection agreement in accordance with Appendix W, as applicable.

25.1.2.2 If the CAISO and the applicable Participating TO cannot confirm that the total capability and electrical characteristics are and will be substantially unchanged, then the owner of the Generating Unit, or its designee, shall be an Interconnection Customer required to submit an Interconnection Request and comply with Appendix U (the LGIP), Appendix Y (the GIP), Appendix S (the SGIP), or Appendix W, as applicable.

25.2 Interconnections To The Distribution System

Any proposed interconnection by the owner of a planned Generating Unit, or its designee, to connect that Generating Unit to a Distribution System of a Participating TO will be processed, as applicable, pursuant to the Wholesale Distribution Access Tariff or CPUC Rule 21, or other Local Regulatory Authority requirements, if applicable, of the Participating TO; provided, however, that the owner of the planned Generating Unit, or its designee, shall be required to mitigate any adverse impact on reliability of the CAISO Controlled Grid consistent with Appendix U (the Standard Large Generator Interconnection Procedures) and Appendix Y (the GIP). In addition, each Participating TO will provide to the CAISO a copy of the system impact study used to determine the impact of a planned Generating Unit on the Distribution System and the CAISO Controlled Grid pursuant to a request to interconnect under the applicable Wholesale Distribution Access Tariff or CPUC Rule 21, or other Local Regulatory Authority requirements, if applicable.

25.3 Maintenance Of Encumbrances

No new Generating Unit shall adversely affect the ability of the applicable Participating TO to honor its Encumbrances existing as of the time an Interconnection Customer submits its Interconnection Request

to the CAISO. The applicable Participating TO, in consultation with the CAISO, shall identify any such adverse effect on its Encumbrances in the Interconnection System Impact Study performed under Section 7 of Appendix U (the LGIP), the Phase I Interconnection Study performed under Section 6 of Appendix Y (the GIP), the system impact study performed under Section 3.4 of the SGIP, or the System Impact Study performed under Section 5.1 of Appendix W, as applicable. To the extent the applicable Participating TO determines that the connection of the new Generating Unit will have an adverse effect on Encumbrances, the Interconnection Customer shall mitigate such adverse effect.

25.4 Asynchronous Generating Facilities

Asynchronous Generating Facilities that are the subject of Interconnection Requests in a serial study queue and for which a Large Generator Interconnection Agreement has not been executed or tendered for signature as of July 2, 2010 shall be subject to the Large Generator Interconnection Agreement set forth in Appendix BB. Asynchronous Generating Facilities that are the subject of Interconnection Requests in a Queue Cluster Window and for which a Large Generator Interconnection Agreement has not been executed or tendered for signature as of July 3, 2010 shall be subject to the Large Generator Interconnection Agreement set forth in Appendix CC. Asynchronous Generating Facilities that have been or should have been tendered a Large Generator Interconnection Agreement as of July 3, 2010 shall be subject to the Large Generator Interconnection Agreement set forth in Appendix Z.

26. Transmission Rates And Charges

26.1 Access Charges

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 Transmission Revenue Requirement. The first component shall be the annual authorized revenue requirement associated with the transmission facilities and Entitlements turned over to the Operational Control of the CAISO by a Participating TO approved by FERC. 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. Regional Access Charges and 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 Participating TO. The second component shall be the Transmission Revenue Balancing Account (TRBA), which shall be designed to flow through the Participating TO's 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. Each Participating TO shall provide in its TO Tariff filing with FERC an appendix to such filing that states the Participating TO'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.

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.

The Local Access Charge for each 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. Each Participating TO shall recover Standby Transmission Revenues directly from the Standby Service Customers of that Participating TO through its applicable retail rates.

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 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.

26.1.2 Regional Access Charge Settlement

UDCs and MSS Operators serving Gross Load in a PTO Service Territory shall be charged on a monthly basis, in arrears, the applicable Regional Access Charge. The Regional Access Charge for a billing period is calculated by the CAISO as the product of the applicable Regional Access Charge, and Gross Load connected to the facilities of the UDC and MSS Operator in the PTO Service Territory. The Regional Access Charge are determined in accordance with Schedule 3 of Appendix F. These rates may be adjusted from time to time in accordance with Schedule 3 of Appendix F.

26.1.3 Disbursement Of RAC Revenues

The CAISO shall collect and pay, on a monthly basis, to Participating TOs 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 in accordance with Appendix F, Schedule 3, Section 10.

26.1.4 Wheeling

Any Scheduling Coordinator or other such entity submitting a Bid or Self-Schedule for a Wheeling transaction shall pay to the CAISO the product of (i) the applicable Wheeling Access Charge, and (ii) the total hourly Schedules and awards of Wheeling in kilowatt-hours for each month at each Scheduling Point associated with that transaction, except as provided in Section 4.1 of Appendix I (Station Power Protocol). Schedules and awards that include Wheeling transactions shall be subject to any charges resulting from the CAISO Markets in accordance with Section 27.

26.1.4.1 Wheeling Access Charge

The Wheeling Access Charge shall be determined by the transmission ownership or Entitlement, less all Encumbrances, associated with the Scheduling Point at which the Energy exits the CAISO Controlled Grid. The Wheeling Access Charge for Scheduling Points that are not joint facilities shall be equal to the Regional Access Charge in accordance with Schedule 3 of Appendix F plus the applicable Local Access

Charge if the Scheduling Point is on a Local Transmission Facility. Wheeling Access Charges shall not apply for Wheeling under a bundled non-economy Energy coordination agreement of a Participating TO executed prior to July 9, 1996.

26.1.4.2 Wheeling Over Joint Facilities

To the extent that more than one Participating TO owns or has Entitlement to transmission capacity, less all Encumbrances, exiting the CAISO Controlled Grid at a Scheduling Point, the Scheduling Coordinator shall pay the CAISO each month a rate for Wheeling at that Scheduling Point which reflects an average of the Wheeling Access Charge applicable to those Participating TOs, weighted by the relative share of such ownership or Entitlement to transmission capacity, less all Encumbrances, at such Scheduling Point. If the Scheduling Point is located at Regional Transmission Facilities, the Wheeling Access Charge will consist of a Regional Wheeling Access Charge component. Additionally, if the Scheduling Point is located at Local Transmission Facilities, the applicable Local Wheeling Access Charge component will be added to the Wheeling Access Charge. The methodology for developing the weighted average rate for Wheeling at each Scheduling Point is set forth in Appendix F, Schedule 3, Section 14.4.

26.1.4.3 Disbursement of Wheeling Revenues

The CAISO shall collect and pay to Participating TOs and other entities as provided in Section 24.10.3 all Wheeling revenues at the same time as other CAISO charges and payments are settled. For Wheeling revenues associated with CRRs allocated to Load Serving Entities outside the CAISO Balancing Authority Area, the CAISO shall pay to the Participating TOs and other entities as provided in Section 24.10.3 any excess prepayment amounts within thirty (30) days of the end of the term of the CRR Allocation. The CAISO shall provide to the applicable Participating TO and other entities as provided in Section 24.10.3 a statement of the aggregate amount of Energy delivered to each Scheduling Coordinator using such Participating TO's Scheduling Point to allow for calculation of Wheeling revenue and auditing of disbursements. Wheeling revenues shall be disbursed by the CAISO based on the following:

26.1.4.3.1 Scheduling Point with All Participating TOs in the Same TAC Area

With respect to revenues received for the payment of Regional Wheeling Access Charges for Wheeling to a Scheduling Point at which all of the facilities and Entitlements, less all Encumbrances, are owned by Participating TOs in the same TAC Area, Wheeling revenues shall be disbursed to each such Participating TO based on the ratio of each Participating TO's Regional Transmission Revenue Requirement to the sum of all such Participating TOs' Regional Transmission Revenue Requirements. If the Scheduling Point is located at a Local Transmission Facility, revenues received with respect to Local Wheeling Access Charges for Wheeling to that Scheduling Point shall be disbursed to the Participating TOs that own facilities and Entitlements making up the Scheduling Point in proportion to their Local Transmission Revenue Requirements. Additionally, if a Participating TO has a transmission upgrade or addition that was funded by a Project Sponsor, the Wheeling revenue allocated to such Participating TO shall be disbursed as provided in Section 24.10.3.

26.1.4.3.2 Scheduling Point without All Participating TOs in the Same TAC Area

With respect to revenues received for the payment of Wheeling Access Charges for Wheeling to a Scheduling Point at which the facilities and Entitlements, less all Encumbrances, are owned by Participating TOs in different TAC Areas, Wheeling revenues shall be disbursed to such Participating TOs as follows. First, the revenues shall be allocated between such TAC Areas in proportion to the ownership and Entitlements of transmission capacity, less all Encumbrances, at the Scheduling Point of the Participating TOs in each such TAC Area. Second, the revenues thus allocated to each TAC Area shall be disbursed among the Participating TOs in the TAC Area in accordance with Section 26.1.4.3.1.

26.1.4.4 Information Required from Scheduling Coordinators

Scheduling Coordinators for Wheeling Out or Wheeling Through transactions to a Bulk Supply Point, or other point of interconnection between the CAISO Controlled Grid and the transmission system of a Non-Participating TO, that are located within the CAISO Balancing Authority Area, shall provide the CAISO, by eight (8) Business Days after the Trading Day (T+8B), details of such transactions (other than transactions submitted as Self-Schedules pursuant to Existing Contracts) sorted by Bulk Supply Point or point of interconnection for each Settlement Period (including kWh for each transaction). The CAISO

shall use such information, which may be subject to review by the CAISO, to settle Wheeling Access Charges and payments. The CAISO shall publish a list of the Bulk Supply Points or interconnection points to which this Section 26.1.4.4 applies together with details of the electronic form and procedure to be used by Scheduling Coordinators to submit the required information on the CAISO Website.

26.1.5 Unbundled Retail Transmission Rates

The Access Charge for unbundled retail transmission service provided to End-Users by a FERC-jurisdictional electric utility Participating TO shall be determined by the FERC and submitted to the CAISO for information only. For a Local Publicly Owned Electric Utility, retail transmission service rates shall be determined by the Local Regulatory Authority and submitted to the CAISO for information only.

26.2 Tracking Account

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 24.10.3.

26.4 Effect On Tax-Exempt Status

Nothing in this Section 26 shall compel any Participating TO to violate any restrictions applicable to facilities financed with tax-exempt bonds or contractual restrictions and covenants regarding the use of transmission facilities.

[NOT USED]

26.6 Location Constrained Resource Interconnection Facilities

The costs of an LCRIF shall be includable in a Participating TO's Regional Transmission Revenue Requirement. Any Participating TO that owns an LCRIF shall set forth in its TO Tariff a charge payable by LCRIGs connected to that facility. The charge shall require each LCRIG to pay on a going forward basis its pro rata share of the Transmission Revenue Requirement associated with the LCRIF, which shall be calculated based on the maximum capacity of the LCRIG relative to the capacity of the LCRIF. Each Participating TO shall credit its Regional TRR with revenues received from LCRIGs with respect to such charges either by recording such revenues in its TRBA or through another mechanism approved by FERC.

26.6.1 LCRIFs That Become Network Facilities

If the construction of a new transmission facility or upgrade causes an LCRIF to become a network facility, then, effective on the in-service date of such new transmission facility or upgrade, the LCRIGs connected to the LCRIF shall not be required to pay charges described in Section 26.6. The LCRIGs shall remain responsible for charges due prior to that date.

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Appendix F Rate Schedules

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Schedule 3

Regional Access Charge and Wheeling Access Charge

1. Objectives and Definitions.

1.1 Objectives.

(a) The Access Charge is the charge assessed for using the CAISO Controlled Grid. It consists of two components, the Regional Access Charge (RAC) and the Local Access Charge (LAC).

(b) The RAC is based on one CAISO Grid-wide rate.

(c) The LAC will be determined by each Participating TO. The LAC of Non-Load-Serving Participating TOs may also be project specific. Each Participating TO will charge for and collect the LAC, subject to Section 26.1 of the CAISO Tariff and Section 13 of this Schedule 3.

(d) The Wheeling Access Charge is paid by Scheduling Coordinators for Wheeling as set forth in Section 26.1.4 of the CAISO Tariff. The CAISO will collect the Wheeling revenues from Scheduling Coordinators on a Trading Interval basis and repay these to the Participating TOs based on the ratio of each Participating TO's Transmission Revenue Requirement to the sum of all Participating TOs' Transmission Revenue Requirements.

1.2 Definitions

Unless the context otherwise requires, any word or expression defined in the Master Definition Supplement shall have the same meaning where used in this Schedule 3.

2. Assessment of Regional Access Charge.

All UDCs and MSS Operators in a PTO Service Territory serving Gross Loads directly connected to the transmission facilities or Distribution System of a UDC or MSS Operator in a PTO Service Territory shall pay to the CAISO a charge for transmission service on the Regional Transmission Facilities included in the CAISO Controlled Grid. A UDC or MSS Operator that is also a Participating TO shall pay, or receive payment of, if applicable, the difference between (i) the Regional Access Charge applicable to its transactions as a UDC or MSS Operator; and (ii) the disbursement of Regional Access Charge revenues to which it is entitled pursuant to Section 26.1.3 of the CAISO Tariff.

3. TAC Areas.

3.1 TAC Areas are based on the Control Areas in California prior to the CAISO Operations Date. Three TAC Areas will be established based on the Original Participating TOs: (1) a Northern Area consisting of the PTO Service Territory of Pacific Gas and Electric Company and the PTO Service Territory of any entity listed in Section 3.3 or 3.5 of this Schedule; (2) an East Central Area consisting of the PTO Service Territory of Southern California Edison Company and the PTO Service Territory of any entity listed in Section 3.4, 3.5 or 3.6 (as indicated therein) of this Schedule 3; and (3) a Southern Area consisting of the PTO Service Territory of San Diego Gas & Electric Company. Participating TOs that are not in one of the above cited PTO Service Territories are addressed below.

3.2 If the Los Angeles Department of Water and Power joins the CAISO and becomes a Participating TO, its PTO Service Territory will form a fourth TAC Area, the West Central Area.

3.3 If any of the following entities becomes a Participating TO, its PTO Service Territory will become part of the Northern Area: Sacramento Municipal Utility District, Western Area Power Administration - Sierra Nevada Region, the Department of Energy California Labs, Northern California Power Agency, City of Redding, Silicon Valley Power, City of Palo Alto, City and County of San Francisco, Alameda Bureau of Electricity, City of Biggs, City of Gridley, City of Healdsburg, City of Lodi, City of Lompoc Utility Department, Modesto Irrigation District, Turlock Irrigation District, Plumas County Water Agency, City of Roseville Electric Department, City of Shasta Lake, and City of Ukiah or any other entity owning or having contractual rights to Regional or Local Transmission Facilities in Pacific Gas and Electric Company's Control Area prior to the CAISO Operations Date.

3.4 If any of the following entities becomes a Participating TO, its PTO Service Territory will become part of the East Central Area: City of Anaheim Public Utility Department, City of Riverside Public Utility Department, City of Azusa Light and Water, City of Banning Electric, City of Colton, City of Pasadena Water and Power Department, The Metropolitan Water District of Southern California and City of Vernon or any other entity owning or having contractual rights to Regional or Local Transmission Facilities in Southern California Edison Company's Control Area prior to the CAISO Operations Date.

3.5 If the California Department of Water Resources becomes a Participating TO, its Regional Transmission Revenue Requirements associated with Regional Transmission Facilities in the Northern Area would become part of the Regional Transmission Revenue Requirement for the Northern Area while the remainder would be included in the East Central Area.

3.6 If the City of Burbank Public Service Department (Burbank) and/or the City of Glendale Public Service Department (Glendale) become Participating TOs after or at the same time as the Los Angeles Department of Water and Power becomes a Participating TO, then the PTO Service Territory of Burbank and/or Glendale would become part of the West Central Area. Otherwise, if Burbank or Glendale becomes a Participating TO, prior to Los Angeles, its PTO Service Territory will become part of the East Central Area. Once either Burbank or Glendale are part of the East Central Area, they will not move to the West Central Area if such area is established.

3.7 If the Imperial Irrigation District or an entity outside the State of California should apply to become a Participating TO, the CAISO Governing Board will review the reasonableness of integrating the entity into one of the existing TAC Areas. If the entity cannot be integrated without the potential for significant cost shifts, the CAISO Governing Board may establish a separate TAC Area.

4. [NOT USED]

5. Determination of the Access Charge.

5.1 The Access Charge consists of a Regional Access Charge (RAC) and a Local Access Charge (LAC) that is based on a utility-specific rate established by each Participating TO in accordance with its TO Tariff.

5.2 Each Participating TO 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 Regional Facilities and, 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.

5.3 The Gross Load amount in MWh shall be established by each Participating TO and filed at FERC with each Participating TO's Transmission Revenue Requirement (GL_{PTO}).

5.4 The Regional Access Charge shall be equal to the sum of the Regional Transmission Revenue Requirements of all Participating TOs, 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 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, less the sum of the Standby Transmission Revenues); 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.

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. Using the Regional Transmission Revenue Requirement accepted or authorized by FERC, consistent with Section 9 of this Schedule 3, for each Participating TO, 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 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.

8.3 If the Participating TO withdraws one or more of its transmission facilities from the CAISO Operational Control in accordance with Section 3.4 of the Transmission Control Agreement, then the CAISO will no longer collect the TRR for that transmission facility through the CAISO's Access Charge effective upon the date the transmission facility is no longer under the Operational Control of the CAISO. The withdrawing Participating TO shall be obligated to provide the CAISO will all necessary information to implement the withdrawal of the Participating TO's transmission facilities and to make any necessary filings at FERC to revise its TRR. The CAISO shall revise its transmission Access Charge to reflect the withdrawal of one or more transmission facilities from CAISO Operational Control.

9. Approval of Updated Regional Revenue Requirements.

9.1 Participating TOs 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 will provide a copy of its filing to the CAISO and the other Participating TOs in accordance with the notice provisions in the Transmission Control Agreement.

9.2 Federal power marketing agencies whose transmission facilities are under CAISO Operational Control shall develop their Regional Transmission Revenue Requirements pursuant to applicable federal laws and regulations, including filing with FERC. All such filings with 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 procedures for public participation in a federal power marketing agency's ratemaking process shall be posted on the federal power marketing agency's website. The federal power marketing agency shall also post on the website the Federal Register Notices and FERC orders for rate making processes that impact the federal power marketing agency's Regional Transmission Revenue Requirement. The Participating TO will provide a copy of its filing to the CAISO and the other Participating TOs 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 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 RegionalUtility-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, then calculate the Non-Load-Serving Participating TO's portion of the total Billed RAC in subsection (a) based on the ratio of the Non-Load-Serving Participating TO's Regional Transmission Revenue Requirement to the sum of all Participating TOs' 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.

10.2 If the same entity is both a Participating TO and a UDC or MSS Operator, then the monthly Regional Access Charge amount billed by the CAISO will be the charges payable by the UDC or MSS Operator in accordance with Section 26.1.2 of the CAISO Tariff less the disbursement determined in accordance with Section 10.1(d) of this Schedule 3. If this difference is negative, that amount will be paid by the CAISO 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 High and Local Transmission Access Charges contained in Section 12 of this Schedule.

12. Procedure for Division of Certain Costs Between the Regional and Local Transmission Access Charges.

12.1 Division of Costs:

(a) Substations
Costs for substations and substation equipment, including transformers:

(i) If the Participating TO has substation TRR information by facility and voltage, then the TRR for facilities and equipment at or above 200 kV should be allocated

to the RTRR and the TRR for facilities and equipment below 200 kV should be allocated to the LTRR;

(ii) If the Participating TO has substation TRR information by facility but not by voltage, then the TRR for facilities and equipment should be allocated to the RTRR and to the LTRR based on the ratio of gross substation investment allocated to RTRR to gross substation investment allocated to LTRR pursuant to Section 12.1(a)(i); or

(iii) If the Participating TO does not have substation TRR information by facility or voltage, then the TRR for facilities and equipment should be allocated to the RTRR and to the LTRR based on the Participating TO's transmission system-wide gross plant ratio. The system-wide gross plant ratio is determined once the costs that can be split between Regional Transmission Facilities and Local Transmission Facilities for all facilities has been developed in accordance with Sections 12.1(a) through (c), then the resulting cost ratio between Regional Transmission Facilities and Local Transmission Facilities shall be used as the system-wide gross plant ratio.

(iv) Costs of transformers that step down from Regional Transmission Facility to a Local Transmission Facility, to the extent the Participating TO does not have the revenue requirement information available to allocate the costs, should be allocated consistent with the procedures for substations addressed above.

(b) Transmission Towers and Land with Circuits on Multiple Voltages

For transmission towers that carry both Regional Transmission Facilities and Local Transmission Facilities on the same tower, the cost of these assets should be allocated two-thirds to the RTRR and one-third to the LTRR. If the transmission tower has only Regional Transmission Facilities, then the costs of these assets should be allocated entirely to the RTRR. If the transmission tower has only Local Transmission Facilities, then the TRR of these assets should be allocated entirely to the LTRR. Provided that the Participating TO does not have land cost information available on a basis that distinguishes the Local and Regional Transmission Facilities, in which case the costs should be allocated on that basis, the costs for land used for transmission rights-of-way for towers that carry both Local and Regional Transmission Facilities should be allocated two-thirds to the RTRR component and one-third to the LTRR.

(c) Operation and Maintenance, Transmission Wages & Salaries, Taxes, Depreciation and Amortization, and Capital Costs

If the Participating TO can delineate costs for transmission operations and maintenance (O&M), transmission wages and salaries, taxes, depreciation and amortization, or capital costs on a voltage basis, the costs shall be applied on a bright-line voltage basis. If the costs for O&M, transmission wages and salaries, taxes, depreciation and amortization, or capital costs, are not available on voltage levels, the allocation to the RTRR and the LTRR should be based on the Participating TO's system-wide gross plant ratio defined in Section 12.1(a).

(d) Existing Transmission Contracts

If the Take-Out Point for the Existing Contract is a Regional Transmission Facility, the Existing Contract revenue will be credited to the RTRR of the Participating TO receiving such revenue. Similarly, the Participating TO that is paying charges under such an Existing Contract may include the costs in its RTRR. If the Take-Out Point for the Existing Contract is a Local Transmission Facility, the Existing Contract revenue will be credited to the RTRR and the LTRR of the receiving Participating TO based on the ratio of the Participating TO's RTRR to its LTRR, prior to any adjustments for such revenues. The Participating TO that is paying the charges under the Existing Contract will include the costs in its RTRR and LTRR in the same ratio as the revenues are recognized by the Participating TO receiving the payments.

(e) Division of the TRBA Adjustment between RTRR and LTRR

(i) Wheeling revenues associated with transactions exiting the CAISO Controlled Grid at Scheduling Points or Take-Out Points that are at Regional Transmission Facilities shall be reflected as Regional TRBA adjustment components;

(ii) Wheeling revenues associated with transactions exiting the CAISO Controlled Grid at Scheduling Points or Take-Out Points that are at Local Transmission Facilities shall be attributed between Regional and Local TRBA adjustment components based on the Regional and Local Wheeling Access Charge rates assessed to such transactions by the CAISO and/or the Participating TO;

(iii) Any Local Access Charge amounts paid pursuant to Section 26.1 of the CAISO Tariff for the Local Transmission Facilities of a Non-Load-Serving Participating TO shall be reflected as a component of the Local TRBA adjustment associated with the Local Access Charge;

(iv) CRR revenues from CRRs allocated to Participating TOs shall be assigned to Regional or Local TRBA adjustment components based on whether the path related to the CRR is Regional or Local; and,

(v) Other Transmission Revenue Credits shall be allocated between Regional and Local TRBA adjustment components on a gross plant basis.

13. Local Access Charge for a Non-Load-Serving Participating TO. Pursuant to Section 26.1 of the CAISO Tariff, the provisions of this Section 13 of this Schedule 3 shall apply to a Non-Load-Serving Participating TO that has Local Transmission Facilities.

13.1 Local Transmission Revenue Requirement. The Local Transmission Revenue Requirement of a Non-Load-Serving Participating TO shall be calculated separately for each individual project that includes one or more Local Transmission Facilities or shall be calculated for a group of Local Transmission Facilities if all are part of projects directly connected to the facilities of the same

Participating TO(s). The Local Transmission Revenue Requirement will be determined consistent with CAISO procedures posted on the CAISO Website and shall be the sum of:

(a) the Non-Load-Serving Participating TO's Local Transmission Revenue Requirement for the relevant Local Transmission Facility or group of facilities; and

(b) the annual Local TRBA adjustment for the relevant Local Transmission Facility or group of facilities, which shall be based on the principal balance in the Local 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. In accordance with Section 26.1 of the CAISO Tariff, the Non-Load-Serving Participating TO shall include any over- or under-recovery of its annual Local Transmission Revenue Requirement in its Local TRBA. If the annual Local 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 Local Transmission Revenue Requirement by the number of days the Local Transmission Facilities were under the CAISO's Operational Control divided by the number of days in the year.

13.2 Updates to Local Access Charges. Unless otherwise agreed by the affected Participating TOs, a Non-Load-Serving Participating TO shall adjust its Local Access Charges and Local Wheeling Access Charges (1) when necessary to reflect any new transmission addition directly connecting a Participating TO to the Local Transmission Facilities of the Non-Load-Serving Participating TO; (2) on the date FERC makes effective a change to the Local Transmission Revenue Requirement of the Non-Load-Serving Participating TO; and (3) on the date FERC makes effective a change to Gross Load of a Participating TO directly connected to the Non-Load-Serving Participating TO. Using the Local Transmission Revenue Requirement accepted or authorized by FERC, consistent with Section 9 of this Schedule 3, for the Non-Load-Serving Participating TO, the CAISO will recalculate the Local Access Charge applicable during such period. Revisions to the Local TRBA adjustment shall be made effective annually on January 1 based on the principal balance in the Local TRBA as of September 30 of the prior year and a forecast of Transmission Revenue Credits for the next year.

For service provided by a Non-Load-Serving Participating TO, any refund associated with a Non-Load-Serving Participating TO'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.

If the Non-Load-Serving Participating TO withdraws one or more of its transmission facilities from the CAISO Operational Control in accordance with Section 3.4 of the Transmission Control Agreement, then the CAISO will no longer collect the TRR for that transmission facility through the CAISO's Access Charge effective upon the date the transmission facility is no longer under the Operational Control of the CAISO. The withdrawing Non-Load-Serving Participating TO shall be obligated to provide the CAISO will all necessary information to implement the withdrawal of the Participating TO's transmission facilities and to make any necessary filings at FERC to revise

its TRR. The CAISO shall revise its transmission Access Charge to reflect the withdrawal of one or more transmission facilities from CAISO Operational Control.

13.3 Approval of Updated Local Transmission Revenue Requirement. A Non-Load-Serving Participating TO will make the appropriate filings at FERC to establish its Transmission Revenue Requirement for its Local Access Charge, and to obtain approval of any changes thereto. All such filings with the FERC will include a separate appendix that states the LTRR and other information required by the FERC to support the Local Access Charge. The Non-Load-Serving Participating TO will provide a copy of its filing to the CAISO and the other Participating TOs in accordance with the notice provisions in the Transmission Control Agreement.

Federal power marketing agencies whose transmission facilities are under CAISO Operational Control shall develop their Local Transmission Revenue Requirements pursuant to applicable federal laws and regulations, including filing with FERC. All such filings with FERC will include a separate appendix that states the LTRR and other information required by the FERC to support the Access Charges. The procedures for public participation in a federal power marketing agency's ratemaking process shall be posted on the federal power marketing agency's website. The federal power marketing agency shall also post on the website the Federal Register Notices and FERC orders for rate making processes that impact the federal power marketing agency's Local Transmission Revenue Requirement. The Non-Load-Serving Participating TO will provide a copy of its filing to the CAISO and the other Participating TOs in accordance with the notice provisions in the Transmission Control Agreement.

13.4 Disbursement of Local Access Charge Revenues. Unless otherwise agreed by the affected Participating TOs, Local Access Charge revenues of a Non-Load-Serving Participating TO shall be calculated for disbursement to that Non-Load-Serving Participating TO on a monthly basis as the sum of Local Access Charges billed by the CAISO to the UDCs or MSS Operators of Participating TOs pursuant to Section 26.1 of the CAISO Tariff.

13.5 Payment of Local Access Charge. Notwithstanding the separate accounting for the Local Access Charge specified in Section 26.1 of the CAISO Tariff and this Section 13 of this Schedule 3, if the same entity is both a Participating TO and a UDC or MSS Operator, then the monthly Regional Access Charge amount, and any Local Access Charge amount pursuant to this Section 13 of this Schedule 3, billed by the CAISO will be the charges payable by the UDC or MSS Operator in accordance with Sections 26.1.2 and 26.1 of the CAISO Tariff less the disbursement determined in accordance with Section 10.1(d) of this Schedule 3. If this difference is negative, that amount will be paid by the CAISO to the Participating TO.

14. Wheeling Access Charges.

14.1 CAISO Charges on Scheduling Coordinators for Wheeling. The CAISO will charge Scheduling Coordinators for a Wheeling Out or a Wheeling Through transaction the product of the Wheeling Access Charge and the total of the hourly Schedules or awards of Wheeling in MWh for each Trading Interval at each Scheduling Point associated with that transaction pursuant to Section 26.1.4 of the CAISO Tariff.

14.2 Wheeling Access Charge. The Wheeling Access Charge for each Participating TO shall be as specified in Section 26.1.4 of the CAISO Tariff.

14.3 CAISO Payments to Transmission Owners for Wheeling. The CAISO will pay all Wheeling revenues to Participating TOs on the basis of the ratio of each Participating TO's Transmission Revenue Requirement (less the TRR associated with Existing Rights) to the sum of all Participating TOs' TRRs (less the TRRs associated with Existing Rights) as specified in Section 26.1.4.3 of the CAISO Tariff and in the applicable Business Practice Manual. The Local Wheeling Access Charge shall be disbursed to the appropriate Participating TO in accordance with the applicable Business Practice Manual.

14.4 Weighted Average Rate for Wheeling Service. The weighted average rate payable for Wheeling over joint facilities at each Scheduling Point shall be calculated as the sum of the applicable Wheeling Access Charge rates for each applicable TAC Area or Participating TO as these rates are weighted by the ratio of the Available Transfer Capability for each Participating TO at the particular Scheduling Point to the total Available Transfer Capability for the Scheduling Point. The calculation of this rate is set forth in more detail in the applicable Business Practice Manual.

* * * *

Appendix A

Master Definition Supplement

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- Access Charge
A charge paid by all Utility Distribution Companies, Small Utility Distribution Companies, and MSS Operators with Gross Load in a PTO Service Territory, as set forth in Article II. The Access Charge includes the Regional Access Charge and the Local Access Charge. The Access Charge will recover the Participating TO's Transmission Revenue Requirement in accordance with Appendix F, Schedule 3.

* * * *

- High Voltage Access Charge (HVAC)
When used in documents that adopt the definitions in this Appendix A of the ISO Tariff, HVAC means Regional Access Charge.

- High Voltage Transmission Facility
When used in documents that adopt the definitions in this Appendix A of the ISO Tariff, High Voltage Transmission Facility means Regional Transmission Facility.

- High Voltage Transmission Revenue Requirement (HVTRR)
When used in documents that adopt the definitions in this Appendix A of the ISO Tariff, HVTRR means Regional Transmission Revenue Requirement.

- High Voltage Wheeling Access Charge
When used in documents that adopt the definitions in this Appendix A of the ISO Tariff, High Voltage Wheeling Access Charge means Regional Wheeling Access Charge.

* * * *

- HVAC
When used in documents that adopt the definitions in this Appendix A of the ISO Tariff, HVAC means RAC.

- HVTRR
When used in documents that adopt the definitions in this Appendix A of the ISO Tariff, HVTRR means RTRR.

* * * *

- LAC
Local Access Charge

* * * *

- Local Access Charge (LAC)
The Access Charge applicable under Section 26.1 to recover the Local Transmission Revenue Requirement of a Participating TO.

* * * *

- Local Transmission Facility
A transmission facility that is (1) under the CAISO Operational Control, (2) is owned by a Participating TO or to which a Participating TO has an Entitlement that is represented by a Converted Right, (3) operates at a voltage below 200 kilovolts, and (4) only in the case of a transmission facility approved in the final 2013/2014 comprehensive Transmission Plan and thereafter, is located entirely within a Participating Transmission Owner's footprint or PTO Service Territory.

- 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.

- Local Wheeling Access Charge
The Wheeling Access Charge associated with the recovery of a Participating TO's Local Transmission Revenue Requirement in accordance with Section 26.1.

* * * *

- Location Constrained Resource Interconnection Facility
A Transmission Facility that has been determined by the CAISO to satisfy all of the requirements of Section 24.4.4.6.3.

* * * *

- Low Voltage Access Charge (LVAC)

When used in documents that adopt the definitions in this Appendix A of the ISO Tariff, LVAC means Local Access Charge.

- Low Voltage Transmission Facility

When used in documents that adopt the definitions in this Appendix A of the ISO Tariff, Low Voltage

Transmission Facility means Local Transmission Facility.

- Low Voltage Transmission Revenue Requirement (LVTRR)

When used in documents that adopt the definitions in this Appendix A of the ISO Tariff, LVTRR means Local Transmission Revenue Requirement.

- Low Voltage Wheeling Access Charge

When used in documents that adopt the definitions in this Appendix A of the ISO Tariff, Low Voltage Wheeling Access Charge means Local Wheeling Access Charge.

* * * *

- LTRR

Local Transmission Revenue Requirement

- LVAC

When used in documents that adopt the definitions in this Appendix A of the ISO Tariff, LVAC means LAC.

- LVTRR

When used in documents that adopt the definitions in this Appendix A of the ISO Tariff, LVTRR means LTRR.

* * * *

- RAC
Regional Access Charge

* * * *

- Regional Access Charge (RAC)
The Access Charge applicable under Section 26.1 to recover the Regional Transmission Revenue Requirements of each Participating TO.

* * * *

- Regional Transmission Facility
A transmission facility that is owned by a Participating TO or to which a Participating TO has an Entitlement that is represented by a Converted Right, that is under the CAISO Operational Control, and that is not (1) a Local Transmission Facility or a Location Constrained Resource Interconnection Facility, and supporting facilities, or (2) a Merchant Transmission Facility.

- Regional Transmission Revenue Requirement (RTRR)
The portion of a Participating TO's Transmission Revenue Requirement associated with and allocable to

the Participating TO's Regional Transmission Facilities and Converted Rights associated with Regional Transmission Facilities and Location Constrained Resource Interconnection Facilities that are under the CAISO Operational Control.

- Regional Utility Specific Rate
A Participating TO’s Regional Transmission Revenue Requirement divided by such Participating TO’s forecasted Gross Load.

- Regional Wheeling Access Charge
The Wheeling Access Charge associated with the recovery of a Participating TO's Regional Transmission Revenue Requirements in accordance with Section 26.1.

* * * *

- RTRR
Regional Transmission Revenue Requirement

* * * *

- Standby Rate
A rate assessed a Standby Service Customer by the Participating TO that also provides retail electric service, as approved by the Local Regulatory Authority, or FERC, as applicable, for Standby Service which compensates the Participating TO, among other things, for costs of Regional Transmission Facilities.

- Standby Service
Service provided by a Participating TO that also provides retail electric service, which allows a Standby Service Customer, among other things, access to Regional Transmission Facilities for the delivery of backup power on an instantaneous basis to ensure that Energy may be reliably delivered to the Standby Service Customer in the event of an Outage of a Generating Unit serving the customer's Load.

* * * *

- Standby Transmission Revenue
The transmission revenues, with respect to cost of both Regional Transmission Facilities and Local Transmission Facilities, collected directly from Standby Service Customers through charges for Standby Service.

* * * *

- Transmission Access Charge Area (TAC Area)
A portion of the CAISO Controlled Grid as identified in Section 3 of Schedule 3 of Appendix F.

* * * *

- Transmission Revenue Credit

The proceeds 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.

* * * *

- Wheeling Access Charge (WAC)

The charge assessed by the CAISO that is paid by a Scheduling Coordinator for Wheeling in accordance with Section 26.1. Wheeling Access Charges shall not apply for Wheeling under a bundled non-economy Energy coordination agreement of a Participating TO executed prior to July 9, 1996. The Wheeling Access Charge may consist of a Regional Wheeling Access Charge and a Local Wheeling Access Charge.

* * * *

Attachment B – Marked Tariff

California Independent System Operator Corporation

Order 1000 Compliance Filing

October 11, 2012

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11.1.2 Settlement Charges And Payments

The CAISO shall settle the following charges in accordance with this CAISO Tariff: (1) Grid Management Charge; (2) Bid Cost Recovery; (3) IFM charges and payments, including Energy and Ancillary Services; (4) RUC charges and payments; (5) Real-Time Market charges and payments, including Energy and Ancillary Services; (6) HASP charges and payments for Energy and Ancillary Services; (7) ~~High Voltage~~Regional Access Charges ~~and TAC Transition Charges~~; (8) Wheeling Access Charges; (9) Voltage Support and Black Start charges; (10) Excess Cost Payments; (11) default interest charges; (12) CRR Charges and Payments, (13) Inter-SC Trades charges and payments; (14) neutrality adjustments; (15) FERC Annual Charges; (16) distribution of excess Marginal Losses; (17) Virtual Bid Submission Charges; (18) miscellaneous charges and payments; and (19) Participating Intermittent Resource Fees.

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11.11 ~~HVACs~~RACs ~~And Transition Charges,~~ And Wheeling Transactions

11.11.1 ~~High Voltage~~Regional Access Charges ~~And Transition Charges~~

~~High Voltage~~Regional Access Charges ~~and Transition Charges~~ will be levied in accordance with Section 26.1 and Appendix F, Schedule 3.

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24. Comprehensive Transmission Planning Process

24.1 Overview

The CAISO will develop a comprehensive Transmission Plan and approve transmission upgrades or additions using the Transmission Planning Process set forth in this Section 24. The CAISO will analyze the need for transmission upgrades and additions in accordance with the methodologies and criteria set forth in this Section 24, the Transmission Control Agreement, and the applicable Business Practice Manuals. The comprehensive Transmission Plan will identify transmission upgrades or additions needed ~~projects associated with Approved Project Sponsors that are Merchant Transmission Facilities or are~~

needed: (1) to maintain System Reliability; (2) to satisfy the requirements of a Location Constrained Resource Interconnection Facility; (3) to maintain the simultaneous feasibility of allocated Long-Term CRRs; and (4) as additional components or expansions to LGIP Network Upgrades identified pursuant to Section 24.4.6.5; (5) to . The comprehensive Transmission Plan will identify transmission addition and upgrade elements with no approved Project Sponsors needed to (1) meet state and federal policy requirements and directives that are not inconsistent with the Federal Power Act, including renewable portfolio standards policies; and (62) to reduce congestion costs, production supply costs, transmission losses, or other electric supply costs resulting from improved access to cost-effective resources; and (7) to reflect Merchant Facilities meeting the requirements for inclusion in the Transmission Plan. For purposes of this Section 24, the term "the year X/(X+1) planning cycle" will refer to the Transmission Planning Process initiated during year X to complete a comprehensive Transmission Plan in year X+1.

24.1.1 [NOT USED]

24.1.2 [NOT USED]

24.1.3 [NOT USED]

24.1.4 [NOT USED]

24.2 Nature of the Transmission Planning Process

The CAISO will develop the annual comprehensive Transmission Plan and approve transmission upgrades or additions using a Transmission Planning Process with three (3) phases. In Phase 1, the CAISO will develop and complete the Unified Planning Assumptions and Study Plan and, in parallel, begin development of a conceptual statewide plan. In Phase 2, the CAISO will complete the comprehensive Transmission Plan. In Phase 3, the CAISO will evaluate proposals to construct and own specific transmission upgrade or addition elements specified in the comprehensive Transmission Plan. The Transmission Planning Process shall, at a minimum:

(a) Coordinate and consolidate in a single plan the transmission needs of the CAISO Balancing Authority Area for maintaining the reliability of the CAISO Controlled

Grid in accordance with Applicable Reliability Criteria and CAISO Planning Standards, in a manner that promotes the economic efficiency of the CAISO Controlled Grid and considers federal and state environmental and other policies affecting the provision of Energy;

(b) Reflect a planning horizon covering a minimum of ten (10) years that considers previously approved transmission upgrades and additions, Demand Forecasts, Demand-side management, capacity forecasts relating to generation technology type, additions and retirements, and such other factors as the CAISO determines are relevant;

(c) Seek to avoid unnecessary duplication of facilities and ensure the simultaneous feasibility of the CAISO Transmission Plan and the transmission plans of interconnected Balancing Authority Areas, and otherwise coordinate with regional and sub-regional transmission planning processes and entities, including interconnected Balancing Authority Areas;

(d) Identify existing and projected limitations of the CAISO Controlled Grid's physical, economic or operational capability or performance and identify transmission upgrades and additions, including alternatives thereto, deemed needed to address the existing and projected limitations;

(e) Account for any effects on the CAISO Controlled Grid of the interconnection of Generating Units, including an assessment of the deliverability of such Generating Units in a manner consistent with CAISO interconnection procedures.

24.2.1 [NOT USED]

24.2.2 [NOT USED]

24.2.3 [NOT USED]

24.2.4 [NOT USED]

24.2.5 [NOT USED]

24.3 Transmission Planning Process Phase 1

Phase 1 consists of two (2) parallel processes: (1) the development of the Unified Planning Assumptions and Study Plan; and, (2) initiation of the development of the statewide conceptual transmission plan, as discussed in Section 24.4.4.

24.3.1 Inputs to the Unified Planning Assumptions and Study Plan

The CAISO will develop Unified Planning Assumptions and a Study Plan using information and data from the approved Transmission Plan developed in the previous planning cycle. The CAISO will consider the following in the development of the Unified Planning Assumptions and Study Plan:

(a) WECC base cases, as may be modified for the relevant planning horizon;

(b) Transmission upgrades and additions approved by the CAISO in past Transmission Planning Process cycles, including upgrades and additions which the CAISO has determined address transmission elements in the comprehensive Transmission Plan developed in the previous planning cycle;

(c) Category 2 policy-driven transmission upgrade and addition elements from a prior planning cycle as described in Section 24.4.6.6;

(d) Location Constrained Resource Interconnection Facilities conditionally approved under Section 24.4.6.3;

(e) Network Upgrades identified pursuant to Section 25, Appendix U, Appendix V, Appendix Y or Appendix Z relating to the CAISO's Large Generator Interconnection Procedures and Appendices S and T relating to the CAISO's Small Generator Interconnection Procedures that were not otherwise included in the comprehensive Transmission Plan from the previous annual cycle;

(f) Operational solutions validated by the CAISO in the Local Capacity Technical Study under Section 40.3.1;

(g) Policy requirements and directives, as appropriate, including programs initiated by state and federal regulatory agencies;

(h) Energy Resource Areas or similar resource areas identified by Local Regulatory Authorities;

(i) Demand response programs that are proposed for inclusion in the base case or assumptions for the comprehensive Transmission Plan;

(j) Generation and other non-transmission projects that are proposed for inclusion in long-term planning studies as alternatives to transmission additions or upgrades;

(k) Beginning with the 2011/2012 planning cycle, Economic Planning Study requests submitted in comments on the draft Unified Planning Assumptions and Study.

(l) Planned facilities in interconnected Balancing Authority Areas.

24.3.2 Contents of the Unified Planning Assumptions and Study Plan

The Unified Planning Assumptions and Study Plan shall, at a minimum, provide:

(a) The planning data and assumptions to be used in the Transmission Planning Process cycle, including, but not limited to, those related to Demand Forecasts and distribution, potential generation capacity additions and retirements, and transmission system modifications;

(b) A description of the computer models, methodology and other criteria used in each technical study performed in the Transmission Planning Process cycle;

(c) A list of each technical study to be performed in the Transmission Planning Process cycle and a summary of each technical study's objective or purpose;

(d) A description of significant modifications to the planning data and assumptions as allowed by Section 24.3.1(a) and consistent with Section 24.3.2;

(e) The identification of any entities directed to perform a particular technical study or portions of a technical study;

(f) A proposed schedule for all stakeholder meetings to be held as part of the Transmission Planning Process cycle and the means for notification of any changes thereto, the location on the CAISO Website of information relating to the technical studies performed in the Transmission Planning Process cycle, and the name of a contact person at the CAISO for each technical study performed in the Transmission Planning Process cycle;

(g) To the maximum extent practicable, and where applicable, appropriate sensitivity analyses, including project or solution alternatives, to be performed as part of the technical studies;

(h) Descriptions of the High Priority Economic Planning Studies as determined by the CAISO under section 24.3.4.2; ~~24.3.5;~~ and

(i) Identification of state or federal requirements or directives that the CAISO will utilize, pursuant to Section 24.4.6.6, to identify policy-driven transmission elements.

24.3.3 Stakeholder Input - Unified Planning Assumptions/Study Plan

(a) Beginning with the 2011/2012 planning cycle and in accordance with the schedule set forth in the Business Practice Manual, the CAISO will provide a comment period during which Market Participants, electric utility regulatory agencies and all other interested parties may submit ~~-~~the following proposals for consideration in the development of the draft Unified Planning Assumptions and Study Plan:

(i) Demand response programs for inclusion in the base case or assumptions; ~~and~~

(ii) Generation and other non-transmission alternatives, consistent with Section 24.3.2(a) proposed as alternatives to transmission additions or upgrades; and

(iii) State or federal policy requirements or directives that are not inconsistent with the Federal Power Act.

(b) Following review of relevant information, including stakeholder comments submitted pursuant to Section 24.3.3(a), the CAISO will prepare and post on the CAISO Website a draft of the Unified Planning Assumptions and Study Plan. The CAISO will issue a Market Notice announcing the availability of such draft, soliciting comments, and scheduling a public conference(s) as required by Section 24.3.3(c);

(c) No less than one (1) week subsequent to the posting of the draft Unified Planning Assumptions and Study Plan, the CAISO will conduct a minimum of one (1) public meeting open to Market Participants, electric utility regulatory agencies, and other interested parties to review, discuss, and recommend modifications to the draft Unified Planning Assumptions and Study Plan. Additional meetings, web conferences, or teleconferences may be scheduled as needed. All stakeholder meetings, web conferences, or teleconferences shall be noticed by Market Notice;

(d) Interested parties will be provided a minimum of two (2) weeks following the first public meeting to provide comments on the draft Unified Planning Assumptions and Study Plan. Such comments may include Economic Planning Study requests based on the comprehensive Transmission Plan from the prior cycle. All comments on the draft Unified Planning Assumptions and the Study Plan will be posted by the CAISO to the CAISO Website;

(e) Following the public conference(s), and under the schedule set forth in the Business Practice Manual, the CAISO will determine and publish to the CAISO Website the final Unified Planning Assumptions and Study Plan in accordance with the procedures set forth in the Business Practice Manual. The final Unified Planning Assumptions and Study Plan will include an explanation as to the public policy requirements or directives that were selected for consideration in the current planning cycle as well as the suggested public policy requirements and directives that were not selected for consideration and the reasons therefor. The CAISO will post the base cases to be used in the technical studies to its secured website as soon as possible after the final Unified Planning Assumptions and Study Plan have been published.

(f) A public policy requirement or directive selected for consideration in a transmission planning cycle will be carried over into subsequent transmission planning cyclesunless the ISO determines that such public policy requirement or directive has been eliminated, modified, or is otherwise not applicable or relevant for transmission planning purposes in a current transmission planning cycle. The ISO will provide an explanation of any decision not to consider a previously identified public policy requirement or directive from consideration in the current transmission planning process cycle.

24.3.4 Economic Planning Studies

24.3.4.1 CAISO Assessment of Requests for Economic Planning Studies

Following the submittal of a request for an Economic Planning Study, the CAISO will determine whether the request shall be designated as a High Priority Economic Planning Study for consideration in the development of the comprehensive Transmission Plan. In making the determination, the CAISO will consider:

(a) Whether the requested Economic Planning Study seeks to assess Congestion not identified or identified and not mitigated by the CAISO in previous Transmission Planning Process cycles;

(b) Whether the requested Economic Planning Study addresses delivery of Generation from Location Constrained Resource Interconnection Generators or network transmission facilities intended to access Generation from an Energy Resource Area or similar resource area assigned a high priority by the CPUC or CEC;

(c) Whether the requested Economic Planning Study is intended to address Local Capacity Area Resource requirements;

(d) Whether resource and Demand information indicates that Congestion described in the Economic Planning Study request is projected to increase over the planning horizon used in the Transmission Planning Process and the magnitude of that Congestion; or

(e) Whether the Economic Planning Study is intended to encompass the upgrades necessary to integrate new generation resources or loads on an aggregated or regional basis.

24.3.4.2 Selection of High Priority Economic Planning Studies

In accordance with the schedule and procedures set forth in the Business Practice Manual, the CAISO will post to the CAISO Website the list of selected High Priority Economic Planning Studies to be included in the draft Unified Planning Assumptions and Study Plan. The CAISO may assess requests for Economic Planning Studies individually or in combination where such requests may have common or complementary effects on the CAISO Controlled Grid. As appropriate, the CAISO will perform requested High Priority Economic Planning Studies, up to five (5); however, the CAISO retains discretion to perform more than five (5) High Priority Economic Planning Studies should stakeholder requests or patterns of Congestion or anticipated Congestion so warrant. Market Participants may, consistent with Section

24.3.1 and 24.3.2, conduct Economic Planning Studies that have not been designated as High Priority Economic Planning Studies at their own expense and may submit such studies for consideration in the development of the comprehensive Transmission Plan.

24.4 Transmission Planning Process Phase 2

24.4.1 Conducting Technical Studies

(a) In accordance with the Unified Planning Assumptions and Study Plan and with the procedures and deadlines in the Business Practice Manual, the CAISO will perform, or direct the performance by third parties of, technical studies and other assessments necessary to develop the comprehensive Transmission Plan, including such technical studies and other assessments as are necessary in order to determine whether and how to include elements from the conceptual statewide transmission plan, Regional Transmission Facilities, or other alternative elements identified by the CAISO during the Phase 2 studies in the comprehensive Transmission Plan. According to the schedule set forth in the applicable Business Practice Manual, the CAISO will post the preliminary results of its technical studies and proposed mitigation solutions on the CAISO Website. The CAISO's technical study results and mitigation solutions shall be posted not less than one-hundred and twenty (120) days after the final Unified Planning Assumptions and Study Plan are published, along with the results of the technical studies conducted by Participating TOs or other third parties at the direction of the CAISO;

(b) All technical studies, whether performed by the CAISO, the Participating TOs or other third parties under the direction of the CAISO, must utilize the Unified Planning Assumptions for the particular technical study to the maximum extent practical, and deviations from the Unified Planning Assumptions for the particular technical study must be documented in results of each technical study. The CAISO will measure the results of the studies against Applicable Reliability

Criteria, the CAISO Planning Standards, and other criteria established by the Business Practice Manual. After consideration of the comments received on the preliminary results, the CAISO will complete, or direct the completion of, the technical studies and post the final study results on the CAISO Website;

(c) The CAISO technical study results will identify needs and proposed solutions to meet Applicable Reliability Criteria, CAISO planning standards, and other applicable planning standards. The CAISO and Participating TOs shall coordinate their respective transmission planning responsibilities required for compliance with the NERC Reliability Standards and for the purposes of developing the annual Transmission Plan according to the requirements and time schedules set forth in the Business Practice Manual.

24.4.2 Submission of Reliability Driven Projects

Pursuant to the schedule described in the Business Practice Manual and based on the technical study results, the CAISO, CEC, CPUC, and other interested parties may propose any transmission upgrades or additions deemed necessary to ensure System Reliability consistent with Applicable Reliability Criteria and CAISO Planning Standards through the Phase 2 Request Window. Participating TOs will submit such proposed transmission solutions ~~project proposals~~ through the Phase 2 Request Window within thirty (30) days after the CAISO posts its preliminary technical study results. The substantive description of reliability driven projects is set forth in Section 24.4.6.2.

24.4.3 Phase 2 Request Window

(a) Following publication of the results of the technical studies, and in accordance with the schedule set forth in the Business Practice Manual, the CAISO will open a Request Window during Phase 2 for the submission of proposed transmission solutions~~proposals~~ for reliability-driven needs identified in the studies~~projects~~, proposed Location Constrained Resource Interconnection Facility projects, demand response or generation solutions~~proposals~~ proposed as alternatives to transmission additions or upgrades to meet reliability needs, ~~and~~ proposals for

Merchant Transmission Facility projects, ~~and~~ proposed transmission solutions ~~projects~~ needed to maintain the feasibility of long-term CRRs and efficient or cost effective Regional Transmission Facility alternatives for meeting identified needs. The CEC, CPUC, and interested parties may submit potential reliability transmission solutions within the same timeframe established for Participating TOs to submit reliability transmission solutions, but they are not required to do so to the extent the Business Practice Manual grants them a longer period of time.

(b) All facilities proposed during the Request Window must use the forms and satisfy the information and technical requirements set forth in the Business Practice Manual. Transmission addition or upgrade solutions~~Proposals for these transmission additions or upgrades~~ must be within or connect to the CAISO Balancing Authority Area or CAISO Controlled Grid. The CAISO will determine whether each of these solutions~~proposals~~ will be considered in the development of the comprehensive Transmission Plan. In accordance with the schedule and procedures set forth in the Business Practice Manual, the CAISO will notify the party submitting the proposed solution~~proposal~~ of any deficiencies in the proposal and provide the party an opportunity to correct the deficiencies. Such proposed solutions ~~A proposal~~ can only be considered in the development of the comprehensive Transmission Plan if the CAISO determines that:

(i) the proposed solution~~proposal~~ satisfies the information requirements for the particular type of project submitted as set forth in templates included in the Business Practice Manual;

(ii) the proposed solution~~proposal~~ is not functionally duplicative of transmission upgrades or additions that have previously been approved by the CAISO; and

(iii) the proposed solution~~proposal~~, if a sub-regional or regional project that affects other interconnected Balancing Authority Areas, has been

reviewed by the appropriate sub-regional or regional planning entity, is not inconsistent with such sub-regional or regional planning entity's preferred solution or project, and has been determined to be appropriate for inclusion in the CAISO Study Plan, rather than, or in addition to, being included in or deferred to the planning process of the sub-regional or regional planning entity.

(c) The duration of the Request Window will be set forth in the Business Practice Manual.

24.4.4 Comment Period of Conceptual Statewide Plan

Beginning in Phase 1, the CAISO will develop, or, in coordination with other regional or sub-regional transmission planning groups or entities, including interconnected Balancing Authority Areas, will participate in the development of a conceptual statewide transmission plan that, among other things, may identify potential transmission upgrade or addition elements needed to meet state and federal policy requirements and directives. The conceptual statewide transmission plan will be an input into the CAISO's Transmission Planning Process. The CAISO will post the conceptual statewide transmission plan to the CAISO Website and will issue a Market Notice providing notice of the availability of such plan. In the month immediately following the publication of the conceptual statewide transmission plan, the CAISO will provide an opportunity for interested parties to submit comments and recommend modifications to the conceptual statewide transmission plan and alternative transmission elements, including potential interstate transmission lines and proposals for access to resources located in areas not identified in the conceptual statewide transmission plan, and non-transmission elements.

24.4.5 Determination of Needed Transmission Projects and Elements

To determine which projects and additional elements should be included in the comprehensive Transmission Plan, the CAISO will evaluate the conceptual transmission elements identified in the statewide conceptual transmission plan or other alternative elements identified by the CAISO during the Phase 2 studies, reliability project proposals, LCRIF projects proposals, project proposals required to

maintain the feasibility of long term CRRs, proposed Network Upgrades pursuant to Section 24.4.6.5 and the results of Economic Planning Studies or other economic studies the CAISO has performed and will consider potential alternative transmission upgrade and addition elements and non-transmission or generation solutions proposed by interested parties. In determining which projects and additional elements should be included in the comprehensive Transmission Plan, (1) the CAISO shall consider the degree to which a Regional Transmission Facility may be substituted for one or more Local Transmission Facilities as a more efficient or cost effective solution to identified needs, and (2) the CAISO will not give undue weight or preference to the conceptual statewide plan or any other input in its planning process.

24.4.6 Categories of Transmission Projects

24.4.6.1 Merchant Transmission Project Proposals

The CAISO may include a transmission addition or upgrade in the comprehensive Transmission Plan if a Project Sponsor proposes a Merchant Transmission Facility and demonstrates to the CAISO the financial capability to pay the full cost of construction and operation of the Merchant Transmission Facility. The Merchant Transmission Facility must mitigate all operational concerns identified by the CAISO to the satisfaction of the CAISO, in consultation with the Participating TO(s) in whose PTO Service Territory the Merchant Transmission Facility will be located, and ensure the continuing feasibility of allocated Long Term CRRs over the length of their terms. To ensure that the Project Sponsor is financially able to pay the construction and operating costs of the Merchant Transmission Facility, and where the Participating TO is not the Project Sponsor and is to construct the Merchant Transmission Facility under Section 24.4.1, the CAISO in cooperation with the Participating TO may require (1) a demonstration of creditworthiness (e.g., an appropriate credit rating), or (2) sufficient security in the form of an unconditional and irrevocable letter of credit or other similar security sufficient to meet its responsibilities and obligations for the full costs of the transmission addition or upgrade.

24.4.6.2 Reliability Driven Projects

The CAISO, in coordination with each Participating TO with a PTO Service Territory will, as part of the Transmission Planning Process and consistent with the procedures set forth in the Business Practice

Manual, identify the need for any transmission additions or upgrades required to ensure System Reliability consistent with all Applicable Reliability Criteria and CAISO Planning Standards. In making this determination, the CAISO, in coordination with each Participating TO with a PTO Service Territory and other Market Participants, shall consider lower cost alternatives to the construction of transmission additions or upgrades, such as acceleration or expansion of existing projects, Demand-side management, Remedial Action Schemes, appropriate Generation, interruptible Loads, storage facilities or reactive support. The CAISO shall direct each Participating TO with a PTO Service Area, as a registered Transmission Planner with NERC, to perform the necessary studies, based on the Unified Planning Assumptions and Study Plan and any applicable Interconnection Study, and in accordance with the Business Practice Manual, to determine the facilities needed to meet all Applicable Reliability Criteria and CAISO Planning Standards. The Participating TO with a PTO Service Area shall provide the CAISO and other Market Participants with all information relating to the studies performed under this Section, subject to any limitation provided in Section 20.2 or the applicable LGIP. The CAISO will determine the solution, transmission or non-transmission that meets the identified reliability need in the most prudent and cost effective manner. ~~The Participating TO with a PTO Service Territory in which the transmission upgrade or addition deemed needed under this Section 24 will have the responsibility to construct, own and finance, and maintain such transmission upgrade or addition. A reliability-driven upgrade or addition found to be needed pursuant to this section shall be subject to the provisions of Section 24.5 if such addition or upgrade also provides demonstrable economic or public policy benefits as described below. The CAISO will find that a needed reliability-driven transmission upgrade or addition also provides economic benefits if its economic benefits exceed ten (10) percent of its costs, consistent with the determination of costs and benefits for economically-driven projects under Section 24.4.6.7 and in accordance with the procedures set forth in the Business Practice Manual. The CAISO will assess whether a needed reliability-driven upgrade or addition also serves to meet state or federal policy requirements or directives as specified in the Study Plan for the current planning cycle, in accordance with the procedures and criteria set forth in Section 24.4.6.6 and the Business Practice Manual. If the CAISO finds that a needed reliability upgrade or addition also is needed under Section 24.4.6.6, or eliminates or partially fills the need for a policy-driven transmission element found to be needed under Section 24.4.6.6, such addition or upgrade shall~~

~~be subject to the provisions of Section 24.5.~~

24.4.6.3 LCRIF Projects

24.4.6.3.1 Proposals for LCRIFs

The CAISO, CPUC, CEC, a Participating TO, or any other interested parties may propose a transmission addition as a Location Constrained Resource Interconnection Facility. A proposal shall include the following information, to the extent available:

(a) Information showing that the proposal meets the requirements of Section 24.4.6.3.2; and

(b) A description of the proposed facility, including the following information:

(1) Transmission studies demonstrating that the proposed facility satisfies Applicable Reliability Criteria and CAISO Planning Standards;

(2) Identification of the most feasible and cost-effective alternative transmission additions, which may include network upgrades, that would accomplish the objective of the proposal;

(3) A planning level cost estimate for the proposed facility and all proposed alternatives;

(4) An assessment of the potential for the future connection of further transmission additions that would convert the proposed facility into a network transmission facility, including conceptual plans;

(5) The estimated in-service date of the proposed facility; and

(6) A conceptual plan for connecting potential LCRIGs, if known, to the proposed facility.

24.4.6.3.2 Criteria for Qualification as a LCRIF

(a) The CAISO shall conditionally approve a facility as a Location Constrained Resource Interconnection Facility if it determines that the facility is needed and all of the following requirements are met:

(1) The facility is to be constructed for the primary purpose of connecting to the CAISO Controlled Grid two (2) or more Location Constrained Resource Interconnection Generators in an Energy Resource Area, and at least one of the Location Constrained Resource Interconnection Generators is to be owned by an entity(ies) that is not an Affiliate of the owner(s) of another Location Constrained Resource Interconnection Generator in that Energy Resource Area;

(2) The facility will operate at or above 200 kV~~be a High Voltage Transmission Facility~~;

(3) At the time of its in-service date, the facility will not be a network facility and would not be eligible for inclusion in a Participating TO's TRR other than as an LCRIF; and

(4) The facility meets Applicable Reliability Criteria and CAISO Planning Standards.

(b) The proponent of a facility that has been determined by the CAISO to meet the requirements of Section 24.4.6.3.2(a) shall provide the CAISO with information concerning the requirements of this subsection not less than ninety (90) days prior to the planned commencement of construction, and the facility shall qualify as a Location Constrained Resource Interconnection Facility if the CAISO determines that both of the following requirements are met:

(1) The addition of the capital cost of the facility to the ~~High Voltage~~ RTRR of a Participating TO will not cause the aggregate of the net investment of all LCRIFs (net of the amount of the capital costs of LCRIFs to be

recovered from LCRIGs pursuant to Section 26.6) included in the ~~High Voltage~~ RTRRs of all Participating TOs to exceed fifteen (15) percent of the aggregate of the net investment of all Participating TOs in all ~~High Voltage T~~transmission ~~F~~facilities reflected in their ~~High Voltage~~ RTRRs (net of the amount of the capital costs of LCRIFs to be recovered from LCRIGs pursuant to Section 26.6) in effect at the time of the CAISO's evaluation of the facility; and

(2) Existing or prospective owners of LCRIGs have demonstrated their interest in connecting LCRIGs to the facility consistent with the requirements of Section 24.4.6.3.4, which establishes the necessary demonstration of interest.

24.4.6.3.3 Responsibilities of Participating Transmission Owner

Each Participating TO shall report annually to the CAISO the amount of its net investment in LCRIFs (net of the amount of the capital costs of LCRIFs to be recovered from LCRIGs pursuant to Section 26.6), and its net investment in ~~High Voltage T~~transmission ~~F~~facilities reflected in its ~~High Voltage~~ RTRR (net of the amount of the capital costs of LCRIFs to be recovered from LCRIGs pursuant to Section 26.6), to enable the CAISO to make the determination required under Section 24.4.6.3.2(b)(1).

24.4.6.3.4 Demonstration of Interest in a LCRIF

A proponent of an LCRIF must demonstrate interest in the LCRIF equal to sixty (60) percent or more of the capacity of the facility in the following manner:

(a) the proponent's demonstration must include a showing that LCRIGs that would connect to the facility and would have a combined capacity equal to at least twenty-five (25) percent of the capacity of the facility have executed Large Generator Interconnection Agreements or Small Generator Interconnection Agreements, as applicable; and

(b) to the extent the showing pursuant to Section 24.4.6.3.4(a) does not constitute sixty (60) percent of the capacity of the LCRIF, the proponent's demonstration of the remainder of the required minimum level of interest must include a showing that additional LCRIGs:

(1) in the case of Large Generating Facilities subject to the LGIP set forth in Appendix Y, have obtained Site Exclusivity or paid the Site Exclusivity Deposit in lieu of Site Exclusivity, provided that any Site Exclusivity Deposit paid pursuant to Section 3.5 of the LGIP set forth in Appendix Y shall satisfy this requirement, or, in the case of Large Generating Facilities subject to the LGIP set forth in Appendix U and Small Generating Facilities, have obtained control over their site or paid a deposit to the CAISO in the amount of $250,000, which deposit shall be refundable if the LCRIF is not approved or is withdrawn by the proponent; and

(2) have demonstrated interest in the LCRIF by one of the following methods:

(i) executing a firm power sales agreement for the output of the LCRIG for a period of five (5) years or longer; or

(ii) in the case of Large Generating Facilities subject to the LGIP set forth in Appendix Y, filing an Interconnection Request and paying the Interconnection Study Deposit required by Section 3.5 of the LGIP set forth in Appendix Y; or

(iii) in the case of Large Generating Facilities subject to the LGIP set forth in Appendix U and Small Generating Facilities, being in the CAISO's interconnection queue and paying a deposit to the CAISO equal to the sum of the minimum deposits required of an

Interconnection Customer for all studies performed in accordance with the Large Generator Interconnection Procedures (Appendix U) or Small Generator Interconnection Procedures (Appendix S), as applicable to the LCRIG, less the amount of any deposits actually paid by the LCRIG for such studies. The deposit shall be credited toward such study costs. If the LCRIF is not approved or is withdrawn by the proponent, any deposit paid under this provision shall be refundable to the extent it exceeds costs incurred by the CAISO for such studies; or

(iv) paying a deposit to the CAISO equal to five (5) percent of the LCRIG's pro rata share of the capital costs of a proposed LCRIF. The deposit shall be credited toward costs of Interconnection Studies performed in connection with the Large Generator Interconnection Procedures (Appendix U or Appendix Y, as applicable) or Small Generator Interconnection Procedures (Appendix S), whichever is applicable. If the LCRIF is not approved or is withdrawn by the proponent, any deposit paid under this provision shall be refundable to the extent it exceeds the costs incurred by the CAISO for such studies.

24.4.6.3.5 Coordination With Non-Participating TOs

In the event that a facility proposed as an LCRIF would connect to LCRIGs in an Energy Resource Area that would also be connected by a transmission facility that is in existence or is proposed to be constructed by an entity that is not a Participating TO and that does not intend to place that facility under the Operational Control of the CAISO, the CAISO shall coordinate with the entity owning or proposing that transmission facility through any regional planning process to avoid the unnecessary construction of duplicative transmission additions to connect the same LCRIGs to the CAISO Controlled Grid.

24.4.6.3.6 Evaluation of LCRIFs

In evaluating whether a proposed LCRIF that meets the requirements of Section 24.4.6.3.2 is needed, and for purposes of ranking and prioritizing LCRIF projects, the CAISO will consider the following factors:

(a) Whether, and if so, the extent to which, the facility meets or exceeds applicable CAISO Planning Standards, including standards that are Applicable Reliability Criteria.

(b) Whether, and if so, the extent to which, the facility has the capability and flexibility both to interconnect potential LCRIGs in the Energy Resource Area and to be converted in the future to a network transmission facility.

(c) Whether the projected cost of the facility is reasonable in light of its projected benefits, in comparison to the costs and benefits of other alternatives for connecting Generating Units or otherwise meeting a need identified in the CAISO Transmission Planning Process, including alternatives that are not LCRIFs. In making this determination, the CAISO shall take into account, among other factors, the following:

(1) The potential capacity of LCRIGs and the potential Energy that could be produced by LCRIGs in each Energy Resource Area;

(2) The capacity of LCRIGs in the CAISO's interconnection process for each Energy Resource Area;

(3) The projected cost and in-service date of the facility in comparison with other transmission facilities that could connect LCRIGs to the CAISO Controlled Grid;

(4) Whether, and if so, the extent to which, the facility would provide additional reliability or economic benefits to the CAISO Controlled Grid; and

(5) Whether, and if so, the extent to which, the facility would create a risk of stranded costs.

24.4.6.4 Projects to Maintain the Feasibility of Long Term CRRs

The CAISO is obligated to ensure the continuing feasibility of Long Term CRRs that are allocated by the CAISO over the length of their terms. In furtherance of this requirement the CAISO shall, as part of its annual Transmission Planning Process cycle, test and evaluate the simultaneous feasibility of allocated Long Term CRRs, including, but not limited to, when acting on the following types of projects: (a) planned or proposed transmission projects; (b) Generating Unit or transmission retirements; (c) Generating Unit interconnections; and (d) the interconnection of new Load. Pursuant to such evaluations, the CAISO shall identify the need for any transmission additions or upgrades required to ensure the continuing feasibility of allocated Long Term CRRs over the length of their terms and shall publish Congestion Data Summary along with the results of the CAISO technical studies. In assessing the need for transmission additions or upgrades to maintain the feasibility of allocated Long Term CRRs, the CAISO, in coordination with the Participating TOs and other Market Participants, shall consider lower cost alternatives to the construction of transmission additions or upgrades, such as acceleration or expansion of existing projects; Demand-side management; Remedial Action Schemes; constrained-on Generation; interruptible Loads; reactive support; or in cases where the infeasible Long Term CRRs involve a small magnitude of megawatts, ensuring against the risk of any potential revenue shortfall using the CRR Balancing Account and uplift mechanism in Section 11.2.4. As part of the CAISO's Transmission Planning Process, the Participating TOs and Market Participants shall provide the necessary assistance and information to the CAISO to allow it to assess and identify transmission additions or upgrades that may be necessary under Section 24.4.6.4. The CAISO will determine the solution that meets the identified need to maintain the feasibility of long-term CRRs in the most prudent and cost effective manner.~~To the extent a transmission upgrade or addition is deemed needed to maintain the feasibility of allocated Long Term CRRs in accordance with this Section and included in the CAISO's annual Transmission Plan, the CAISO will designate the Participating TO(s) with a PTO Service Territory in which the transmission upgrade or addition is to be located as the Project Sponsor(s), responsible to construct, own and finance, and maintain such transmission upgrade or addition. An upgrade or addition found to be needed pursuant to~~

~~this section shall be subject to the provisions of Section 24.5 if such addition or upgrade also provides demonstrable economic or public policy benefits as described below. The CAISO will find that a transmission upgrade or addition needed to maintain the feasibility of allocated Long Term CRRs also provides economic benefits if its economic benefits exceed ten (10) percent of its costs, consistent with the determination of costs and benefits for economically-driven projects under Section 24.4.6.7 and in accordance with the procedures set forth in the Business Practice Manual. The CAISO will assess whether an upgrade or addition needed to maintain the feasibility of allocated Long Term CRRs also serves to meet state or federal policy requirements or directives as specified in the Study Plan for the current planning cycle, in accordance with the procedures and criteria set forth in Section 24.4.6.6 and the Business Practice Manual. If the CAISO finds that an upgrade or addition needed to maintain the feasibility of allocated Long Term CRRs also is needed under Section 24.4.6.6, or eliminates or partially fills the need for a policy-driven transmission element found to be needed under Section 24.4.6.6, such addition or upgrade shall be subject to the provisions of Section 24.5.~~

24.4.6.5 LGIP Network Upgrades

Beginning with the 2011/2012 planning cycle, Network Upgrades originally identified during the Phase II Interconnection Study or Interconnection Facilities Study Process of the Large Generation Interconnection Process as set forth in Section 7 of Appendix Y that are not already included in a signed LGIA may be assessed as part of the comprehensive Transmission Plan if these Network Upgrades satisfy the following criteria:

(a) The Network Upgrades consist of new transmission lines 200 kV or above, and have capital costs of $100 million or greater;

(b) The Network Upgrade is a new 500 kV substation that has capital costs of $100 million or greater; or,

(c) The Network Upgrades have a capital cost of $200 million or more.

The CAISO will post a list of the Network Upgrades eligible for assessment in the Transmission Planning Process in accordance with the schedule set forth in the applicable Business Practice Manual. Network

Upgrades included in the comprehensive Transmission Plan may include additional components not included in the Network Upgrades originally identified during the Phase II Interconnection Study or may be expansions of the Network Upgrades originally identified during the Phase II Interconnection Study if the CAISO determines during the Transmission Planning Process that such components or expansions are needed as additional elements under section 24.1. Network Upgrades identified in the LGIP Phase II studies but not assessed in the Transmission Planning Process will be included in Large Generator Interconnection Agreements, as appropriate. Network Upgrades assessed in the Transmission Planning Process but not modified or replaced will be included in Large Generator Interconnection Agreements, as appropriate. Construction and ownership of Network Upgrades specified in the comprehensive Transmission Plan under this section, including any needed additional components or expansions, will be the responsibility of the Participating TO if the Phase II studies identified the original upgrade as needed and such upgrade has not yet been set forth in an executed Large Generator Interconnection Agreement. To the extent that additional components or expansions to Network Upgrades remain the responsibility of the Participating TO and such Network Upgrades are subsequently abandoned, the Participating TO shall be presumed to be eligible, subject to prudency and any other applicable review by FERC, to include in its TRR the costs of such Network Upgrades if the costs attributable to the abandonment of such Network Upgrades (as modified, replaced or otherwise reconfigured in the Transmission Planning Process) exceed the amounts funded by Interconnection Customers pursuant to Appendix Y. This presumption shall not apply in the case of Network Upgrades which the applicable Participating TO agreed to up-front fund independent of any obligation to fund pursuant to the Transmission Planning Process. If, through the Transmission Planning Process, the CAISO identifies any additional components or expansions of Network Upgrades that result in the need for other upgrades or additions, the responsibility to build and own such additions or upgrades will be determined by this Section 24, according to the category of those other upgrades or additions. Any decision in the Transmission Planning Process to modify Network Upgrades identified in the Large Generator Interconnection Process will not increase the cost responsibility of the Interconnection Customer as described in Appendix Y, Section 7. Category 1 policy-driven elements identified under Section 24.4.6.7 could supplant the need for LGIP Network Upgrades that would be developed in subsequent Generator Interconnection Process cycles. To the extent that a

Category 1 policy-driven element eliminates or downsizes the need for a Network Upgrade, the Interconnection Customer's cost responsibility for such Network Upgrade shall be eliminated or reduced. Any financial security posting shall be adjusted accordingly.

24.4.6.6 Policy-Driven Elements

Once the CAISO has identified projects needed to maintain reliability, LCRIF projects eligible for conditional or final approval, projects needed to maintain long-term CRR feasibility, qualified Merchant Transmission Facility projects, and needed LGIP Network Upgrades as described in Section 24.4.6.5, the CAISO may evaluate transmission upgrade and addition elements needed to meet state or federal policy requirements or directives as specified in the Study Plan pursuant to Section 24.3.2(i). Policy-driven transmission upgrade or addition elements will be either Category 1 or Category 2. Category 1 are those elements which under the criteria of this section are found to be needed elements and are recommended for approval as part of the comprehensive Transmission Plan in the current cycle. Category 2 are those elements that could be needed to achieve state or federal policy requirements or directives but have not been found to be needed in the current planning cycle based on the criteria set forth in this section. ~~Elements identified in this section and not identified in Section 24.4.6.5 as the responsibility of the Participating TO to build will be open for Project Sponsor solicitation during Phase 3.~~ The CAISO will determine the need for, and identify such policy-driven transmission upgrade or addition elements that efficiently and effectively meet applicable policies under alternative resource location and integration assumptions and scenarios, while mitigating the risk of stranded investment. The CAISO will create a baseline scenario reflecting the assumptions about resource locations that are most likely to occur and one or more reasonable stress scenarios that will be compared to the baseline scenario. Any transmission upgrade or addition elements that are included in the baseline scenario and at least a significant percentage of the stress scenarios may be Category 1 elements. Transmission upgrades or additions that are included in the base case, but which are not included in any of the stress scenarios or are included in an insignificant percentage of the stress scenarios, generally will be Category 2 elements, unless the CAISO finds that sufficient analytic justification exists to designate them as Category 1. In such cases, the ISO will make public the analysis upon which it based its justification for designating such

facilities as Category 1 rather than Category 2. In this process, the CAISO will consider the following criteria:

(a) commercial interest in the resources in the applicable geographic area (including renewable energy zones) accessed by potential transmission elements as evidenced by signed and approved power purchase agreements and interconnection agreements;

(b) the results and identified priorities of the California Public Utilities Commission's or California Local Regulatory Authorities' resource planning processes;

(c) the expected planning level cost of the transmission element as compared to the potential planning level costs of other alternative transmission elements;

(d) the potential capacity (MW) value and energy (MWh) value of resources in particular zones that will meet the policy requirements, as well as the cost supply function of the resources in such zones;

(e) the environmental evaluation, using best available public data, of the zones that the transmission is interconnecting as well as analysis of the environmental impacts of the transmission elements themselves; the extent to which the transmission element will be needed to meet Applicable Reliability Criteria or to provide additional reliability or economic benefits to the CAISO grid;

(f) potential future connections to other resource areas and transmission elements;

(g) resource integration requirements and the costs associated with these requirements in particular resource areas designated pursuant to policy initiatives;

(h) the potential for a particular transmission element to provide access to resources needed for integration, such as pumped storage in the case of renewable resources;

(i) the effect of uncertainty associated with the above criteria, and any other considerations, that could affect the risk of stranded investment; and

(j) the effects of other additions or upgrades being considered for approval during

the planning process.

24.4.6.7 Economic Studies and Mitigation Solutions

Once the CAISO has identified projects needed to maintain reliability, LCRIF projects eligible for conditional or final approval, qualified merchant transmission projects and policy driven elements, the CAISO will conduct the High Priority Economic Planning Studies selected under Section 24.4.4 and any other studies that the CAISO concludes are necessary to determine whether additional transmission upgrades and additions, or modifications to identified transmission projects or elements, are necessary to address:

(a) Congestion identified by the CAISO in the Congestion Data Summary published for the applicable Transmission Planning Process cycle and the magnitude, duration, and frequency of that Congestion;

(b) Local Capacity Area Resource requirements;

(c) Congestion projected to increase over the planning horizon used in the Transmission Planning Process and the magnitude of that Congestion; or

(d) Integration of new generation resources or loads on an aggregated or regional basis.

In determining whether additional elements are needed, the CAISO shall consider the degree to which, if any, the benefits of the solutions outweigh the costs, in accordance with the procedures set forth in the Business Practice Manual. The benefits of the mitigation solutions may include a calculation of any reduction in production costs, Congestion costs, Transmission Losses, capacity or other electric supply costs resulting from improved access to cost-efficient resources. The cost of the mitigation solution must consider any estimated costs identified under Section 24.4.6.4 to maintain the simultaneous feasibility of allocated Long Term CRRs for the length of their term. The CAISO, in determining whether a particular solution is needed, shall also consider the comparative costs and benefits of viable alternatives to the particular transmission element, including: (1) other potential transmission upgrades or additions, including those being considered or proposed during the Transmission Planning Process; (2) acceleration or expansion of any transmission upgrade or addition already approved by the CAISO Governing Board

or included in any CAISO annual Transmission Plan, and (3) non-transmission alternatives, including demand-side management. ~~Transmission upgrades and addition elements that are identified under this Section 24.4.6.7, other than reliability-driven projects, LCRIF projects eligible for conditional or final approval and qualified Merchant Transmission Facility projects, will be open for bid and Project Sponsor solicitation in Phase 3.~~

24.4.6.8 [not used] ~~Projects Submitted in Prior Request Windows~~

~~During Phase 2 of the 2010/2011 Transmission Planning Cycle, the CAISO will evaluate the specific project proposals submitted during the 2008 and 2009 request windows. If any of these 2008 or 2009 request window proposals is found by the CAISO to be needed as a Category 1 policy-driven or economically-driven element, using the criteria for approval of transmission elements under sections 24.4.6.6 or 24.4.6.7, the project will be included in the comprehensive 2010/2011 Transmission Plan. Upon Board approval of the Transmission Plan, the Project Sponsor that submitted the proposal will be approved to finance, own and construct the approved additions and upgrades provided that Project Sponsor meets the criterion specified in Section 24.5.2.1(c). If a 2008 or 2009 request window proposal is found to be needed as a Category 2 policy-driven element in the 2010-2011 Transmission Planning Cycle, and that Category 2 policy-driven element is reclassified as a Category 1 policy-driven element in the 2011-2012 Transmission Planning Cycle, the Project Sponsor that submitted the proposal will be approved to finance, own and construct the element, provided that Project Sponsor meets the criterion specified in Section 24.5.2.1(c). If competing projects have been submitted by multiple Project Sponsors in the 2008 and 2009 request windows for the same elements in the 2010/2011 comprehensive Transmission Plan, the CAISO will approve one of those Project Sponsors to build and own the project based on the criteria specified in Section 24.5.2.3. To the extent that competing project proposals for the same policy-driven or economically-driven element were submitted in both the 2008 and 2009 request windows, the CAISO will give priority to the project proposals submitted in the 2008 request window.~~

24.4.7 Description of Transmission Elements

The transmission elements identified in the draft and final comprehensive Transmission Plan will provide sufficient engineering detail to permit Project Sponsors to submit complete proposals, under section

24.5.1 to build certain transmission elements. As further described in the Business Practice Manual, such details may include, but are not limited to:

(a) Minimum Conductor Ampacity;

(b) Approximate Line impedance required;

(c) Approximate Series compensation levels;

(d) Substation bus and breaker configuration;

(e) Breaker clearing times;

(f) Transformer characteristics (capacity, impedance, tap range);

(g) Minimum Shunt capacitor and reactor sizes;

(h) Minimum FACTS device specifications;

(i) SPS requirements;

(j) Planning level cost estimates;

(k) Projected in-service date.

24.4.8 Additional Contents of Comprehensive Transmission Plan

In addition to the detailed descriptions of specific needed addition and upgrade projects and elements, the draft and final comprehensive Transmission Plan may include: (1) the results of technical studies performed under the Study Plan; (2) determinations and recommendations regarding the need for identified transmission upgrade and addition projects and elements and their identification as either Local or Regional Transmission Facilities; (3) assessments of transmission upgrades and additions submitted as alternatives to the potential solutions to transmission needs identified by the CAISO and studied during the Transmission Planning Process cycle; (4) results of Economic Planning Studies (except for the 2010/2011 cycle); (5) an update on the status of transmission upgrades or additions previously approved by the CAISO, including identification of mitigation plans, if necessary, to address any potential delay in the anticipated completion of an approved transmission upgrade or addition; and (6) a description of transmission addition and upgrade projects with an estimated capital investment of $50 million or more submitted through the Request Window and for which additional studies are required before being presented to the CAISO Governing Board for approval following completion of the studies; and (7) a description of Category 2 transmission upgrade or addition elements recommended for consideration in

future planning cycles.

24.4.9 Phase 2 Stakeholder Process

(a) According to the schedule and procedures set forth in the Business Practice Manual, the CAISO will schedule one (1) public meeting after the CAISO technical study results have been posted and Participating TOs have submitted (i) the results of technical studies conducted at the direction of the CAISO (if applicable); and (ii) reliability-driven projects and mitigation solutions. All stakeholder meetings, web conferences, or teleconferences shall be noticed by Market Notice. Interested parties will be provided a minimum two (2) week period to provide written comments regarding the technical study results and the proposals submitted by the Participating TOs.

(b) The CAISO will schedule at least one (1) other public meeting before the draft comprehensive Transmission Plan is posted to provide information about any policy-driven element evaluations or economic planning studies that have been completed since the prior public meeting was held, as well as updated information about any studies or evaluations that are still in progress. Notice of such meeting, web conference or teleconference will be provided to stakeholders via Market Notice.

(c) In accordance with the schedule and procedures in the Business Practice Manual, but not less than one-hundred and twenty (120) days after the results of the CAISO's technical studies are posted and not less than six (6) weeks after the Request Window closes, the CAISO will post a draft comprehensive Transmission Plan. The CAISO will subsequently conduct a public conference regarding the draft comprehensive Transmission Plan and solicit comments, consistent with the timelines and procedures set forth in the Business Practice Manual. Additional meetings, web conferences, or teleconferences may be scheduled as needed. All stakeholder meetings, web conferences, or

teleconferences shall be noticed by Market Notice and such notice shall be posted to the CAISO Website. After consideration of comments, the CAISO will post the revised draft comprehensive Transmission Plan to the CAISO Website.

24.4.10 Transmission Plan Approval Process

The revised draft comprehensive Transmission Plan, along with the stakeholder comments, will be presented to the CAISO Governing Board for consideration and approval. Upon approval of the plan, all needed transmission addition and upgrade solutions~~projects~~ and elements, net of all transmission and non-transmission alternatives considered in developing the comprehensive Transmission Plan, will be deemed approved by the CAISO Governing Board. Following Governing Board approval, the CAISO will post the final comprehensive Transmission Plan to the CAISO website. According to the schedule set forth in the Business Practice Manual, t~~T~~ransmission upgrade and addition solutions~~projects~~ and elements with capital costs of $50 million or less can be approved by CAISO management and may proceed to permitting and construction prior to Governing Board approval of the plan. Such CAISO management approved solutions~~projects~~ or elements may be subject to a competitive solicitation process, consistent with Section 24.5, on an accelerated schedule that will allow the approved Project Sponsor to proceed to permitting and construction prior to Governing Board approval of the plan. CAISO management may also expedite approval of a solution~~project~~ or element ahead of the approval schedule~~process~~ for other solutions~~projects~~ or elements with capital costs of $50 million or less if: 1) there is an urgent need for approval of the solution~~project~~ or elements ahead of the schedule established in the Business Practice Manual; 2) there is a high degree of certainty that approval of the upgrade or addition will not conflict with other solutions~~projects~~ or elements being considered in Phase 2; and 3) the need to accelerate a solution~~project~~ or element is driven by the CAISO's study process or by external circumstances. Should the CAISO find that a policy-driven or economically-driven element with capital costs of $50 million or less is needed on an expedited basis, after a stakeholder consultation process, CAISO management shall brief the ~~CAISO~~ Governing Board at a regularly-scheduled or special public session prior to approving ~~projects or~~ the element~~s costing $50 million or less~~ and conducting the competitive solicitation, if appropriate. ~~Following Governing Board approval, the CAISO will post the final comprehensive Transmission Plan to the CAISO website.~~ A Participating Transmission Owner will have

the responsibility to construct, own, finance, and maintain any Local Transmission Facility deemed needed under this section 24 that is located entirely within such Participating Transmission Owner's PTO Service Territory or footprint. The provisions of Section 24.5 will apply to a Regional Transmission Facility deemed needed under this section 24. Section 24.5 will also apply to any transmission upgrades or additions that are associated with both Regional Transmission Facilities and Local Transmission Facilities but for which the CAISO determines that it is not reasonable to divide construction responsibility among multiple Project Sponsors.

24.5 Transmission Planning Process Phase 3

24.5.1 Competitive Solicitation~~Project~~ Submissions

According to the schedule set forth in the Business Practice Manual, in the month following CAISO Governing Board approval of the comprehensive Transmission Plan, the CAISO will initiate a period of at least two (2) months that will provide an opportunity for Project Sponsors to submit specific transmission project proposals to finance, own, and construct the Regional ~~t~~Transmission Facilities~~elements~~ identified in the comprehensive Transmission Plan. For solutions or elements with capital costs of $50 million or less that were approved by CAISO management before Governing Board approval of the comprehensive Transmission Plan, the two month period will be initiated following management approval of the element or solution, and the Project Sponsor selection process will follow an accelerated schedule described in the Business Practice Manual. Such project proposals must include plan of service details and supporting information as set forth in the Business Practice Manual sufficient to enable the CAISO to determine whether the proposal meets the criteria specified in section 24.5.2.1 and 24.5.2.4. The project proposal will identify the authorized governmental body from which the Project ponsor will seek siting approval for the project.

24.5.2 Project Sponsor Selection

At the end of the project submission period, the CAISO will post a list of proposed projects and Project Sponsors to its Website, subject to the confidentiality provisions set forth in Tariff section 20 and as further described in the Business Practice Manual, and will select projects and Approved Project

Sponsors pursuant to this section 24.5.2. If the selected project involves an upgrade or improvement to, ~~or~~ addition on, or a replacement of a part of an existing Participating TO facility~~, the construction or ownership of facilities on a Participating TO's right-of-way, or the construction or ownership of facilities within an existing Participating TO substation~~, the Participating TO will construct and own such upgrade, improvement, ~~or~~ addition or replacement facilities unless the Project Sponsor and the Participating TO agree to a different arrangement.

24.5.2.1 Project Sponsor and Proposal Evaluation~~Sponsor Qualification~~

The CAISO will evaluate the proposals to finance, own and construct ~~policy-driven transmission elements or~~ Regional Transmission Facilities, other than those which are governed by section 24.5.2,~~transmission elements~~ that are included in the approved comprehensive Transmission Plan ~~based on the results of Economic Planning Studies or other economic studies conducted by the CAISO under section 24.4.6.7~~ to determine whether they meet the following criteria:

(a) whether the proposed project is consistent with needed transmission elements identified in the comprehensive Transmission Plan;

(b) whether the proposed project satisfies Applicable Reliability Criteria and CAISO Planning Standards; and

(c) whether the Project Sponsor and its team is physically, technically, and financially capable of (i) completing the project in a timely and competent manner; and (ii) operating and maintaining the facilities consistent with Good Utility Practice and applicable reliability criteria for the life of the project.

On the CAISO's request, the Project Sponsor will provide additional information that the CAISO reasonably determines is necessary to conduct its evaluation.

24.5.2.2 Single Qualified Project Proposal ~~Sponsor~~

If only one (1) Project Sponsor submits a proposal to finance, own, and construct a specific regional transmission element~~s~~ that meets the criteria under section 24.5.1, and the CAISO determines that the

Project Sponsor is qualified to own and construct the project under the criteria set forth in section 24.5.2.1, the Project Sponsor must initiate the process of seeking siting approval, and any other necessary approvals, from the appropriate authority or authorities within one-hundred twenty (120) days of CAISO approval.

24.5.2.3 Multiple Project Proposals~~Sponsors~~

(a) If two (2) or more Project Sponsors submit proposals to finance, own, and construct the same regional transmission element or elements under section 24.5.1 ~~and the CAISO determines that the two (2) or more Project Sponsors are qualified to own and construct the project under the criteria set forth in section 24.5.2.1~~, the CAISO will, upon request, facilitate an opportunity for the Project Sponsors to collaborate with each other to ~~propose a single~~submit a joint project(s) to meet such need. ~~If joint projects are proposed f~~Following the collaboration period, the CAISO will ~~revise the list of potential renewable transmission upgrades or additions eligible for selection~~ evaluate the remaining project proposal(s), including any joint proposal(s). If there remains only a single, joint proposal, and the CAISO determines that the Project Sponsors are qualified to own and construct the joint project under the criteria set forth- in section 24.5.2.1, then the provisions of section 24.5.2.2 shall apply. If two (2) or more project proposals remain, then the Project Sponsors will be subject to the provisions of either section 24.5.2.3 (b) or section 24.5.2.3 (c), whichever is applicable.

(b) If the ~~qualified~~ Project Sponsors are unable to collaborate on a single joint ~~project~~proposal and are applying to the same authorized governmental body to approve the project siting, the CAISO will determine whether the remaining Project Sponsors are qualified to own and construct the project under the criteria set forth in section 24.5.2.1. ~~t~~The qualified Project Sponsors must initiate the process of seeking siting approval within one hundred and twenty (120) days and

the CAISO will accept the Project Sponsor determination by that authorized governmental authority.

(c) If the ~~qualified~~ Project Sponsors are unable to collaborate on a single joint ~~project~~proposal and are applying to different authorized governmental bodies for project siting approval, the CAISO will select one qualified A~~a~~pproved Project Sponsor based on a comparative analysis of the degree to which each Project Sponsor's proposal meets the criteria set forth in section~~s~~ 24.5.2.1 and ~~a consideration of~~ the selection factors set forth in 24.5.2.4. The purpose of this comparative analysis will be to determine, taking into account all regional transmission elements for which the competing Project Sponsors have been approved or are seeking approval, the qualified Project Sponsor which is best able to design, finance, license, construct, maintain, and operate the regional transmission element(s) in a cost-effective, prudent, reliable, and capable manner over the lifetime of the transmission element(s), while maximizing overall benefits and minimizing the risk of untimely project completion, project abandonment, and future reliability, operational and other relevant problems, consistent with Good Utility Practice, applicable reliability criteria, and CAISO Documents. The CAISO will engage an expert consultant to assist with the selection of the ~~a~~Approved Project Sponsor. Thereafter, the A~~a~~pproved Project Sponsor must initiate the process of seeking siting approval, and any other necessary approvals, from the appropriate authority or authorities within one-hundred twenty (120) days of CAISO approval.

(d) Within 30 days after the CAISO posts the revised draft comprehensive Transmission Plan to its website, the CAISO will post, for each Regional Transmission Facility that is subject to competitive solicitation, those factors and considerations, in addition to any binding cost containment commitments, which the CAISO believes are key for purposes of selecting an Approved Project

Sponsor for the particular transmission upgrade or addition, consistent with the comparative analysis purposes in section 24.5.2.3 (c) and the project sponsor selection criteria provisions of section 24.5.4.2.4.

24.5.2.4 Project Sponsor Selection Factors

In selecting an ~~a~~Approved Project Sponsor from among multiple project sponsor proposals, as described in section 24.5.2.3(c), the CAISO shall consider the following criteria, in addition to the criteria set forth in section 24.5.2:

(a) the current and expected capabilities of the Project Sponsor and its team to finance, license, and construct the facility and operate and maintain it for the life of the project;

(b) the Project Sponsor's existing rights of way and substations that would contribute to the project in question;

(c) the experience of the Project Sponsor and its team in acquiring rights of way, ~~and the authority to acquire rights of way by eminent domain,~~if necessary, that would facilitate approval and construction;

(d) the proposed schedule for development and completion of the project and demonstrated ability to meet that schedule of the Project Sponsor and its team;

(e) the financial resources of the Project Sponsor and its team;

(f) the technical and engineering qualifications and experience of the Project Sponsor and its team;

(g) if applicable, the previous record regarding construction and maintenance of transmission facilities, including facilities outside the CAISO Controlled Grid of the Project Sponsor and its team;

(h) demonstrated capability to adhere to standardized construction, maintenance and operating practices;

(i) demonstrated ability to assume liability for major losses resulting from failure of facilities;

(j) demonstrated cost containment capability, specific, binding cost control measures the Project Sponsor agrees to accept, ~~and other advantages the Project Sponsor and its team may have to build the specific project,~~ including any binding agreement by the Project Sponsor and its team to accept a cost cap that would preclude project costs above the cap from being recovered through the CAISO's Transmission Access Charge, and the authority of the selected siting authority to impose binding cost caps or cost containment measures on the Project Sponsor, and its history of imposing such measures; ~~.~~

(k) any other strengths and advantages the Project Sponsor and its team may have to build and own the specific project, as well as any specific efficiencies or benefits demonstrated in their proposal.

The information that Project Sponsors mut submit to enable the CAISO to conduct its evaluation of these criteria shall be specified in the Business Practice Manual.

24.5.3 Notice to Project Sponsors

The CAISO will notify Project Sponsors as to results of the project evaluation process in accordance with the schedule and procedures set forth in the Business Practice Manual. Within 10 Business Days after selecting an Approved Project Sponsor(s) for a needed regional transmission element(s), the CAISO will post on the CAISO website a ~~-~~report regarding the selection of the Approved Project Sponsor(s). The report will set forth in a detailed ~~-~~manner the results of the comparative analysis undertaken by the CAISO, the reasons for the CAISO's decision(s), and how the CAISO's decision is consistent with the objectives identified in section 24.5.2.3 (c). The report will specifically identify the role of the selection factors set forth in 24.5.2.4 in determining, or not determining, the ultimate selection of project sponsors.

24.6 Obligation to Construct Transmission Projects

The Approved Project Sponsor selected to construct needed transmission facilities 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 additions or upgrades. This obligation includes the Approved Project Sponsor's use of eminent domain authority, where provided by state law. A Participating TO in whose~~that has a~~ PTO Service Territory or footprint~~in which~~ either terminus of the element or elements being upgraded or added is located shall be obligated to construct all regional transmission additions and upgrade elements ~~or elements~~ included in the comprehensive Transmission Plan for which there is no Approved Project Sponsor either from the first competitive solicitation or future competitive solicitations. ~~or for which the Project Sponsor is unable to secure all necessary approvals. In cases where the Approved Project Sponsor is subsequently unable or unwilling to build the project, the CAISO may, at its discretion, direct the Participating TO with a PTO Service Territory in which either terminus of the facility being upgraded or added is located to build the element or elements, or open a new solicitation of Project Sponsors to finance, construct and own the element or elements.~~ The Approved Project Sponsor shall not sell, assign or otherwise transfer its rights to finance, construct and own the project, or any element thereof, before the project has been energized and, if applicable, turned over to the CAISO's Operational Control unless the CAISO has approved such proposed transfer. ~~The obligations of the Participating TO to construct such transmission additions or upgrades will not alter the rights of any entity to construct and expand transmission facilities as those rights would exist in the absence of a TO's obligations under this CAISO Tariff or as those rights may be conferred by the CAISO or may arise or exist pursuant to this CAISO Tariff.~~

24.6.1 ~~[NOT USED]~~ Approved Project Sponsor Reporting Requirements

Starting one hundred and twenty (120) days after the Project Sponsor, or Participating TO with a service territory pursuant to section 24.6 above, has been notified by the CAISO that it has been selected as an Approved Project Sponsor, such Approved Project Sponsor must submit a construction plan to the CAISO. At a minimum, and as further described in the Business Practice Manual, the construction plan will provide information on the following: land acquisition and permitting, materials procurement, and construction financing. Every ninety (90) days thereafter until the project has been energized and placed

under CAISO Operational Control, the Approved Project Sponsor shall provide to the CAISO a construction plan status report. The status report shall conform to the format specified in the Business Practice Manual and include, among other things, the following information: project schedule, status of obtaining necessary environmental permits and meeting licensing requirements, status of right-of-way acquisition, status of design and engineering, any changes in the continuing ability of the Approved Project Sponsor to meet the design specifications of the project and the date upon which the project was found to be needed in the Transmission Plan. Unless the Approved Project Sponsor is the Participating TO in whose Participating TO service territory the project is wholly located, the CAISO shall provide a copy of the Approved Project Sponsor's status report to the Participating TO(s) in whose Participating TO service territory the project or an element of the project is fully or partially located and to any Participating TO with which the project interconnects. According to the schedule set forth in the Business Practice Manual, the CAISO shall, after providing the Participating TO(s) a copy of the report, hold a call with the Participating TO(s) to review whether the project completion date proposed by the Approved Project Sponsor can reasonably be expected to be met and to review any other items of concern to either the CAISO or the Participating TO(s).

24.6.2 ~~[NOT USED]~~ Delay in the Project In-Service Date

If the CAISO determines that the proposed completion date has been delayed beyond the date upon which the project was found to be needed, the CAISO shall issue a market notice stating that it is necessary for the CAISO, the Approved Project Sponsor (to the extent the Approved Project Sponsor has not abandoned the project), and the applicable Participating TO(s) to develop a plan to address potential NERC reliability standards violations as set forth in Section 24.6.3 as well as any other issues that may be of material concern. If the potential NERC reliability standards violations, or other issues of material concern, cannot be promptly and adequately addressed, the CAISO will take appropriate action including but not limited to, determining that an alternate Approved Project Sponsor is necessary to complete the project as set forth in Section 24.6.4.

24.6.3 ~~[NOT USED]~~ Development and Submittal of Mitigation Plans

If the CAISO determines that a delay in the date upon which a project is proposed to be energized may cause one or more Participating TO(s) or the CAISO to violate a NERC reliability standard, the CAISO shall identify the potential violation and direct the impacted Participating TO(s) to develop a mitigation plan. The CAISO or the impacted Participating TOs shall take any and all reasonable actions necessary to submit the mitigation plan to WECC and NERC and to meet the requirements of the mitigation plan.

24.6.4 Consequences of Sponsor Inability To Complete the Project

If the CAISO determines that the Approved Project Sponsor cannot secure necessary approvals or property rights or is otherwise unable to construct a transmission addition or upgrade, or if the CAISO finds that an alternative Project Sponsor is necessary pursuant to Section 24.6.2, or if the Approved Project Sponsor determines that it is unable to proceed with construction and so notifies the CAISO, the CAISO shall take such action as it reasonably considers appropriate, in coordination with the Participating TO and other affected Market Participants, to facilitate the development and evaluation of alternative proposals. For reliability driven transmission facilities, the CAISO may, at its discretion, direct the Participating TO in whose PTO Service Territory or footprint either terminus of the facility being upgraded or added is located, to build the element or elements, or the CAISO may open a new solicitation for Project Sponsors to seek to finance, own, and construct the element or elements. For all other projects the CAISO shall open a new solicitation for Project Sponsors to seek to finance, own, and construct the element or elements. Where there is no Approved Project Sponsor, the CAISO shall direct the Participating TO in whose PTO Service Territory or footprint either terminus of the facility being upgraded or added is located, to build the element or elements. The previous Approved Project Sponsor shall be obligated to work cooperatively and in good faith with CAISO, the new Approved Project Sponsor (if any) and the affected Participating TO, to implement the transition. The obligations of the Participating TO to construct such transmission additions or upgrades will not alter the rights of any entity to construct and expand transmission facilities as those rights would exist in the absence of a Participating TO's obligations under this CAISO Tariff or as those rights may be conferred by the CAISO or may arise or exist pursuant to this CAISO Tariff.

24.7 Documentation of Compliance with NERC Reliability Standards

The Transmission Plan and underlying studies, assessments, information and analysis developed during the Transmission Planning Process, regardless of whether performed by CAISO or by Participating TOs or other third parties at the direction of CAISO, shall be used by the CAISO as part of its documentation of compliance with NERC Reliability Standards.

24.8 Additional Planning Information

24.8.1 Information Provided by Participating TOs

In addition to any information that must be provided to the CAISO under the NERC Reliability Standards, Participating TOs shall provide the CAISO on an annual or periodic basis in accordance with the schedule and procedures and in the form required by the Business Practice Manual any information and data reasonably required by the CAISO to perform the Transmission Planning Process, including, but not limited to: (1) modeling data for power flow, including reactive power, short-circuit and stability analysis; (2) a description of the total Demand to be served from each substation, including a description of any Energy efficiency programs reflected in the total Demand; (3) the amount of any interruptible Loads included in the total Demand (including conditions under which an interruption can be implemented and any limitations on the duration and frequency of interruptions); (4), a description of Generating Units to be interconnected to the Distribution System of the Participating TO, including generation type and anticipated Commercial Operation Date; (5) detailed power system models of their transmission systems that reflect transmission system changes, including equipment replacement not requiring approval by the CAISO; (6) Distribution System modifications; (7) transmission network information, including line ratings, line length, conductor sizes and lengths, substation equipment ratings, circuits on common towers and with common rights-of-ways and cross-overs, special protection schemes, and protection setting information; and (8) Contingency lists.

24.8.2 Information Provided by Participating Generators

In addition to any information that must be provided to the CAISO under the NERC Reliability Standards, Participating Generators shall provide the CAISO on an annual or periodic basis in accordance with the schedule, procedures and in the form required by the Business Practice Manual any information and data

reasonably required by the CAISO to perform the Transmission Planning Process, including, but not limited to: (1) modeling data for short-circuit and stability analysis and (2) data, such as term, and status of any environmental or land use permits or agreements the expiration of which may affect that the operation of the Generating Unit.

24.8.3 Information Requested from Load Serving Entities

In addition to any information that must be provided to the CAISO under the NERC Reliability Standards, the CAISO shall solicit from Load Serving Entities through their Scheduling Coordinators information required by, or anticipated to be useful to, the CAISO in its performance of the Transmission Planning Process, including, but not limited to: (1) long-term resource plans; (2) existing long-term contracts for resources and transmission service outside the CAISO Balancing Authority Area; and (3) Demand Forecasts, including forecasted effect of Energy efficiency and Demand response programs.

24.8.4 Information from Planning Groups, BAAs and Regulators

In accordance with Section 24.8 , the CAISO shall obtain or solicit from interconnected Balancing Authority Areas, regional and sub-regional planning groups within the WECC, the CPUC, the CEC, and Local Regulatory Authorities information required by, or anticipated to be useful to, the CAISO in its performance of the Transmission Planning Process, including, but not limited to: (1) long-term transmission system plans; (2) long-term resource plans; (3) generation interconnection process information; (4) Demand Forecasts; and (5) any other data necessary for the development of power flow, short-circuit, and stability cases over the planning horizon of the CAISO Transmission Planning Process.

24.8.5 Obligation to Provide Updated Information

If material changes to the information provided under Sections 24.8 occur during the annual Transmission Planning Process, the providers of the information must provide notice to the CAISO of the changes.

24.9 Participating TO Study Obligation

The Participating TO constructing or expanding facilities will be directed by the CAISO to coordinate with the Project Sponsor or Participating TO(s) with PTO Service Territories in which the transmission upgrade or addition will be located, neighboring Balancing Authority Areas, as appropriate, and other Market

Participants to perform any study or studies necessary, including a Facility Study, to determine the appropriate facilities to be constructed in accordance with the CAISO Transmission Planning Process and the terms set forth in the TO Tariff.

24.10 Operational Review

The CAISO will perform an operational review of all facilities studied as part of the CAISO Transmission Planning Process that are proposed to be connected to, or made part of, the CAISO Controlled Grid to ensure that the proposed facilities provide for acceptable Operational Flexibility and meet all its requirements for proper integration with the CAISO Controlled Grid. If the CAISO finds that such facilities do not provide for acceptable Operational Flexibility or do not adequately integrate with the CAISO Controlled Grid, the CAISO shall coordinate with the Project Sponsor and, if different, the Participating TO with the PTO Service Territory, or the operators of neighboring Balancing Authority Areas, if applicable, in which the facilities will be located to reassess and redesign the facilities required to be constructed. Transmission upgrades or additions that do not provide acceptable Operational Flexibility or do not adequately integrate with the CAISO Controlled Grid cannot be included in the CAISO Transmission Plan or approved by CAISO management or the CAISO Governing Board, as applicable.

24.10.1 [NOT USED]

24.10.2 [NOT USED]

24.10.3 [[NOT USED]

24.10.4 [NOT USED]

24.11 [NOT USED]~~State and Local Approval and Property Rights~~

24.11.1 [NOT USED]~~PTO Requirement to Seek Necessary Approvals And Rights~~

~~The Participating TO obligated to construct facilities under this Section 24 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 additions or upgrades. This obligation includes the Participating TO's use of eminent domain authority, where provided by state law.~~

24.11.2 [NOT USED]~~Consequences Of PTO Inability To Obtain Approvals And Rights~~

~~If the Participating TO cannot secure any such necessary approvals or property rights and consequently is unable to construct a transmission addition or upgrade found to be needed, it shall promptly notify the CAISO and shall comply with its obligations under the TO Tariff to convene a technical meeting to evaluate alternative proposals. The CAISO shall take such action as it reasonably considers appropriate, in coordination with the Participating TO and other affected Market Participants, to facilitate the development and evaluation of alternative proposals including, where possible, conferring on a third party the right to build the transmission addition or upgrade.~~

24.11.3 [NOT USED]~~Conferral Of Right To Build Facilities On Third Party~~

~~Where the conditions of Section 24.11.2 have been satisfied and it is possible for a third party to obtain all approvals and property rights under applicable federal, state and local laws that are necessary to complete the construction of transmission additions or upgrades required to be constructed in accordance with this CAISO Tariff (including the use of eminent domain authority, where provided by state law), the CAISO may confer on a third party the right to build the transmission addition or upgrade, which third party shall, if applicable, enter into the Transmission Control Agreement in relation to such transmission addition or upgrade.~~

24.12 WECC and Regional Coordination

The Project Sponsor will have responsibility for completing any applicable WECC requirements and rating study requirements to ensure that a proposed transmission addition or upgrade meets regional planning requirements. The Project Sponsor may request the Participating TO to perform this coordination on behalf of the Project Sponsor at the Project Sponsor's expense.

24.13 Regional and Sub-Regional Planning Process

The CAISO will be a member of the WECC and other applicable regional or sub-regional organizations and participate in WECC's operation and planning committees, and in other applicable regional and sub-

regional coordinated planning processes.

24.13.1 Scope of Regional or Sub-Regional Planning Participation

The CAISO will collaborate with adjacent transmission providers and existing sub-regional planning organizations through existing processes. This collaboration involves a reciprocal exchange of information, to the maximum extent possible and subject to applicable confidentiality restrictions, in order to ensure the simultaneous feasibility of respective Transmission Plans, the identification of potential areas for increased efficiency, and the consistent use of common assumptions whenever possible. The details of the CAISO's participation in regional and sub-regional planning processes are set forth in the Business Practice Manual. At a minimum, the CAISO shall be required to:

(a) solicit the participation, whether through sub-regional planning groups or individually, of all interconnected Balancing Authority Areas in the development of the Unified Planning Assumptions and Study Plan and in reviewing the results of technical studies performed as part of the CAISO's Transmission Planning Process in order to:

(i) coordinate, to the maximum extent practicable, planning assumptions, data and methodologies utilized by the CAISO, regional and sub-regional planning groups or interconnected Balancing Authority Areas;

(ii) ensure transmission expansion plans of the CAISO, regional and sub-regional planning groups or interconnected Balancing Authority Areas are simultaneously feasible and seek to avoid duplication of facilities.

(b) coordinate with regional and sub-regional planning groups regarding the entity to perform requests for Economic Planning Studies or other Congestion related studies;

(c) transmit to applicable regional and sub-regional planning groups or interconnected Balancing Authority Areas information on technical studies

performed as part of the CAISO Transmission Planning Process;

(d) post on the CAISO Website links to the planning activities of applicable regional and sub-regional planning groups or interconnected Balancing Authority Areas.

24.13.2 Limitation on Regional Activities

Neither the CAISO nor any Participating TO nor any Market Participant shall take any position before the WECC or a regional organization that is inconsistent with a binding decision reached through an arbitration proceeding pursuant to Section 13, in which the Participating TO or Market Participant voluntarily participated.

24.14 Cost Responsibility for Transmission Additions or Upgrades

Cost responsibility for transmission additions or upgrades constructed pursuant to this Section 24 (including the responsibility for any costs incurred under Section 24.11) shall be determined as follows:

24.14.1 Project Sponsor Commitment to Pay Full Cost

Where a Project Sponsor commits to pay the full cost of a transmission addition or upgrade as set forth in subsection (2) of Section 24.4.6.1, the full costs shall be borne by the Project Sponsor.

24.14.2 Cost of Needed Addition or Upgrade to be Borne by PTO

Where 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 or upgrade and shall be reflected in its Transmission Revenue Requirement.

24.14.3 CRR Entitlement for Project Sponsors Not Recovering Costs

Provided that the CAISO has Operational Control of the Merchant Transmission Facility, a Project Sponsor that does not recover the investment cost under a FERC-approved rate through the Access Charge or a reimbursement or direct payment from a Participating TO shall be entitled to receive Merchant CRRs as provided in Section 36.11. The full amount of capacity added to the system by such

transmission upgrades or additions will be as determined through the regional reliability council process of the Western Electricity Coordinating Council or its successor.

24.14.3.1 Western Path 15

Pursuant to its Project Sponsor status as specified in Section 4.3.1.3, consistent with FERC's findings in Docket Nos. EL04-133-001, ER04-1198-000, and ER04-1198-001, issued on May 16, 2006 (115 FERC ¶ 61,178), Western Path 15 shall receive compensation associated with transmission usage rights modeled for Western Path 15. In the event that Western Path 15 has an approved rate schedule that returns excess revenue from any compensation obtained from the CAISO associated with the transmission usage rights for Western Path 15, such revenue shall be returned to the CAISO through a procedure established by the CAISO and the Western Area Power Administration for that purpose.

24.14.3.2 FPL Energy, LLC

Pursuant to its Project Sponsor status, consistent with FERC's findings in Docket No. ER03-407, issued on June 15, 2006 (115 FERC ¶ 61, 329), FPL Energy, LLC shall receive Merchant CRRs associated with transmission usage rights modeled for the Blythe Path 59 upgrade, such Merchant CRRs to be in effect for a period of thirty (30) years, or the pre-specified intended life of the Merchant Transmission Facility, whichever is less, from the date Blythe Path 59 was energized. For the purpose of allocating Merchant CRRs to FPL Energy, LLC over the Blythe Path 59 upgrade, the allocation of CRR Options in the import (east to west, from the Blythe Scheduling Point to the 230 kV side of the 161 kV to 230 kV transformer at the Eagle Mountain substation) as well as of CRR Options in the export (west to east) direction will be based on 57.1 percent of the total upgrade (96 MW out of the 168 MW), which is FPL Energy, LLC's share of the total upgrade as approved by FERC in the letter order issued by FERC on June 15, 2006 in Docket No. ER03-407 (115 FERC ¶ 61,329).

24.14.4 RAC Treatment Of New ~~High Voltage~~Regional Transmission Facilities Costs ~~In HVAC~~

Once a New Participating TO has executed the Transmission Control Agreement and it has become effective, the cost for ~~N~~new ~~High Voltage~~Regional Transmission Facilities for all Participating TOs shall be

included in the CAISO Grid-wide component of the ~~High Voltage~~Regional Access Charge in accordance with Schedule 3 of Appendix F, unless and with respect to Western Path 15 only, cost recovery is provided in Section 24.14.3. The Participating TO who is supporting the cost of the ~~N~~new ~~High Voltage~~Regional Transmission Facility shall include such costs in its ~~High Voltage~~Regional Transmission Revenue Requirement~~, regardless of which TAC Area the facility is geographically located~~.

24.15 Ownership of and Charges for Expansion Facilities

24.15.1 Transmission Additions and Upgrades under TCA

All transmission additions and upgrades constructed by Participating TOs in accordance with this Section 24 that form part of the CAISO Controlled Grid shall be operated and maintained by a Participating TO in accordance with the Transmission Control Agreement. Where such transmission additions and upgrades are jointly developed by Participating TOs and non-Participating TOs, nothing herein shall be construed to require that the non-Participating TO transfer its portion of the transmission additions or upgrades to the CAISO's Operational Control or place such facilities within the CAISO's Balancing Authority Area.

24.15.2 Access and Charges for Transmission Additions and Upgrades

Each Participating TO that owns or operates transmission additions and upgrades constructed in accordance with this Section 24 shall provide access to them and charge for their use in accordance with this CAISO Tariff and its TO Tariff.

24.16 Expansion by Local Furnishing Participating TOs

Notwithstanding any other provision of this CAISO Tariff, a Local Furnishing Participating TO shall not be obligated to construct or expand facilities (including interconnection facilities as described in Section 8 of the TO Tariff), unless the CAISO or Project Sponsor has tendered an application under FPA Section 211 that requests FERC to issue an order directing the Local Furnishing Participating TO to construct such facilities pursuant to Section 24. The Local Furnishing Participating TO shall, within ten (10) days of receiving a copy of the Section 211 application, waive its right to a request for service under FPA Section 213(a) and to the issuance of a proposed order under FPA Section 212(c). Upon receipt of a final order from FERC that is no longer subject to rehearing or appeal, such Local Furnishing Participating TO shall construct such facilities in accordance with this Section 24.

25 Interconnection Of Generating Units And Facilities

25.1 Applicability

This Section 25 and Appendix U (the Standard Large Generator Interconnection Procedures (LGIP)), Appendix Y (the Generator Interconnection Procedures (GIP)), Appendix S (the Small Generator Interconnection Procedures (SGIP)), or Appendix W, as applicable, shall apply to:

(a) each new Generating Unit that seeks to interconnect to the CAISO Controlled Grid;

(b) each existing Generating Unit connected to the CAISO Controlled Grid that will be modified with a resulting increase in the total capability of the power plant;

(c) each existing Generating Unit connected to the CAISO Controlled Grid that will be modified without increasing the total capability of the power plant but has changed the electrical characteristics of the power plant such that its re-energization may violate Applicable Reliability Criteria;

(d) each existing Generating Unit connected to the CAISO Controlled Grid whose total Generation was previously sold to a Participating TO or on-site customer but whose Generation, or any portion thereof, will now be sold in the wholesale market, subject to Section 25.1.2; and

(e) each existing Generating Unit that is a Qualifying Facility and that is converting to a Participating Generator without repowering or reconfiguring the existing Generating Unit, subject to Section 25.1.2.

25.1.1 Interconnection Request And Generating Unit Requirements

The owner of a Generating Unit described in Section 25.1 (a), (b), or (c), or its designee, shall be an Interconnection Customer required to submit an Interconnection Request and comply with Appendix U (the LGIP), Appendix Y (the GIP), Appendix S (the SGIP), or Appendix W, as applicable, which applicability shall be based on the maximum rated capacity of the new total capability of the power plant,

including the capability of all of multiple energy production devices at a site, consistent with Section 4.10 of the SGIP.

25.1.2 Affidavit Requirement

If the owner of a Generating Unit described in Section 25.1(d), or its designee, represents that the total capability and electrical characteristics of the Generating Unit will be substantially unchanged, then that entity must submit an affidavit to the CAISO and the applicable Participating TO representing that the total capability and electrical characteristics of the Generating Unit will remain substantially unchanged. If there is any change to the total capability and electrical characteristics of the Generating Unit, however, the affidavit shall include supporting information describing any such changes. The CAISO and the applicable Participating TO shall have the right to verify whether or not the total capability or electrical characteristics of the Generating Unit have changed or will change. The CAISO may engage the services of the applicable Participating TO in the CAISO's conducting such verification activities, in which case such costs shall be borne by the party making the request under Section 25.1.2, and such costs shall be included in any CAISO invoice for verification activities.

25.1.2.1 If the CAISO and the applicable Participating TO confirm that the electrical characteristics are substantially unchanged, then that request will not be placed into the interconnection queue. However, the owner of the Generating Unit, or its designee, will be required to execute a Standard Large Generator Interconnection Agreement in accordance with Section 11 of Appendix U (the LGIP), a Large Generator Interconnection Agreement in accordance with Section 11 of Appendix Y (the GIP), a Small Generator Interconnection Agreement in accordance with Section 3.3.4, 3.4.5, or 3.5.7 and Section 4.8 of the SGIP, or an interconnection agreement in accordance with Appendix W, as applicable.

25.1.2.2 If the CAISO and the applicable Participating TO cannot confirm that the total capability and electrical characteristics are and will be substantially unchanged, then the owner of the Generating Unit, or its designee, shall be an Interconnection Customer required to submit an Interconnection Request and comply with Appendix U (the LGIP), Appendix Y (the GIP), Appendix S (the SGIP), or Appendix W, as applicable.

25.2 Interconnections To The Distribution System

Any proposed interconnection by the owner of a planned Generating Unit, or its designee, to connect that Generating Unit to a Distribution System of a Participating TO will be processed, as applicable, pursuant to the Wholesale Distribution Access Tariff or CPUC Rule 21, or other Local Regulatory Authority requirements, if applicable, of the Participating TO; provided, however, that the owner of the planned Generating Unit, or its designee, shall be required to mitigate any adverse impact on reliability of the CAISO Controlled Grid consistent with Appendix U (the Standard Large Generator Interconnection Procedures) and Appendix Y (the GIP). In addition, each Participating TO will provide to the CAISO a copy of the system impact study used to determine the impact of a planned Generating Unit on the Distribution System and the CAISO Controlled Grid pursuant to a request to interconnect under the applicable Wholesale Distribution Access Tariff or CPUC Rule 21, or other Local Regulatory Authority requirements, if applicable.

25.3 Maintenance Of Encumbrances

No new Generating Unit shall adversely affect the ability of the applicable Participating TO to honor its Encumbrances existing as of the time an Interconnection Customer submits its Interconnection Request to the CAISO. The applicable Participating TO, in consultation with the CAISO, shall identify any such adverse effect on its Encumbrances in the Interconnection System Impact Study performed under Section 7 of Appendix U (the LGIP), the Phase I Interconnection Study performed under Section 6 of Appendix Y (the GIP), the system impact study performed under Section 3.4 of the SGIP, or the System Impact Study performed under Section 5.1 of Appendix W, as applicable. To the extent the applicable Participating TO determines that the connection of the new Generating Unit will have an adverse effect on Encumbrances, the Interconnection Customer shall mitigate such adverse effect.

25.4 Asynchronous Generating Facilities

Asynchronous Generating Facilities that are the subject of Interconnection Requests in a serial study queue and for which a Large Generator Interconnection Agreement has not been executed or tendered for signature as of July 2, 2010 shall be subject to the Large Generator Interconnection Agreement set forth in Appendix BB. Asynchronous Generating Facilities that are the subject of Interconnection

Requests in a Queue Cluster Window and for which a Large Generator Interconnection Agreement has not been executed or tendered for signature as of July 3, 2010 shall be subject to the Large Generator Interconnection Agreement set forth in Appendix CC. Asynchronous Generating Facilities that have been or should have been tendered a Large Generator Interconnection Agreement as of July 3, 2010 shall be subject to the Large Generator Interconnection Agreement set forth in Appendix Z.

26. Transmission Rates And Charges

26.1 Access Charges

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). ~~Prior to the TAC Transition Date determined under Section 4 of Schedule 3 of Appendix F, the Access Charge for each Participating TO shall be determined in accordance with the principles set forth in this Section 26.1 and in Section 5 of the TO Tariff.~~ The Access Charge shall comprise two components, which together shall be designed to recover each Participating TO's Transmission Revenue Requirement. The first component shall be the annual authorized revenue requirement associated with the transmission facilities and Entitlements turned over to the Operational Control of the CAISO by a Participating TO approved by FERC. 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.

~~Commencing on the TAC Transition Date determined under Section 4 of Schedule 3 of Appendix F, t~~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 ~~High Voltage~~Regional Access Charge~~, a Transition Charge~~ and a ~~Low Voltage~~Local Access Charge. ~~High Voltage~~Regional Access Charges and ~~Low Voltage~~Local Access Charges shall each comprise two components, which together shall be designed to recover each Participating TO's ~~High Voltage~~Regional Transmission Revenue Requirement and ~~Low Voltage~~Local Transmission Revenue Requirement, as applicable. The first component shall be based on the annual authorized Transmission Revenue Requirement associated with the ~~High Voltage~~Regional

Transmission Facilities or ~~Low Voltage~~Local Transmission Facilities, as applicable, and Entitlements turned over to the CAISO Operational Control by a Participating TO. The second component shall be the Transmission Revenue Balancing Account (TRBA), which shall be designed to flow through the Participating TO's Transmission Revenue Credits associated with the Regional or Local~~high voltage or low voltage~~, as applicable, T~~t~~ransmission F~~f~~acilities 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. Each Participating TO shall provide in its TO Tariff filing with FERC an appendix to such filing that states the Participating TO's ~~High Voltage~~Regional Transmission Revenue Requirement, its ~~Low Voltage~~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 ~~High Voltage~~Regional Transmission Revenue Requirement and the ~~Low Voltage~~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.

The applicable ~~High Voltage~~Regional Access Charge ~~and the Transition Charge~~ shall be paid to the CAISO by each UDC and MSS Operator based on its Gross Load connected to a ~~High Voltage~~Regional Transmission Facility in a PTO Service Territory, either directly or through intervening distribution facilities, but not through a ~~Low Voltage~~Local Transmission Facility. The applicable ~~High Voltage~~Regional Access Charge~~, the Transition Charge~~ and the ~~Low Voltage~~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 ~~High Voltage~~Regional Access Charge ~~and Transition 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 ~~High Voltage~~Regional Access Charge ~~and Transition Charge~~ set forth therein.

The ~~Low Voltage~~Local Access Charge for each Participating TO is set forth in that Participating TO's TO Tariff. Each Participating TO shall charge for and collect the ~~Low Voltage~~Local Access Charge, as provided in its TO Tariff, except that the CAISO shall charge for and collect the ~~Low Voltage~~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 ~~Low Voltage~~Local Transmission Facilities of another Participating TO, such Participating TO shall also be assessed the ~~Low Voltage~~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 ~~Low Voltage~~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 ~~Low Voltage~~Local Transmission Facilities, such entity shall not be charged the ~~Low Voltage~~Local Access Charge for delivery of Energy to Gross Load for deliveries using the Existing Rights. Each Participating TO shall recover Standby Transmission Revenues directly from the Standby Service Customers of that Participating TO through its applicable retail rates.

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

A Non-Load-Serving Participating TO must include any over- or under-recovery of its annual ~~Low Voltage~~Local Transmission Revenue Requirement for the relevant project or group of projects in its ~~low voltage~~Local TRBA adjustment for its ~~Low Voltage~~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 ~~Low Voltage~~Local Access Charge of a Non-Load-Serving Participating TO is assessed shall include these billed ~~Low Voltage~~Local Access Charge amounts in its Local~~low voltage~~ TRBA adjustment for its ~~Low Voltage~~Local Access Charge, together with all other applicable ~~low voltage~~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 shall file with the FERC their proposed ~~High Voltage~~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 ~~High Voltage~~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 ~~High Voltage~~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 ~~High Voltage~~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 ~~High Voltage~~Regional Transmission Revenue Requirement to the FERC and the CAISO.

26.1.2 ~~High Voltage~~Regional Access Charge ~~And Transition Charge~~ Settlement

UDCs and MSS Operators serving Gross Load in a PTO Service Territory shall be charged on a monthly basis, in arrears, the applicable ~~High Voltage~~Regional Access Charge ~~and Transition Charge~~. The ~~High Voltage~~Regional Access Charge ~~and Transition Charge~~ for a billing period is calculated by the CAISO as the product of the applicable ~~High Voltage~~Regional Access Charge ~~or Transition Charge~~, ~~as applicable,~~and Gross Load connected to the facilities of the UDC and MSS Operator in the PTO Service Territory. The ~~High Voltage~~Regional Access Charge ~~and Transition Charge~~ are determined in accordance with Schedule 3 of Appendix F. These rates may be adjusted from time to time in accordance with Schedule 3 of Appendix F. ~~During the 10-year TAC Transition Period described in Section 4 of Schedule 3 of Appendix F, a UDC or MSS Operator that is also a Participating TO shall pay, or receive payment of, if applicable, the difference between (i) the High Voltage Access Charge and the Transition Charge applicable to its transactions as a UDC or MSS Operator; and (ii) the disbursement of High Voltage Access Charge revenues to which it is entitled pursuant to Section 26.1.3.~~

26.1.3 Disbursement Of ~~HVAC~~RAC ~~And Transition Charge~~ Revenues

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

26.1.4 Wheeling

Any Scheduling Coordinator or other such entity submitting a Bid or Self-Schedule for a Wheeling transaction shall pay to the CAISO the product of (i) the applicable Wheeling Access Charge, and (ii) the total hourly Schedules and awards of Wheeling in kilowatt-hours for each month at each Scheduling Point associated with that transaction, except as provided in Section 4.1 of Appendix I (Station Power Protocol). Schedules and awards that include Wheeling transactions shall be subject to any charges resulting from the CAISO Markets in accordance with Section 27.

26.1.4.1 Wheeling Access Charge

The Wheeling Access Charge shall be determined by the ~~TAC Area and~~ transmission ownership or Entitlement, less all Encumbrances, associated with the Scheduling Point at which the Energy exits the CAISO Controlled Grid. The Wheeling Access Charge for Scheduling Points ~~contained within a single TAC Area,~~ that are not joint facilities~~,~~ shall be equal to the ~~High Voltage~~Regional Access Charge ~~for the applicable TAC Area~~ in accordance with Schedule 3 of Appendix F plus the applicable ~~Low Voltage~~Local Access Charge if the Scheduling Point is on a ~~Low Voltage~~Local Transmission Facility. Wheeling Access Charges shall not apply for Wheeling under a bundled non-economy Energy coordination agreement of a Participating TO executed prior to July 9, 1996.

26.1.4.2 Wheeling Over Joint Facilities

To the extent that more than one Participating TO owns or has Entitlement to transmission capacity, less all Encumbrances, exiting the CAISO Controlled Grid at a Scheduling Point, the Scheduling Coordinator shall pay the CAISO each month a rate for Wheeling at that Scheduling Point which reflects an average of the Wheeling Access Charge applicable to those Participating TOs, weighted by the relative share of such ownership or Entitlement to transmission capacity, less all Encumbrances, at such Scheduling Point. If the Scheduling Point is located at ~~High Voltage~~Regional Transmission Facilities, the Wheeling Access Charge will consist of a ~~High Voltage~~Regional Wheeling Access Charge component. Additionally, if the Scheduling Point is located at ~~Low Voltage~~Local Transmission Facilities, the applicable ~~Low Voltage~~Local Wheeling Access Charge component will be added to the Wheeling Access Charge. The methodology for developing the weighted average rate for Wheeling at each Scheduling Point is set forth in Appendix F, Schedule 3, Section 14.4.

26.1.4.3 Disbursement of Wheeling Revenues

The CAISO shall collect and pay to Participating TOs and other entities as provided in Section 24.10.3 all Wheeling revenues at the same time as other CAISO charges and payments are settled. For Wheeling revenues associated with CRRs allocated to Load Serving Entities outside the CAISO Balancing Authority Area, the CAISO shall pay to the Participating TOs and other entities as provided in Section 24.10.3 any excess prepayment amounts within thirty (30) days of the end of the term of the CRR Allocation. The

CAISO shall provide to the applicable Participating TO and other entities as provided in Section 24.10.3 a statement of the aggregate amount of Energy delivered to each Scheduling Coordinator using such Participating TO's Scheduling Point to allow for calculation of Wheeling revenue and auditing of disbursements. Wheeling revenues shall be disbursed by the CAISO based on the following:

26.1.4.3.1 Scheduling Point with All Participating TOs in the Same TAC Area

With respect to revenues received for the payment of ~~High Voltage~~Regional Wheeling Access Charges for Wheeling to a Scheduling Point at which all of the facilities and Entitlements, less all Encumbrances, are owned by Participating TOs in the same TAC Area, Wheeling revenues shall be disbursed to each such Participating TO based on the ratio of each Participating TO's ~~High Voltage~~Regional Transmission Revenue Requirement to the sum of all such Participating TO~~'~~s' ~~High Voltage~~Regional Transmission Revenue Requirements. If the Scheduling Point is located at a ~~Low Voltage~~Local Transmission Facility, revenues received with respect to ~~Low Voltage~~Local Wheeling Access Charges for Wheeling to that Scheduling Point shall be disbursed to the Participating TOs that own facilities and Entitlements making up the Scheduling Point in proportion to their ~~Low Voltage~~Local Transmission Revenue Requirements. Additionally, if a Participating TO has a transmission upgrade or addition that was funded by a Project Sponsor, the Wheeling revenue allocated to such Participating TO shall be disbursed as provided in Section 24.10.3.

26.1.4.3.2 Scheduling Point without All Participating TOs in the Same TAC Area

With respect to revenues received for the payment of Wheeling Access Charges for Wheeling to a Scheduling Point at which the facilities and Entitlements, less all Encumbrances, are owned by Participating TOs in different TAC Areas, Wheeling revenues shall be disbursed to such Participating TOs as follows. First, the revenues shall be allocated between such TAC Areas in proportion to the ownership and Entitlements of transmission capacity, less all Encumbrances, at the Scheduling Point of the Participating TOs in each such TAC Area. Second, the revenues thus allocated to each TAC Area shall be disbursed among the Participating TOs in the TAC Area in accordance with Section 26.1.4.3.1.

26.1.4.4 Information Required from Scheduling Coordinators

Scheduling Coordinators for Wheeling Out or Wheeling Through transactions to a Bulk Supply Point, or other point of interconnection between the CAISO Controlled Grid and the transmission system of a Non-Participating TO, that are located within the CAISO Balancing Authority Area, shall provide the CAISO, by eight (8) Business Days after the Trading Day (T+8B), details of such transactions (other than transactions submitted as Self-Schedules pursuant to Existing Contracts) sorted by Bulk Supply Point or point of interconnection for each Settlement Period (including kWh for each transaction). The CAISO shall use such information, which may be subject to review by the CAISO, to settle Wheeling Access Charges and payments. The CAISO shall publish a list of the Bulk Supply Points or interconnection points to which this Section 26.1.4.4 applies together with details of the electronic form and procedure to be used by Scheduling Coordinators to submit the required information on the CAISO Website.

26.1.5 Unbundled Retail Transmission Rates

The Access Charge for unbundled retail transmission service provided to End-Users by a FERC-jurisdictional electric utility Participating TO shall be determined by the FERC and submitted to the CAISO for information only. For a Local Publicly Owned Electric Utility, retail transmission service rates shall be determined by the Local Regulatory Authority and submitted to the CAISO for information only.

26.2 Tracking Account

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 24.10.3.

26.4 Effect On Tax-Exempt Status

Nothing in this Section 26 shall compel any Participating TO to violate any restrictions applicable to facilities financed with tax-exempt bonds or contractual restrictions and covenants regarding the use of transmission facilities.

~~26.5 [NOT USED]Transition Mechanism~~

~~During the ten-year TAC Transition Period described in Section 4 of Schedule 3 of Appendix F, the Original Participating TOs collectively shall pay to the CAISO each year an amount equal to, annually, for all New Participating TOs, the amount, if any, by which the New Participating TO's cost of Existing High Voltage Facilities associated with Gross Loads in the PTO Service Territory of the New Participating TO is increased by the implementation of the High Voltage Access Charge described in Schedule 3 of Appendix F. Responsibility for such payments shall be allocated to Original Participating TOs in accordance with Schedule 3 of Appendix F. Amounts payable by Original Participating TOs under this section shall be recoverable as part of the Transition Charge calculated in accordance with Schedule 3 of Appendix F. Amounts received by the CAISO under this section shall be disbursed to New Participating TOs with Existing High Voltage Facilities based on the ratio of each New Participating TO's net increase in costs in the categories described in the first sentence of this section, to the sum of the net increases in such costs for all New Participating TOs with Existing High Voltage Facilities. At the conclusion of the ten-year TAC Transition Period, the obligations of this Section 26.5 shall cease to apply.~~

26.6 Location Constrained Resource Interconnection Facilities

The costs of an LCRIF shall be includable in a Participating TO's ~~High Voltage~~Regional Transmission Revenue Requirement. Any Participating TO that owns an LCRIF shall set forth in its TO Tariff a charge payable by LCRIGs connected to that facility. The charge shall require each LCRIG to pay on a going forward basis its pro rata share of the Transmission Revenue Requirement associated with the LCRIF,

which shall be calculated based on the maximum capacity of the LCRIG relative to the capacity of the LCRIF. Each Participating TO shall credit its ~~High Voltage~~Regional TRR with revenues received from LCRIGs with respect to such charges either by recording such revenues in its TRBA or through another mechanism approved by FERC.

26.6.1 LCRIFs That Become Network Facilities

If the construction of a new transmission facility or upgrade causes an LCRIF to become a network facility, then, effective on the in-service date of such new transmission facility or upgrade, the LCRIGs connected to the LCRIF shall not be required to pay charges described in Section 26.6. The LCRIGs shall remain responsible for charges due prior to that date.

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Appendix F Rate Schedules

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Schedule 3

~~High Voltage~~Regional Access Charge and Wheeling Access Charge

1. Objectives and Definitions.

1.1 Objectives.

~~(a) The Access Charge will remain utility-specific until a New Participating TO executes the Transmission Control Agreement, at which time the Access Charge will change as discussed below.~~

(a~~b~~) The Access Charge is the charge assessed for using the CAISO Controlled Grid. It consists of two~~three~~ components, the ~~High Voltage~~Regional Access Charge (~~HVAC~~RAC)~~, the Transition Charge~~ and the ~~Low Voltage~~Local Access Charge (~~LVAC~~LAC).

(b~~c~~) The ~~HVAC~~RAC is ~~ultimately will be~~ based on one CAISO Grid-wide rate. ~~Initially, the HVAC will be based on TAC Areas, which will transition 10% per year to the CAISO Grid-wide rate. In the first year after the TAC Transition Date described in Section 4.2 of this Schedule 3, the HVAC will be a blend based on 10% CAISO Grid-wide and 90% TAC Area. At the conclusion of the 10-year TAC Transition Period, the Transition Charge will cease to apply, and the HVAC will be based on the single CAISO Grid-wide rate.~~

~~(d) New High Voltage Facility additions and capital additions to Existing High Voltage Facilities will be immediately included in the CAISO Grid-wide component of the HVAC. The Transmission Revenue Requirement for New High Voltage Facilities will not be included in the calculation of the Transition Charge.~~

(~~e~~c) The ~~LVAC~~LAC ~~will remain utility-specific and~~ will be determined by each Participating TO. The ~~LVAC~~LAC of Non-Load-Serving Participating TOs may also be project specific. Each Participating TO will charge for and collect the ~~LVAC~~LAC, subject to Section 26.1 of the CAISO Tariff and Section 13 of this Schedule 3.

~~(f) The cost-shift associated with transitioning from utility-specific rates to one CAISO Grid-wide rate will be mitigated in accordance with the CAISO Tariff, including this schedule.~~

(d~~g~~) The Wheeling Access Charge is paid by Scheduling Coordinators for Wheeling as set forth in Section 26.1.4 of the CAISO Tariff. The CAISO will collect the Wheeling revenues from Scheduling Coordinators on a Trading Interval basis and repay these to the Participating TOs based on the ratio of each Participating TO's Transmission Revenue Requirement to the sum of all Participating TOs' Transmission Revenue Requirements.

1.2 Definitions

Unless the context otherwise requires, any word or expression defined in the Master Definition Supplement shall have the same meaning where used in this Schedule 3.

2. Assessment of ~~High Voltage~~Regional Access Charge ~~and Transition Charge~~.

All UDCs and MSS Operators in a PTO Service Territory serving Gross Loads directly connected to the transmission facilities or Distribution System of a UDC or MSS Operator in a PTO Service Territory shall pay to the CAISO a charge for transmission service on the ~~High Voltage~~Regional Transmission Facilities included in the CAISO Controlled Grid. ~~The charge will be based on the High Voltage Access Charge applicable to the TAC Area in which the point of delivery is located and the applicable Transition Charge.~~ A UDC or MSS Operator that is also a Participating TO shall pay, or receive payment of, if applicable, the difference between (i) the ~~High Voltage~~Regional Access Charge ~~and Transition Charge~~ applicable to its transactions as a UDC or MSS Operator; and (ii) the disbursement of ~~High Voltage~~Regional Access Charge revenues to which it is entitled pursuant to Section 26.1.3 of the CAISO Tariff. ~~At the conclusion of the 10-year TAC Transition Period, the Transition Charge will cease to apply, and the HVAC will be based on the single CAISO Grid-wide rate.~~

3. TAC Areas.

3.1 TAC Areas are based on the Control Areas in California prior to the CAISO Operations Date. Three TAC Areas will be established based on the Original Participating TOs: (1) a Northern Area consisting of the PTO Service Territory of Pacific Gas and Electric Company and the PTO Service Territory of any entity listed in Section 3.3 or 3.5 of this Schedule; (2) an East Central Area consisting of the PTO Service Territory of Southern California Edison Company and the PTO Service Territory of any entity listed in Section 3.4, 3.5 or 3.6 (as indicated therein) of this Schedule 3; and (3) a Southern Area consisting of the PTO Service Territory of San Diego Gas &

Electric Company. Participating TOs that are not in one of the above cited PTO Service Territories are addressed below.

3.2 If the Los Angeles Department of Water and Power joins the CAISO and becomes a Participating TO, its PTO Service Territory will form a fourth TAC Area, the West Central Area.

3.3 If any of the following entities becomes a Participating TO, its PTO Service Territory will become part of the Northern Area: Sacramento Municipal Utility District, Western Area Power Administration - Sierra Nevada Region, the Department of Energy California Labs, Northern California Power Agency, City of Redding, Silicon Valley Power, City of Palo Alto, City and County of San Francisco, Alameda Bureau of Electricity, City of Biggs, City of Gridley, City of Healdsburg, City of Lodi, City of Lompoc Utility Department, Modesto Irrigation District, Turlock Irrigation District, Plumas County Water Agency, City of Roseville Electric Department, City of Shasta Lake, and City of Ukiah or any other entity owning or having contractual rights to ~~High Voltage~~Regional or ~~Low Voltage~~Local Transmission Facilities in Pacific Gas and Electric Company's Control Area prior to the CAISO Operations Date.

3.4 If any of the following entities becomes a Participating TO, its PTO Service Territory will become part of the East Central Area: City of Anaheim Public Utility Department, City of Riverside Public Utility Department, City of Azusa Light and Water, City of Banning Electric, City of Colton, City of Pasadena Water and Power Department, The Metropolitan Water District of Southern California and City of Vernon or any other entity owning or having contractual rights to ~~High Voltage~~Regional or ~~Low Voltage~~Local Transmission Facilities in Southern California Edison Company's Control Area prior to the CAISO Operations Date.

3.5 If the California Department of Water Resources becomes a Participating TO, its ~~High Voltage~~Regional Transmission Revenue Requirements associated with ~~High Voltage~~Regional Transmission Facilities in the Northern Area would become part of the ~~High Voltage~~Regional Transmission Revenue Requirement for the Northern Area while the remainder would be included in the East Central Area.

3.6 If the City of Burbank Public Service Department (Burbank) and/or the City of Glendale Public Service Department (Glendale) become Participating TOs after or at the same time as the Los Angeles Department of Water and Power becomes a Participating TO, then the PTO Service Territory of Burbank and/or Glendale would become part of the West Central Area. Otherwise, if Burbank or Glendale becomes a Participating TO, prior to Los Angeles, its PTO Service Territory will become part of the East Central Area. Once either Burbank or Glendale are part of the East Central Area, they will not move to the West Central Area if such area is established.

3.7 If the Imperial Irrigation District or an entity outside the State of California should apply to become a Participating TO, the CAISO Governing Board will review the reasonableness of integrating the entity into one of the existing TAC Areas. If the entity cannot be integrated without the potential for significant cost shifts, the CAISO Governing Board may establish a separate TAC Area.

4. [NOT USED]~~TAC Transition Date.~~

~~**4.1** New Participating TOs shall provide the CAISO with a notice of intent to join and execute the Transmission Control Agreement by either January 1 or July 1 of any year and provide the CAISO with an application within 15 days of such notice of intent.~~

~~**4.2** The TAC Transition Period shall begin on either January 1 or July 1 after the date the first New Participating TO's execution of the Transmission Control Agreement takes effect (TAC Transition Date). The TAC Transition Date shall be the same for the Northern Area, East Central Area and the Southern Area. The TAC Transition Date shall also be the same for the West Central Area, should it come into existence in accordance with Section 3.2 of this Schedule 3, unless the CAISO provides additional information demonstrating the need for a deferral. The 10-year TAC Transition Period described in Section 5.8 of Schedule 3 shall start from that date. If the West Central TAC Area is created after the TAC Transition Date, the applicable High Voltage Access Charge shall transition to a CAISO Grid-wide High Voltage Access Charge over the TAC Transition Period remaining from the TAC Transition Date, on the same schedule as the other TAC Areas.~~

~~**4.3** Application to Additional TAC Areas. For any TAC Areas other than those specified in Section 4.2 of this Schedule 3, created after the TAC Transition Date, including any TAC Area created as a result of the application of Section 3.7 of this Schedule 3, whether and over what period the applicable High Voltage Access Charge shall transition to a CAISO Grid-wide charge shall be determined by the CAISO Governing Board.~~

~~**4.4** Application to Wheeling Access Charges. The transition described in this Section 4 shall also apply, on the same schedule, to High Voltage Wheeling Access Charges.~~

~~**4.5** Conversion of Existing Rights. During the process by which a New Participating TO executes the Transmission Control Agreement, the CAISO and potential New Participating TO that has an obligation to serve Load shall determine the IFM Congestion Credit to be allocated to the New Participating TO in accordance with Section 4.3.1.2 of the CAISO Tariff for each Existing Right that the New Participating TO converts to Converted Rights. In making that determination, the CAISO will consider the amount of contracted transmission capacity, the firmness of the contracted transmission capacity, and other characteristics of the contracted transmission capacity.~~

5. Determination of the Access Charge.

5.1 The Access Charge consists of a ~~High Voltage~~Regional Access Charge (~~HVAC~~RAC) ~~that is based on a TAC Area component and a CAISO Grid-wide component, a Transition Charge,~~ and a ~~Low Voltage~~Local Access Charge (~~LVAC~~LAC) that is based on a utility-specific rate established by each Participating TO in accordance with its TO Tariff. ~~At the conclusion of the 10-year TAC Transition Period, the Transition Charge will cease to apply, and the HVAC will be based on the single CAISO Grid-wide rate.~~

5.2 Each Participating TO will develop, in accordance with Section 6 of this Schedule 3, a ~~High Voltage~~Regional Transmission Revenue Requirement (~~HVTRR~~RTRR $_{PTO}$) consisting of a Transmission Revenue Requirement for ~~Existing High Voltage~~Regional Facilities and, to the extent the costs have not been recovered, Location Constrained Interconnection Facilities.~~y (EHVTRR$_{PTO}$) and a Transmission Revenue Requirement for New High Voltage Facility (NHVTRR$_{PTO}$).~~ The ~~HVTRR~~RTRR $_{PTO}$ includes the TRBA adjustment described in Section 6.1 of this Schedule 3. ~~At the conclusion of the 10-year TAC Transition Period, the Transition Charge will cease to apply, and the HVAC will be based on the single CAISO Grid-wide rate. Accordingly, the requirement for each Participating TO to divide its HVTRR into new and existing components shall cease to apply.~~

5.3 The Gross Load amount in MWh shall be established by each Participating TO and filed at FERC with each Participating TO's Transmission Revenue Requirement (GL_{PTO}).

~~**5.4** The HVAC applicable to each UDC or MSS Operator serving Gross Load in the PTO Service Territory, shall be based on a TAC Area component ($HVAC_A$) and a CAISO Grid-wide component ($HVAC_I$).~~

$$HVAC = HVAC_A + HVAC_I$$

~~**5.5** The Existing Transmission Revenue Requirement for the TAC Area component ($ETRR_A$) is the summation of each Participating TO's $EHVTRR_{PTO}$ in that TAC Area. The Gross Load in the TAC Area (GL_A) is the summation of each Participating TO's Gross Load in that TAC Area (GL_{PTO}). The TAC Area component will be based on the product of Existing Transmission Revenue Requirement for the TAC Area ($ETRR_A$) and the applicable annual transition percentage (%TA) in Section 5.8 of this Schedule 3, divided by the Gross Load in the TAC Area (GL_A).~~

$$ETRR_A = \Sigma EHVTRR_{PTO}$$

$$GL_A = \Sigma GL_{PTO}$$

$$HVAC_A = (ETRR_A * \%TA) / GL_A$$

~~**5.6** The Existing Transmission Revenue Requirement for the CAISO Grid-wide component ($ETRR_I$) will be the summation of all TAC Areas' $ETRR_A$ multiplied by the applicable annual transition percentage (%IGW) in Section 5.8 of this Schedule 3. The New Transmission Revenue Requirement (NTRR) is the summation of each Participating TO's $NHVTRR_{PTO}$. The CAISO Grid-wide component will be based on the $ETRR_I$ plus the NTRR, divided by the summation of all Gross Loads in the TAC Areas (GL_A).~~

$$ETRRI = \Sigma ETRR_A * \%IGW$$

$$HVAC_I = (ETRR_I + NTRR) / \Sigma GL_A$$

~~The foregoing formulas will be adjusted, as necessary to take account of new TAC Areas.~~

~~**5.7** The Transition Charge shall be calculated separately for each Participating TO by dividing (i) the net difference between (1) the Participating TO's payment responsibility, if any, under Section 26.5 of the CAISO Tariff and Section 7 of this Schedule 3; and (2) the amount, if any, payable to the Participating TO in accordance with Section 26.5 of the CAISO Tariff and Section 7 of this Schedule 3; by (ii) the total of all forecasted Gross Load in the PTO Service Territory of the Participating TO, including the UDC and/or MSS Operator. If greater than zero, the Transition Charge shall be collected with the High Voltage Access Charge. If less than zero, the Transition Charge shall be credited with the High Voltage Access Charge. The amount of each Participating TO's NHVTRR shall not be included in the Transition Charge calculation.~~

~~**5.8** The High Voltage Access Charge shall transition over a 10-year TAC Transition Period from TAC Area to CAISO Grid-wide. The transition percentage to be used for each year will be based on the following:~~

~~Year~~	~~TAC Area High Voltage (%TA)~~	~~CAISO Grid-Wide High Voltage (%IGW)~~
~~1~~	~~90%~~	~~10%~~
~~2~~	~~80%~~	~~20%~~
~~3~~	~~70%~~	~~30%~~
~~4~~	~~60%~~	~~40%~~
~~5~~	~~50%~~	~~50%~~
~~6~~	~~40%~~	~~60%~~
~~7~~	~~30%~~	~~70%~~
~~8~~	~~20%~~	~~80%~~
~~9~~	~~10%~~	~~90%~~
~~10~~	~~0%~~	~~100%~~

5.~~4~~9 ~~After the completion of the TAC Transition Period described in Section 4 of this Schedule 3, t~~The ~~High Voltage~~Regional Access Charge shall be equal to the sum of the ~~High Voltage~~Regional Transmission Revenue Requirements of all Participating TOs, divided by the sum of the Gross Loads of all Participating TOs~~, and the provisions of this Section 5 of this Schedule 3 referring to the calculation and application of the TAC Transition Charge shall cease to apply~~.

6. ~~High Voltage~~Regional Transmission Revenue Requirement.

6.1 The ~~High Voltage~~Regional Transmission Revenue Requirement of a Participating TO will be determined consistent with CAISO procedures posted on the CAISO Website and shall be the sum of:

(a) the Participating TO's ~~High Voltage~~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, less the sum of the Standby Transmission Revenues); and

(b) the annual ~~high voltage~~Regional TRBA adjustment, which shall be based on the principal balance in the ~~high voltage~~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 ~~High Voltage~~Regional Transmission Revenue Requirement in its ~~high voltage~~Regional TRBA. If the annual ~~high voltage~~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 ~~High Voltage~~Regional Transmission Revenue Requirement by the number of days the ~~High Voltage~~Regional Transmission Facilities were under the CAISO's Operational Control divided by the number of days in the year.

7. [NOT USED]~~Limitation.~~

~~(a) During each year of the TAC Transition Period described in this Schedule 3, the increase in the total payment responsibility applicable to Gross Loads in the PTO Service Territory of an Original Participating TO attributable to the total for the year of (i) the amount applicable for the Original Participating TO under Section 26.5 of the CAISO Tariff; plus (ii) the amount applicable to the implementation of the High Voltage Access Charge shall not exceed the amount specified in paragraph (b) of this section. This limitation shall be calculated individually for each Original Participating TO, provided that, if the net effect of clauses (i) and (ii) of this paragraph is positive for one or more Original Participating TOs for any year, the combined net effect shall be allocated among all Original Participating TOs in proportion to the amounts specified in paragraph (b) of this section. This limitation shall be applied by the CAISO's calculation annually of amounts payable by New Participating TOs to Original Participating TOs such that the combined effect of clauses (i) and (ii) of this paragraph, and the payments received by each Original Participating TO shall not exceed the amounts specified in paragraph (b) of this section. The amount receivable by the Original Participating TO from the New Participating TOs to implement the limitation in paragraph (b) of this section, shall be credited through the Transition Charge established pursuant to Section 5.7 of this Schedule 3. Payment responsibility under this section, if any, shall be allocated among New Participating TOs in proportion to their TAC Benefits. At the conclusion of the ten-year TAC Transition Period, the Transition Charge and the obligations set forth in this Section 7 of this Schedule 3 will cease to apply, and the HVAC will be based on the single CAISO Grid-wide rate.~~

~~(b) The maximum annual amounts for Original Participating TO shall be as follows:~~

~~(i) For Pacific Gas and Electric Company and Southern California Edison Company, the maximum annual amount shall be thirty-two million dollars ($32,000,000.00) each; and~~

~~(ii) For San Diego Gas & Electric Company, the maximum annual amount shall be eight million dollars ($8,000,000.00).~~

8. Updates to ~~High Voltage~~Regional Access Charges.

8.1 ~~High Voltage~~Regional Access Charges and ~~High Voltage~~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 ~~High Voltage~~Regional Transmission Revenue Requirements of any Participating TO. Using the

~~High Voltage~~Regional Transmission Revenue Requirement accepted or authorized by FERC, consistent with Section 9 of this Schedule 3, for each Participating TO, the CAISO will recalculate on a monthly basis the ~~High Voltage~~Regional Access Charge ~~and Transition 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 ~~For service provided by a Participating TO prior to the TAC Transition Date, no refund ordered by FERC or amount accrued to that Participating TO's Transmission Revenue Balancing Account related to such service shall be reflected in the High Voltage Access Charge, Low Voltage Access Charge, the High Voltage Transmission Revenue Requirement, or the Low Voltage Transmission Revenue Requirement of a Participating TO. For service provided by a Participating TO following the TAC Transition Date, a~~Any refund associated with a Participating TO'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.

8.3 If the Participating TO withdraws one or more of its transmission facilities from the CAISO Operational Control in accordance with Section 3.4 of the Transmission Control Agreement, then the CAISO will no longer collect the TRR for that transmission facility through the CAISO's Access Charge effective upon the date the transmission facility is no longer under the Operational Control of the CAISO. The withdrawing Participating TO shall be obligated to provide the CAISO will all necessary information to implement the withdrawal of the Participating TO's transmission facilities and to make any necessary filings at FERC to revise its TRR. The CAISO shall revise its transmission Access Charge to reflect the withdrawal of one or more transmission facilities from CAISO Operational Control.

9. Approval of Updated ~~High Voltage~~Regional Revenue Requirements.

9.1 Participating TOs will make the appropriate filings at FERC to establish their Transmission Revenue Requirements for their ~~Low Voltage~~Local Access Charges and the applicable ~~High Voltage~~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 ~~HVTRR~~RTRR, ~~LVTRR~~LTRR (if applicable) and the appropriate Gross Load data and other information required by the FERC to support the Access Charges. The Participating TO will provide a copy of its filing to the CAISO and the other Participating TOs in accordance with the notice provisions in the Transmission Control Agreement.

9.2 Federal power marketing agencies whose transmission facilities are under CAISO Operational Control shall develop their ~~High Voltage~~Regional Transmission Revenue Requirements pursuant to applicable federal laws and regulations, including filing with FERC. All such filings with FERC will include a separate appendix that states the ~~HVTRR~~RTRR, ~~LVTRR~~LTRR (if applicable) and the appropriate Gross Load data and other information required by the FERC to support the Access Charges. The procedures for public participation in a federal power marketing agency's ratemaking process shall be posted on the federal power marketing agency's website. The federal power marketing agency shall also post on the website the Federal Register Notices and FERC orders for rate making processes that impact the federal power marketing agency's ~~High Voltage~~Regional Transmission Revenue Requirement. The Participating TO will provide a copy of its filing to the CAISO and the other Participating TOs in accordance with the notice provisions in the Transmission Control Agreement.

10. Disbursement of ~~High Voltage~~Regional Access Charge ~~and Transition Charge~~ Revenues.

10.1 ~~High Voltage~~Regional Access Charge ~~and Transition Charge~~ revenues shall be calculated for disbursement to each Participating TO on a monthly basis as follows:

(a) the amount determined in accordance with Section 26.1.2 of the CAISO Tariff ("Billed ~~HVAC~~RAC~~/TC~~");

(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~~High Voltage~~ Utility-Specific Rates for the Participating TO whose Regional Transmission Facilities ~~High Voltage Facilities~~ served such UDC and MSS Operator times the actual Gross Load of such UDCs and MSS Operators ~~("Utility-specific HVAC")~~; or

(ii) for a Non-Load-Serving Participating TO, then calculate the Non-Load-Serving Participating TO's portion of the total Billed ~~HVAC~~RAC~~/TC~~ in subsection (a) based on the ratio of the Non-Load-Serving Participating TO's ~~High Voltage~~Regional Transmission Revenue Requirement to the sum of all Participating TOs' ~~High Voltage~~Regional Revenue Requirements.

(c) if the total Billed ~~HVAC~~RAC~~/TC~~ in subsection (a) received by the CAISO less the total dollar amounts calculated in ~~Utility-specific HVAC~~ 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 ~~High Voltage~~Regional Transmission Revenue Requirement to the sum of all of those Participating TOs' ~~High Voltage~~Regional Transmission Revenue Requirements that are subject to the calculations in subsection (b)(i). This monthly distribution amount is the "~~HVAC~~RAC Revenue Adjustment";

(d) the sum of the ~~HVAC~~RAC revenue share determined in subsection (b) and the ~~HVAC~~RAC Revenue Adjustment in subsection (c) will be the monthly disbursement to the Participating TO.

10.2 If the same entity is both a Participating TO and a UDC or MSS Operator, then the monthly ~~High Voltage~~Regional Access Charge ~~and Transition Charge~~ amount billed by the CAISO will be the charges payable by the UDC or MSS Operator in accordance with Section 26.1.2 of the CAISO Tariff less the disbursement determined in accordance with Section 10.1(d) of this Schedule 3. If this difference is negative, that amount will be paid by the CAISO to the Participating TO.

11. Determination of Transmission Revenue Requirement Allocation Between ~~High Voltage~~Regional and ~~Low Voltage~~Local Transmission Facilities.

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

12. Procedure for Division of Certain Costs Between the ~~High~~Regional and ~~Low Voltage~~Local Transmission Access Charges.

12.1 Division of Costs:

(a) Substations
Costs for substations and substation equipment, including transformers:

(i) If the Participating TO has substation TRR information by facility and voltage, then the TRR for facilities and equipment at or above 200 kV should be allocated to the ~~HVTRR~~RTRR and the TRR for facilities and equipment below 200 kV should be allocated to the ~~LVTRR~~LTRR;

(ii) If the Participating TO has substation TRR information by facility but not by voltage, then the TRR for facilities and equipment should be allocated to the ~~HVTRR~~RTRR and to the ~~LVTRR~~LTRR based on the ratio of gross substation investment allocated to ~~HVTRR~~RTRR to gross substation investment allocated to ~~LVTRR~~LTRR pursuant to Section 12.1(a)(i); or

(iii) If the Participating TO does not have substation TRR information by facility or voltage, then the TRR for facilities and equipment should be allocated to the ~~HVTRR~~RTRR and to the ~~LVTRR~~LTRR based on the Participating TO's transmission system-wide gross plant ratio. The system-wide gross plant ratio is determined once the costs that can be split between ~~High Voltage~~Regional Transmission Facilities and ~~Low Voltage~~Local Transmission Facilities for all facilities has been developed in accordance with Sections 12.1(a) through (c), then the resulting cost ratio between ~~High Voltage~~Regional Transmission Facilities and ~~Low Voltage~~Local Transmission Facilities shall be used as the system-wide gross plant ratio.

(iv) Costs of transformers that step down from Regional Transmission Facility to a Local Transmission Facility ~~high voltage (200 kV or above) to low voltage~~, to the extent the Participating TO does not have the revenue requirement information available to allocate the costs, ~~on a voltage basis,~~ should be allocated consistent with the procedures for substations addressed above.

(b) Transmission Towers and Land with Circuits on Multiple Voltages
For transmission towers that carry ~~have~~ both ~~High Voltage~~Regional Transmission Facilities and ~~Low Voltage~~Local Transmission Facilities on the same tower, the cost of these assets should be allocated two-thirds to the ~~HVTRR~~RTRR and one-third to the ~~LVTRR~~LTRR. If the transmission tower has only ~~High Voltage~~Regional Transmission Facilities, then the costs of these assets should be allocated entirely to the ~~HVTRR~~RTRR. If the transmission tower has only ~~Low Voltage~~Local Transmission Facilities, then the TRR of these assets should be allocated entirely to the ~~LVTRR~~LTRR. Provided that the Participating TO does not have land cost information available on a ~~voltage~~ basis that distinguishes the Local and Regional Transmission Facilities, in which case the costs should be allocated on that basis~~based on the bright-line of the voltage levels~~, the costs for land used for transmission rights-of-way for towers that carry both

Local and Regional Transmission Facilities ~~have both high voltage and low voltage wires~~ should be allocated two-thirds to the ~~HVTRR~~RTRR component and one-third to the ~~LVTRR~~LTRR.

(c) Operation and Maintenance, Transmission Wages & Salaries, Taxes, Depreciation and Amortization, and Capital Costs

If the Participating TO can delineate costs for transmission operations and maintenance (O&M), transmission wages and salaries, taxes, depreciation and amortization, or capital costs on a voltage basis, the costs shall be applied on a bright-line voltage basis. If the costs for O&M, transmission wages and salaries, taxes, depreciation and amortization, or capital costs, are not available on voltage levels, the allocation to the ~~HVTRR~~RTRR and the ~~LVTRR~~LTRR should be based on the Participating TO's system-wide gross plant ratio defined in Section 12.1(a).

(d) Existing Transmission Contracts

If the Take-Out Point for the Existing Contract is a ~~High Voltage~~Regional Transmission Facility, the Existing Contract revenue will be credited to the ~~HVTRR~~RTRR of the Participating TO receiving such revenue. Similarly, the Participating TO that is paying charges under such an Existing Contract may include the costs in its ~~HVTRR~~RTRR. If the Take-Out Point for the Existing Contract is a ~~Low Voltage~~Local Transmission Facility, the Existing Contract revenue will be credited to the ~~HVTRR~~RTRR and the ~~LVTRR~~LTRR of the receiving Participating TO based on the ratio of the Participating TO's ~~HVTRR~~RTRR to its ~~LVTRR~~LTRR, prior to any adjustments for such revenues. The Participating TO that is paying the charges under the Existing Contract will include the costs in its ~~HVTRR~~RTRR and ~~LVTRR~~LTRR in the same ratio as the revenues are recognized by the Participating TO receiving the payments.

(e) Division of the TRBA Adjustment between ~~HVTRR~~RTRR and ~~LVTRR~~LTRR

(i) Wheeling revenues associated with transactions exiting the CAISO Controlled Grid at Scheduling Points or Take-Out Points that are at ~~High Voltage~~Regional Transmission Facilities shall be reflected as ~~high voltage~~Regional TRBA adjustment components;

(ii) Wheeling revenues associated with transactions exiting the CAISO Controlled Grid at Scheduling Points or Take-Out Points that are at ~~Low Voltage~~Local Transmission Facilities shall be attributed between Regional and Local~~high voltage and low voltage~~ TRBA adjustment components based on the ~~High Voltage~~Regional and ~~Low Voltage~~Local Wheeling Access Charge rates assessed to such transactions by the CAISO and/or the Participating TO;

(iii) Any ~~Low Voltage~~Local Access Charge amounts paid pursuant to Section 26.1 of the CAISO Tariff for the ~~Low Voltage~~Local Transmission Facilities of a Non-Load-Serving Participating TO shall be reflected as a component of the ~~low~~

~~voltage~~Local TRBA adjustment associated with the ~~Low Voltage~~Local Access Charge;

(iv) CRR revenues from CRRs allocated to Participating TOs shall be assigned to Regional ~~high voltage~~ or ~~low voltage~~Local TRBA adjustment components based on ~~the voltage of~~ whether the path related to the CRR is Regional or Local; and,

(v) Other Transmission Revenue Credits shall be allocated between ~~high voltage~~Regional and ~~low voltage~~Local TRBA adjustment components on a gross plant basis.

13. ~~Low Voltage~~Local Access Charge for a Non-Load-Serving Participating TO. Pursuant to Section 26.1 of the CAISO Tariff, the provisions of this Section 13 of this Schedule 3 shall apply to a Non-Load-Serving Participating TO that has ~~Low Voltage~~Local Transmission Facilities.

13.1 ~~Low Voltage~~Local Transmission Revenue Requirement. The ~~Low Voltage~~Local Transmission Revenue Requirement of a Non-Load-Serving Participating TO shall be calculated separately for each individual project that includes one or more ~~Low Voltage~~Local Transmission Facilities or shall be calculated for a group of ~~Low Voltage~~Local Transmission Facilities if all are part of projects directly connected to the facilities of the same Participating TO(s). The ~~Low Voltage~~Local Transmission Revenue Requirement will be determined consistent with CAISO procedures posted on the CAISO Website and shall be the sum of:

(a) the Non-Load-Serving Participating TO's ~~Low Voltage~~Local Transmission Revenue Requirement for the relevant ~~Low Voltage~~Local Transmission Facility or group of facilities; and

(b) the annual ~~low voltage~~Local TRBA adjustment for the relevant ~~Low Voltage~~Local Transmission Facility or group of facilities, which shall be based on the principal balance in the ~~low voltage~~Local 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. In accordance with Section 26.1 of the CAISO Tariff, the Non-Load-Serving Participating TO shall include any over- or under-recovery of its annual ~~Low Voltage~~Local Transmission Revenue Requirement in its ~~low voltage~~Local TRBA. If the annual ~~low voltage~~Local 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 ~~Low Voltage~~Local Transmission Revenue Requirement by the number of days the ~~Low Voltage~~Local Transmission Facilities were under the CAISO's Operational Control divided by the number of days in the year.

13.2 Updates to ~~Low Voltage~~Local Access Charges. Unless otherwise agreed by the affected Participating TOs, a Non-Load-Serving Participating TO shall adjust its ~~Low Voltage~~Local Access Charges and ~~Low Voltage~~Local Wheeling Access Charges (1) when necessary to reflect any new

transmission addition directly connecting a Participating TO to the ~~Low Voltage~~Local Transmission Facilities of the Non-Load-Serving Participating TO; (2) on the date FERC makes effective a change to the ~~Low Voltage~~Local Transmission Revenue Requirement of the Non-Load-Serving Participating TO; and (3) on the date FERC makes effective a change to Gross Load of a Participating TO directly connected to the Non-Load-Serving Participating TO. Using the ~~Low Voltage~~Local Transmission Revenue Requirement accepted or authorized by FERC, consistent with Section 9 of this Schedule 3, for the Non-Load-Serving Participating TO, the CAISO will recalculate the ~~Low Voltage~~Local Access Charge applicable during such period. Revisions to the ~~low voltage~~Local TRBA adjustment shall be made effective annually on January 1 based on the principal balance in the ~~low voltage~~Local TRBA as of September 30 of the prior year and a forecast of Transmission Revenue Credits for the next year.

For service provided by a Non-Load-Serving Participating TO ~~following the TAC Transition Date~~, any refund associated with a Non-Load-Serving Participating TO'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.

If the Non-Load-Serving Participating TO withdraws one or more of its transmission facilities from the CAISO Operational Control in accordance with Section 3.4 of the Transmission Control Agreement, then the CAISO will no longer collect the TRR for that transmission facility through the CAISO's Access Charge effective upon the date the transmission facility is no longer under the Operational Control of the CAISO. The withdrawing Non-Load-Serving Participating TO shall be obligated to provide the CAISO will all necessary information to implement the withdrawal of the Participating TO's transmission facilities and to make any necessary filings at FERC to revise its TRR. The CAISO shall revise its transmission Access Charge to reflect the withdrawal of one or more transmission facilities from CAISO Operational Control.

13.3 Approval of Updated ~~Low Voltage~~Local Transmission Revenue Requirement. A Non-Load-Serving Participating TO will make the appropriate filings at FERC to establish its Transmission Revenue Requirement for its ~~Low Voltage~~Local Access Charge, and to obtain approval of any changes thereto. All such filings with the FERC will include a separate appendix that states the ~~LVTRR~~LTRR and other information required by the FERC to support the ~~Low Voltage~~Local Access Charge. The Non-Load-Serving Participating TO will provide a copy of its filing to the CAISO and the other Participating TOs in accordance with the notice provisions in the Transmission Control Agreement.

Federal power marketing agencies whose transmission facilities are under CAISO Operational Control shall develop their ~~Low Voltage~~Local Transmission Revenue Requirements pursuant to applicable federal laws and regulations, including filing with FERC. All such filings with FERC will include a separate appendix that states the ~~LVTRR~~LTRR and other information required by the FERC to support the Access Charges. The procedures for public participation in a federal power marketing agency's ratemaking process shall be posted on the federal power marketing agency's website. The federal power marketing agency shall also post on the website the Federal Register Notices and FERC orders for rate making processes that impact the federal power marketing agency's ~~Low Voltage~~Local Transmission Revenue Requirement. The Non-Load-Serving Participating TO will provide a copy of its filing to the CAISO and the other Participating TOs in accordance with the notice provisions in the Transmission Control Agreement.

13.4 Disbursement of ~~Low Voltage~~Local Access Charge Revenues. Unless otherwise agreed by the affected Participating TOs, ~~Low Voltage~~Local Access Charge revenues of a Non-Load-Serving Participating TO shall be calculated for disbursement to that Non-Load-Serving Participating TO on a monthly basis as the sum of ~~Low Voltage~~Local Access Charges billed by the CAISO to the UDCs or MSS Operators of Participating TOs pursuant to Section 26.1 of the CAISO Tariff.

13.5 Payment of ~~Low Voltage~~Local Access Charge. Notwithstanding the separate accounting for the ~~Low Voltage~~Local Access Charge specified in Section 26.1 of the CAISO Tariff and this Section 13 of this Schedule 3, if the same entity is both a Participating TO and a UDC or MSS Operator, then the monthly ~~High Voltage~~Regional Access Charge ~~and Transition Charge~~ amount, and any ~~Low Voltage~~Local Access Charge amount pursuant to this Section 13 of this Schedule 3, billed by the CAISO will be the charges payable by the UDC or MSS Operator in accordance with Sections 26.1.2 and 26.1 of the CAISO Tariff less the disbursement determined in accordance with Section 10.1(d) of this Schedule 3. If this difference is negative, that amount will be paid by the CAISO to the Participating TO.

14. Wheeling Access Charges.

14.1 CAISO Charges on Scheduling Coordinators for Wheeling. The CAISO will charge Scheduling Coordinators for a Wheeling Out or a Wheeling Through transaction the product of the Wheeling Access Charge and the total of the hourly Schedules or awards of Wheeling in MWh for each Trading Interval at each Scheduling Point associated with that transaction pursuant to Section 26.1.4 of the CAISO Tariff.

14.2 Wheeling Access Charge. The Wheeling Access Charge for each Participating TO shall be as specified in Section 26.1.4 of the CAISO Tariff.

14.3 CAISO Payments to Transmission Owners for Wheeling. The CAISO will pay all Wheeling revenues to Participating TOs on the basis of the ratio of each Participating TO's Transmission Revenue Requirement (less the TRR associated with Existing Rights) to the sum of all Participating TOs' TRRs (less the TRRs associated with Existing Rights) as specified in Section 26.1.4.3 of the CAISO Tariff and in the applicable Business Practice Manual. The ~~Low Voltage~~Local Wheeling Access Charge shall be disbursed to the appropriate Participating TO in accordance with the applicable Business Practice Manual.

14.4 Weighted Average Rate for Wheeling Service. The weighted average rate payable for Wheeling over joint facilities at each Scheduling Point shall be calculated as the sum of the applicable Wheeling Access Charge rates for each applicable TAC Area or Participating TO as these rates are weighted by the ratio of the Available Transfer Capability for each Participating TO at the particular Scheduling Point to the total Available Transfer Capability for the Scheduling Point. The calculation of this rate is set forth in more detail in the applicable Business Practice Manual.

* * * *

Appendix A

Master Definition Supplement

*** * * ***

- Access Charge
A charge paid by all Utility Distribution Companies, Small Utility Distribution Companies, and MSS Operators with Gross Load in a PTO Service Territory, as set forth in Article II. The Access Charge includes the ~~High Voltage~~Regional Access Charge~~, the Transition Charge~~ and the ~~Low Voltage~~Local Access Charge. The Access Charge will recover the Participating TO's Transmission Revenue Requirement in accordance with Appendix F, Schedule 3.

* * * *

~~**- Existing High Voltage Facility**~~
~~A High Voltage Transmission Facility of a Participating TO that was placed in service on or before the TAC Transition Date described in Section 4.2 of Schedule 3 of Appendix F.~~

* * * *

- High Voltage Access Charge (HVAC)
When used in documents that adopt the definitions in this Appendix A of the ISO Tariff, HVAC means Regional Access Charge.~~The Access Charge applicable under Section 26.1 to recover the High Voltage Transmission Revenue Requirements of each Participating TO in a Transmission Access Charge Area.~~

- High Voltage Transmission Facility
When used in documents that adopt the definitions in this Appendix A of the ISO Tariff, High Voltage Transmission Facility means Regional Transmission Facility.~~A transmission facility that is owned by a Participating TO or to which a Participating TO has an Entitlement that is represented by a Converted Right, that is under the CAISO Operational Control, and that operates at a voltage at or above 200 kilovolts, and supporting facilities, and the costs of which are not directly assigned to one or more specific customers, provided that the High Voltage Transmission Facilities of a Participating TO shall include any Location Constrained Resource Interconnection Facility of that Participating TO that has been turned over to the CAISO's Operational Control.~~

- High Voltage Transmission Revenue Requirement (HVTRR)
When used in documents that adopt the definitions in this Appendix A of the ISO Tariff, HVTRR means Regional Transmission Revenue Requirement.~~The portion of a Participating TO's Transmission Revenue Requirement associated with and allocable to the Participating TO's High Voltage Transmission Facilities~~

~~and Converted Rights associated with High Voltage Transmission Facilities that are under the CAISO Operational Control.~~

~~**High Voltage Utility Specific Rate**~~
~~A Participating TO's High Voltage Transmission Revenue Requirement divided by such Participating TO's forecasted Gross Load.~~

- High Voltage Wheeling Access Charge
When used in documents that adopt the definitions in this Appendix A of the ISO Tariff, High Voltage Wheeling Access Charge means Regional Wheeling Access Charge.~~The Wheeling Access Charge associated with the recovery of a Participating TO's High Voltage Transmission Revenue Requirements in accordance with Section 26.1.~~

* * * *

- HVAC
When used in documents that adopt the definitions in this Appendix A of the ISO Tariff, HVAC means RAC.~~High Voltage Access Charge~~

- HVTRR
When used in documents that adopt the definitions in this Appendix A of the ISO Tariff, HVTRR means RTRR.~~High Voltage Transmission Revenue Requirement~~

* * * *

- LAC
Local Access Charge

* * * *

- Local Access Charge (LAC)
The Access Charge applicable under Section 26.1 to recover the Local Transmission Revenue Requirement of a Participating TO.

* * * *

- Local Transmission Facility
A transmission facility that is (1) under the CAISO Operational Control, (2) is owned by a Participating TO or to which a Participating TO has an Entitlement that is represented by a Converted Right, (3) operates at a voltage below 200 kilovolts, and (4) only in the case of a transmission facility approved in the final 2013/2014 comprehensive Transmission Plan and thereafter, is located entirely within a Participating Transmission Owner's footprint or PTO Service Territory.

- 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.

- Local Wheeling Access Charge
The Wheeling Access Charge associated with the recovery of a Participating TO's Local Transmission Revenue Requirement in accordance with Section 26.1.

* * * *

- Location Constrained Resource Interconnection Facility
A ~~High Voltage~~ Transmission Facility that has been determined by the CAISO to satisfy all of the requirements of Section 24.4.4.6.3~~24.1.3~~.

* * * *

- Low Voltage Access Charge (LVAC)
When used in documents that adopt the definitions in this Appendix A of the ISO Tariff, LVAC means Local Access Charge.~~The Access Charge applicable under Section 26.1 to recover the Low Voltage Transmission Revenue Requirement of a Participating TO.~~

- Low Voltage Transmission Facility
When used in documents that adopt the definitions in this Appendix A of the ISO Tariff, Low Voltage Transmission Facility means Local Transmission Facility.~~A transmission facility owned by a Participating TO or to which a Participating TO has an Entitlement that is represented by a Converted Right, which is not a High Voltage Transmission Facility, that is under the CAISO Operational Control.~~

- Low Voltage Transmission Revenue Requirement (LVTRR)
When used in documents that adopt the definitions in this Appendix A of the ISO Tariff, LVTRR means Local Transmission Revenue Requirement.~~The portion of a Participating TO's TRR associated with and allocable to the Participating TO's Low Voltage Transmission Facilities and Converted Rights associated with Low Voltage Transmission Facilities that are under the CAISO Operational Control.~~

- Low Voltage Wheeling Access Charge
When used in documents that adopt the definitions in this Appendix A of the ISO Tariff, Low Voltage Wheeling Access Charge means Local Wheeling Access Charge.~~The Wheeling Access Charge associated with the recovery of a Participating TO's Low Voltage Transmission Revenue Requirement in accordance with Section 26.1.~~

* * * *

- LTRR
Local Transmission Revenue Requirement

- LVAC
When used in documents that adopt the definitions in this Appendix A of the ISO Tariff, LVAC means LAC.~~Low Voltage Access Charge~~

- LVTRR
When used in documents that adopt the definitions in this Appendix A of the ISO Tariff, LVTRR means LTRR.~~Low Voltage Transmission Revenue Requirement~~

* * * *

~~**- New High Voltage Facility**~~
~~A High Voltage Transmission Facility of a Participating TO that is placed in service after the beginning of the TAC Transition Period described in Section 4 of Schedule 3 of Appendix F, or a capital addition made and placed in service after the beginning of the TAC Transition Period described in Section 4.2 of Schedule 3 of Appendix F to an Existing High Voltage Facility.~~

* * * *

- RAC
Regional Access Charge

* * * *

- Regional Access Charge (RAC)
The Access Charge applicable under Section 26.1 to recover the Regional Transmission Revenue Requirements of each Participating TO.

* * * *

- Regional Transmission Facility
A transmission facility that is owned by a Participating TO or to which a Participating TO has an Entitlement that is represented by a Converted Right, that is under the CAISO Operational Control, and that is not (1) a Local Transmission Facility or a Location Constrained Resource Interconnection Facility, and supporting facilities, or (2) a Merchant Transmission Facility.

- Regional Transmission Revenue Requirement (RTRR)
The portion of a Participating TO's Transmission Revenue Requirement associated with and allocable to the Participating TO's Regional Transmission Facilities and Converted Rights associated with Regional Transmission Facilities and Location Constrained Resource Interconnection Facilities that are under the CAISO Operational Control.

- Regional Utility Specific Rate
A Participating TO's Regional Transmission Revenue Requirement divided by such Participating TO's forecasted Gross Load.

- Regional Wheeling Access Charge
The Wheeling Access Charge associated with the recovery of a Participating TO's Regional Transmission Revenue Requirements in accordance with Section 26.1.

* * * *

- RTRR
Regional Transmission Revenue Requirement

* * * *

- Standby Rate
A rate assessed a Standby Service Customer by the Participating TO that also provides retail electric service, as approved by the Local Regulatory Authority, or FERC, as applicable, for Standby Service which compensates the Participating TO, among other things, for costs of ~~High Voltage~~Regional Transmission Facilities.

- Standby Service
Service provided by a Participating TO that also provides retail electric service, which allows a Standby Service Customer, among other things, access to ~~High Voltage~~Regional Transmission Facilities for the delivery of backup power on an instantaneous basis to ensure that Energy may be reliably delivered to the Standby Service Customer in the event of an Outage of a Generating Unit serving the customer's Load.

* * * *

- Standby Transmission Revenue
The transmission revenues, with respect to cost of both ~~High Voltage~~Regional Transmission Facilities and ~~Low Voltage~~Local Transmission Facilities, collected directly from Standby Service Customers through charges for Standby Service.

* * * *

~~***- TAC Benefit***~~
~~The amount, if any, for each year by which the cost of Existing High Voltage Transmission Facilities associated with deliveries of Energy to Gross Loads in the PTO Service Territory is reduced by the implementation of the High Voltage Access Charge described in Schedule 3 to Appendix F. The TAC Benefit of a New Participating TO shall not be less than zero.~~

* * * *

~~- Transition Charge~~

~~The component of the Access Charge collected by the CAISO with the High Voltage Access Charge in accordance with Section 5.7 of Appendix F, Schedule 3.~~

* * * *

- Transmission Access Charge Area (TAC Area)

A portion of the CAISO Controlled Grid ~~with respect to which Participating TOs' High Voltage Transmission Revenue Requirements are recovered through a High Voltage Access Charge. TAC Areas are~~ as identified ~~listed~~ in Section 3 of Schedule 3 of Appendix F.

* * * *

- Transmission Revenue Credit

~~For an Original Participating TO, t~~The proceeds 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 ~~Original~~ 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 ~~Low Voltage~~Local Access Charge amounts paid for the use of the ~~Low Voltage~~Local Transmission Facilities of a Non-Load-Serving Participating TO pursuant to Section 26.1 and Appendix F, Schedule 3, Section 13. ~~For a New Participating TO during the 10-year TAC Transition Period described in Section 4 of Schedule 3 of Appendix F, the revenues received from the CAISO for Wheeling service and IFM Congestion Credit pursuant to Section 4.3.1.2, 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 New 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 Low Voltage Access Charge amounts paid for the use of the Low VoltageTransmission Facilities of a Non-Load-Serving Participating TO pursuant to Section 26.1 and Appendix F, Schedule 3, Section 13. After the 10-year TAC Transition Period, the New Participating TO Transmission Revenue Credit shall be calculated the same as the Transmission Revenue Credit for the Original Participating TO.~~

* * * *

- Wheeling Access Charge (WAC)

The charge assessed by the CAISO that is paid by a Scheduling Coordinator for Wheeling in accordance with Section 26.1. Wheeling Access Charges shall not apply for Wheeling under a bundled non-economy Energy coordination agreement of a Participating TO executed prior to July 9, 1996. The Wheeling

Access Charge may consist of a ~~High Voltage~~Regional Wheeling Access Charge and a ~~Low Voltage~~Local Wheeling Access Charge.

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Attachment C

Materials Presented to the ISO Board of Governors

Regarding the Order No. 1000 Stakeholder Initiative and Compliance Filing

October 11, 2012

Decision on FERC Order 1000 Compliance Filing

Neil Millar
Executive Director, Infrastructure Development

Board of Governors Meeting
General Session
September 13-14, 2012

FERC Order 1000 – promotion of enhanced regional and interregional transmission planning:

- Released July 21, 2011
- Builds on previous orders regarding transmission planning (Order 890 in particular)
- Improve regional and interregional transmission planning processes
- Requires costs of new transmission to be allocated to beneficiaries
- Promotes competition for the development of new transmission facilities
- Requires two compliance filings – regional issues and interregional issues

The Order requires the ISO to make a filing by October 11, 2012 that complies with the regional requirements.

- Existing transmission planning tariff is already largely compliant with Order 1000 regional requirements
- Therefore, the proposal relies heavily on existing FERC approved transmission planning process
- Some tariff modifications are needed to ensure full compliance with Order 1000

The proposal establishes the ISO as a regional planning entity:

- Enhances and clarifies competitive opportunities:
  - Expands competitive solicitation to high voltage reliability projects as well as policy and economic projects
  - Upgrades to existing facilities and low voltage facilities remain with participating transmission owners
- Aligns ISO High Voltage Access Charge framework with new “regional” framework, and Low Voltage Access Charge with new “local” framework
- Clarifies and expands stakeholder consultation opportunities for discussing public policy requirements

There is broad support for the proposal, but some stakeholder concerns remain:

- Lack of agreement that the ISO should be able to direct a participating transmission owner to complete an economic or policy driven project if developer fails to complete project
- Treatment of low voltage lines into other service areas
- Concern that competitive solicitation process does not provide predetermined weighting of the selection criteria, and, more specifically, does not weight cost as the primary factor
- Concern that proposal does not meet public policy requirements of the order
- Proposal does not provide participant compensation in stakeholder consultation process

Management recommends the Board approve the proposal.

- Brings the ISO's tariff into compliance with Order 1000 regional requirements
- Provides additional clarity to key issues and enhanced competitive opportunities
- Builds on transmission planning process that was approved in 2010, which in large part was adopted by FERC in Order 1000
- Stakeholders largely support the proposal

Memorandum

To: ISO Board of Governors

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

Date: September 7, 2012

Re: **Decision on FERC Order 1000 Compliance Filing**

This memorandum requires Board action.

EXECUTIVE SUMMARY

Management requests Board approval to file tariff revisions, described herein, which were developed through a stakeholder process to comply with the Federal Energy Regulatory Commission's Order No. 1000 on transmission planning and cost allocation. Order 1000[1] imposes requirements on the ISO in three primary areas: (1) regional (i.e., ISO system-wide) planning and cost allocation; (2) opportunities for non-incumbent transmission developers to build and own ratepayer-funded transmission; and, (3) interregional planning and cost allocation. The ISO is required to file the necessary tariff amendments to comply with the first two areas by October 11, 2012, and as such this memorandum addresses only these two areas. Compliance with the third area must be filed by April 11, 2013 and will be the subject of a subsequent Management proposal in the first quarter of 2013.

In June 2010, the ISO filed significant tariff amendments with FERC substantially changing its transmission planning process and aligning the process with many of the considerations that were ultimately adopted in Order 1000. FERC approved those amendments on December 16, 2010 and the amendments went into effect on December 20, 2010 as part of the 2010-2011 planning cycle. As a result, the ISO's existing transmission planning tariff provisions largely comply with the requirements of the first two areas of Order 1000 noted above. Therefore, Management has relied on the existing ISO transmission planning process and tariff language to the greatest extent possible and is now proposing tariff amendments only where necessary to meet the specific requirements of the order with which the ISO's existing planning process does not already fully align.

Looking beyond the requirement to comply with Order 1000, Management believes that the new tariff provisions will benefit ISO market participants and other stakeholders by

[1] FERC issued Order No. 1000 on July 21, 2011 and subsequently issued Order No. 1000-A that clarified certain aspects of Order No. 1000. For brevity, this memorandum refers to the two orders collectively as "Order 1000."

increasing the openness, clarity, and transparency of the ISO's transmission planning process, including the competitive solicitation process for needed transmission upgrades and additions. The key elements of Management's proposal will:

- Modify existing tariff language on "right of first refusal"[2];
- Add clarity and transparency to the ISO's competitive solicitation process;
- Distinguish between "regional" and "local" transmission additions and upgrades for purposes of cost allocation and opportunities for non-incumbent transmission developers to build and own;
- Allow the costs of local transmission facilities to be allocated to the participating transmission owner that builds them and recovered from its customers that use such facilities;
- Allow the costs of regional transmission facilities to be recovered through an ISO regional (i.e., system-wide) access charge;
- Provide an express opportunity for stakeholders to propose the public policy requirements and directives that should be considered in the transmission planning process;
- Enable the ISO to proactively take the necessary actions needed to complete a project if it does not remain on schedule; and
- Conduct a competitive solicitation for economically-driven and public policy-driven transmission projects that are abandoned by a previously approved project sponsor.

With respect to the remainder of Order 1000's compliance obligations in the first two areas, Management believes that the terms of its existing tariff are consistent with or superior to the requirements of Order 1000.

For the reasons summarized above and described in greater detail in the body of this memorandum, Management recommends that the Board approve the following motion:

> ***Moved, that the ISO Board of Governors approves the proposal for the Federal Energy Regulatory Commission Order No. 1000 Compliance Filing as described by Management in the memorandum dated September 7, 2012; and***

[2] Strictly speaking, the ISO tariff does not contain any rights of first refusal, because under the tariff a participating transmission owner cannot refuse to build a transmission facility that has been approved in the ISO's transmission plan and is assigned to that participating transmission owner in accordance with the tariff. What participating transmission owners do have under the tariff with regard to certain categories of approved transmission facilities is an exclusive right to build and own. However, Management recognizes that Order 1000 uses the term "right of first refusal" broadly to include exclusive rights to build and own, and therefore adopts this usage in this memorandum. Nevertheless, it is important to understand that where the ISO's compliance filing does not remove or modify an existing "right of first refusal" (in the terminology of Order 1000), this should not be read to mean or imply that a participating transmission owner has a right to refuse to build a transmission facility for which it is responsible under the tariff.

Moved, that the ISO Board of Governors authorizes Management to file the necessary tariff amendments with the Federal Energy Regulatory Commission to implement this proposal.

DISCUSSION AND ANALYSIS

On February 16, 2007, FERC issued Order 890, which was designed, among other things, to increase transparency in the rules applicable to planning and use of the transmission system. In Order 890, FERC required that transmission providers implement a coordinated, open and transparent transmission planning process that satisfies nine planning principles enunciated in the order. Following a series of compliance filings submitted by the ISO, FERC ultimately found that the ISO's transmission planning process complied with each of the nine planning principles and other planning requirements adopted in Order 890.

At about the same time that FERC was considering the issues identified in its notice of proposed rulemaking released on June 17, 2010, and later addressed by Order 1000, the ISO had submitted to FERC for approval its revised transmission planning process proposal. The revised transmission planning process proposal would enable the ISO to undertake a unified and holistic planning effort that would result in a single comprehensive transmission plan that would satisfy all of the transmission planning requirements of Order 890, effectively and efficiently identify infrastructure needs driven by environmental policy goals, and provide opportunities for potential project sponsors to submit proposals in response to identified needs. FERC approved the ISO proposal, subject to certain modifications and clarifications. FERC noted, among other things, that the enhanced process was innovative, improved transparency and openness, expanded stakeholder, regional and sub-regional collaboration, fully complied with Order 890's transmission planning requirements, increased competitive opportunities (including opportunities for independent transmission developers to build projects), and provided additional opportunities for consideration of demand resources, generation and other non-transmission resources as alternatives to transmission solutions.

As a result of its revised transmission planning process proposal effort, the ISO successfully implemented many of the same transmission planning reforms that public utility transmission providers are required to implement in order to comply with Order 1000. As a result, the ISO is able to base its Order 1000 reforms, in large part, on the transmission planning reforms that the ISO implemented in connection with revised transmission planning process proposal.

With respect to the Order 1000 compliance filing, Order 1000's transmission planning reforms require:

(1) that each public utility transmission provider participate in a regional transmission planning process that produces a regional transmission plan; [3]

[3] Order No. 1000's interregional planning requirements will be the subject of a separate compliance filing that the ISO must submit to FERC by April 11, 2013.

(2) that local and regional transmission planning processes must provide an opportunity to identify and evaluate transmission needs driven by public policy requirements established by state or federal laws or regulations;
(3) the elimination of any rights of first refusal for transmission facilities selected in a regional transmission plan for purposes of regional cost allocation and tariff provisions that ensure non-discriminatory treatment of all entities seeking to build transmission facilities included in any regional transmission plan; and
(4) a regional cost allocation method for the cost of new transmission facilities selected in a regional transmission plan for purposes of regional cost allocation. [4]

In Order 1000, FERC referred to the competitive solicitation process that it had approved in the ISO's revised transmission planning process proposal, and stated that "*this Final Rule permits a region to use or retain an existing mechanism that relies on a competitive solicitation to identify preferred solutions to regional transmission needs, and such an existing process may require little or no modification to comply with the framework adopted in this Final Rule*." In Order 1000-A, FERC provided some clarification to the requirements of Order 1000 and required that each planning region must have a clear enrollment process that defines how entities, including non-public utility transmission providers, make the choice to become part of the region.

Management believes that the ISO's existing transmission planning tariff provisions largely comply with the requirements of Order 1000. In particular, the ISO's planning process for transmission additions and upgrades inside the ISO's footprint already contains many of the provisions required by Order 1000, including most notably:

- A framework for developing and approving policy-driven transmission projects which address the needs of federal and state policy requirements;
- A competitive solicitation process that provides an opportunity for non-incumbent transmission developers to propose to build and own transmission elements which the ISO finds to be needed in its transmission planning process; and
- A cost allocation methodology for allocating the costs of projects that provides regional benefits across the ISO footprint.

Through a comprehensive stakeholder process, Management reviewed the requirements of Order 1000 and identified modifications to the ISO tariff that it believes are necessary to comply with the order. Management did not consider tariff modifications suggested by stakeholders that were unrelated to and beyond the scope of Order 1000 compliance.

Accordingly, Management proposes the following modifications to the ISO tariff to comply with Order 1000, as well as provide increased clarity and transparency with respect to the planning process and competitive solicitation process for needed transmission upgrades and additions:

[4] Order No. 1000 also requires specification of an interregional cost allocation method(s) for the cost of new transmission facilities that are located in two neighboring transmission planning regions and are jointly evaluated by the two regions in the interregional transmission planning coordination process.

- Elimination of a right of first refusal for incumbent transmission providers to build and own regional transmission facilities, which are generally transmission facilities of 200-kV and above (except for upgrades to existing transmission facilities);
- A right of first refusal for incumbent transmission providers to build and own local transmission facilities which are facilities under 200-kV and located entirely in the retail service territory or footprint of the transmission owner;
- Elimination of a right of first refusal for incumbent transmission owners to build facilities on their own rights-of-way;
- Tariff language reflecting that the ISO will select those solutions to meet reliability needs and enhance the simultaneous feasibility of long-term congestion revenue rights that are the most prudent and cost-effective;
- Tariff language that will add clarity to and increase the transparency of the ISO's competitive solicitation process;
- Conforming tariff changes to provide that (1) costs of local transmission facilities will be allocated to the participating transmission owner that builds them and recovered by that participating transmission owner from customers that use local transmission facilities, and (2) costs of regional transmission facilities will be recovered through an ISO regional access charge;
- An express opportunity for stakeholders to propose public policy requirements and directives that should be considered in the transmission planning process and the ISO's commitment to provide a public explanation as to why it selected specific public policies for consideration in the planning process and rejected others;
- Tariff provisions enabling the ISO to proactively monitor the status of approved facilities and take the necessary actions if projects are not on schedule; and
- A requirement to conduct a competitive solicitation for economically-driven and public policy-driven transmission projects that are abandoned by a previously approved project sponsor before directly assigning construction responsibilities to the participating transmission owner in whose service territory the facility would be located.

POSITIONS OF THE PARTIES

Management conducted a comprehensive stakeholder process that began in December 2011. There were three rounds of ISO proposals followed by stakeholder meetings, web conferences and written comments.

Overall, stakeholders are supportive of both the objectives of this initiative and the proposal developed to meet these objectives. Management kept the focus of the initiative on the tariff amendments necessary to meet the compliance requirements for regional planning and cost allocation and the treatment of non-incumbent transmission developers, and the proposal described in this memorandum reflects that focus. Despite this broad support, some stakeholders have expressed concerns in specific areas.

First, if an approved project sponsor is unable to complete an economic or policy transmission facility, the Southern California Edison Company opposes a backstop obligation to build on the participating transmission owners for such facilities (that is, beyond the backstop obligation that currently exists for reliability driven transmission facilities). In response to this concern, Management has proposed tariff modifications to clarify that for all non-reliability driven transmission facilities, if an approved project sponsor is unable to complete the facility, the ISO will open a new competitive solicitation before directing the participating transmission owner to build it.

Second, several stakeholders raised issues with regard to the ISO's competitive solicitation process. For example, LS Power and Western Independent Transmission Group believe the ISO's reliance on its current competitive solicitation process is not compliant with Order 1000. Management disagrees. As stated earlier, the current ISO competitive solicitation process is FERC approved and FERC referred to it in Order 1000 where it stated: "*this Final Rule permits a region to use or retain an existing mechanism that relies on a competitive solicitation to identify preferred solutions to regional transmission needs, and such an existing process may require little or no modification to comply with the framework adopted in this Final Rule*." Nevertheless, Management is proposing tariff modifications that will add clarity to and increase the transparency of the ISO's competitive solicitation process.

Third, the Sierra Club disagrees with Management's belief that the existing policy-driven transmission category in the ISO's tariff meets or exceeds the requirements of Order 1000 and expresses concerns about stakeholder participation in the ISO's consideration of public policy requirements. The Sierra Club states that the ISO "unduly limits" the scope of public policy requirements to the 33 percent renewable portfolio standard statutory mandate and argues that the ISO's existing tariff erroneously focuses solely on compliance with renewable portfolio standard objectives, even though there are other policy objectives that impact the state's approach to clean energy. The Sierra Club also suggests that the ISO's planning process does not permit stakeholders to participate in the identification of the public policies that should be assessed in the planning process. Management disagrees. The Sierra Club does not correctly characterize the ISO's current transmission planning process. While recent planning cycles have identified the 33 percent renewable portfolio standard mandate as a public policy directive that must be considered, the transmission planning tariff provisions do not limit the evaluation of policy directives and requirements to the renewable portfolio standard goals. Also, contrary to the Sierra Club's claims, the ISO transmission planning process provides numerous opportunities for stakeholders to participate in the identification of public policy objectives that the ISO should consider. Nevertheless, Management is sensitive to this concern and is proposing tariff modifications that will provide an express opportunity for stakeholders to propose the public policy requirements and directives that should be considered in the transmission planning process.

Fourth, the California Consumers Alliance, Sierra Club, and Natural Resources Defense Council have requested that the ISO provide an intervener funding mechanism to facilitate greater non-market-participant participation in the ISO transmission planning

process. Order 1000 does not require intervener funding. Management does not see a current need for such a mechanism. Management offers that ISO staff are available to explain its study results to interested stakeholders and answer question about planning assumptions and other details. If non-market participants believe it would be helpful, the ISO can provide additional, less technical descriptions of its studies and the extent to which alternatives were considered. The ISO stakeholder process is open, transparent and compliant with the requirements of FERC Orders 890 and 1000. It may also be the case that transmission approved for cost recovery through the ISO process will be submitted to the California Public Utilities Commission for permitting, and the Commission process will involve an examination of the ISO's studies and findings. The Commission provides intervener funding and interested parties can avail themselves of intervener compensation in the Commission's process.

A stakeholder comments matrix is attached to this memorandum which provides additional details on the positions expressed by participants, as well as Management's responses to the concerns raised.

CONCLUSION

It is important for the Board to act on this proposal expeditiously. To do so would enable tariff changes to be filed with FERC on a schedule which meets the October 11, 2012 deadline for compliance. Management recommends that the Board approve this proposal.

Attachment A

Stakeholder Process: Decision on FERC Order No. 1000 Compliance Filing

Summary of Submitted Comments

Stakeholders have submitted four rounds of written comments to the ISO:

- Round One: Issue Paper posted February 29, 2012; comments received March 26, 2012
- Round Two: Straw Proposal posted May 22, 2012; comments received June 15, 2012
- Round Three: Draft Final Proposal posted July 10, 2012; comments received July 26, 2012
- Round Four: Tariff language posted August 8, 2012; comments received August 15, 2012

Parties that submitted written comments: California Consumers Alliance (CCA), California Department of Water Resources (CDWR), California Public Utilities Commission (CPUC), Center for Energy Efficiency and Renewable Technologies (CEERT), LS Power, National Resources Defense Council (NRDC), Pacific Gas and Electric (PG&E), San Diego Gas and Electric (SDG&E), Sierra Club, Southern California Edison (SCE), Transwest Express, Western Independent Transmission Group (WITG)

Other parties that participated in meetings or conference calls, but did not submit written comments: Abengoa Solar, APX Power, Bonneville Power Administration, Brightsource Energy, California Energy Commission, California Wind Energy Association, City of Anaheim, City of Riverside, City of San Francisco, Clean Coalition, Customized Energy Solutions, Cogeneration Association of California, Critical Path Transmission, Earth Justice, Exelon, Federal Energy Regulatory Commission, First Solar, GenOn Energy, Independent Energy Producers, Navigant Consulting, Northern California Power Agency, NextEra Energy, NV Energy, NRG, Powerex, Sacramento Municipal Utility District, Shell, Southern California Gas Company, Starwood Energy Group, Sunpower, Thompson Coburn,Trans Bay Cable, Transmission Agency of Northern California, The Vote Solar Initiative, Turlock Irrigation District, Western Area Power Administration, ZGlobal

Stakeholder comments are posted at:
http://www.caiso.com/Documents/FERC%20Order%201000%20compliance%20stakeholder%20comments

Other stakeholder efforts include:

- One stakeholder meeting: March 15, 2012 to discuss issue paper
- Three stakeholder web conferences: June 5, 2012 to discuss straw proposal; July 17, 2012 to discuss draft final proposal; and August 21, 2012 to discuss draft tariff language
- Numerous client services outreach calls

Management Proposal	Participating Transmission Owners	Other Stakeholders	Management Response
1. Overall support for Draft Final Proposal - Stakeholders were asked to select one of the following options to indicate their organization's overall level of support for the Draft Final Proposal: (1) fully support, (2) support with qualification, or (3) oppose.	PG&E – Supports with qualification. SDG&E – Supports with qualification. SCE – Supports with qualification.	CPUC – Supports with qualification. NRDC – Supports with qualification. CCA – Does not have enough information to support. Sierra Club - Opposes. Proposal fails to cure deficiencies that Sierra Club identified regarding public policy requirements process. Disagrees with ISO's position on intervener funding.	Management appreciates the support and constructive participation it has received from stakeholders in this initiative, and has attempted to address issues qualifying this support, as discussed further in the matrix. Management believes its proposal meets the compliance requirements of Order No. 1000.
2. Applicability - Provisions would apply only after FERC approval and only to new transmission facilities on a going-forward basis. Existing transmission and transmission already approved through transmission planning and generator interconnection processes would not be affected.	SCE – Supports.	CPUC – Supports. CDWR – Supports. LS Power – Even if ISO receives FERC approval in March 2013, new rules should still apply to competitive solicitation phase of the ISO transmission planning process.	Management expects that the ISO would be required to apply any tariff amendments to new transmission projects or elements found to be needed in the 2012-2013 transmission planning process, provided FERC issues an order approving the ISO compliance filing without significant modification by February 2013. Receiving an order beyond that point would make it impractical to apply changes to new projects or elements approved in the 2012-2013 transmission plan as that plan must be submitted to the ISO Board for approval in March 2013 and any competitive solicitation process would commence immediately following Board approval.
3. Local versus regional transmission facilities - Retain present 200-kV criterion as basis for local versus regional split and revise tariff to (1) make clear that "high voltage" (at or above 200-kV) transmission facilities are synonymous with regional transmission facilities and that "low voltage" (below 200-kV) transmission facilities are synonymous with local transmission facilities, and (2) add requirement from Order 1000 that a local facility must also be located within retail distribution service territory or footprint of a transmission provider. Going forward, annual transmission plan will describe/identify resulting transmission as either local or regional.	PG&E – Suggests minor revisions to definition of local facilities. SDG&E – Supports. SCE – Supports.	CPUC – Supports. CDWR – Transmission facilities below 200-kV should be classified as local. LS Power – If a project is not solely in a single retail distribution territory or footprint, then it is a "regional" project regardless of voltage level. If any portion of a project is regionally allocated, then it is a regional project. NRDC – Process of incorporating non-transmission alternatives could be outlined more clearly in proposed language.	Management suggests that refinements to tariff definitions for local and regional facilities are best addressed in tariff language development process with stakeholders.

Management Proposal	Participating Transmission Owners	Other Stakeholders	Management Response
4. Exclusive right to build local facilities - Only the participating transmission owners would have right to build and own needed local facilities (competitive solicitation process applies to regional facilities but does not apply to local facilities).	SCE – Supports. PG&E – Supports. SDG&E – Supports.	CPUC – Supports. However, suggests that non-wires alternatives, including storage, should be made available for competitive development if they pass criteria regarding voltage and use of incumbents' existing facilities, regardless of whether they are deemed to substitute for local or regional transmission.	Management believes that its proposed approach is consistent with Order No. 1000. Management disagrees with CPUC's suggestion and reiterates that only non-transmission alternatives that are considered alternatives to a regional transmission facility will be subject to competitive solicitation.
5. Cost allocation - For facilities below 200-kV the costs would be applied to present Low voltage TAC (no regional cost allocation), and for facilities 200-kV and above costs would be applied to present High voltage TAC (regional cost allocation).	PG&E – Supports. SCE – Supports. SDG&E – Supports as long as revisions are not intended to modify existing ISO ratemaking protocols but rather only conform them to the terminology found in Order No. 1000.	CPUC – Supports. CDWR – Supports.	High voltage transmission access charge is appropriate for regional cost allocation as High voltage grid provides benefits across entire ISO region. Low voltage transmission access charge is utility-specific; charged by each participating transmission owner for service taken off of its local transmission. ISO believes existing tariff framework meets requirements and no additional changes are necessary. Proposed terminology changes reflect local/regional terminology of Order No. 1000.
6. Elimination of incumbents' exclusive right to build (often referred to as "right of first refusal") - Order No. 1000 calls for elimination of incumbents' right of first refusal for all projects subject to regional cost allocation, except for upgrades, improvements, additions or replacements of existing participating transmission owner facilities (discussed in Item 9 below).	SCE – Supports proposal as it is consistent with Order 1000. SDG&E – Does not oppose proposal.	CPUC – Supports.	Management believes this change complies with a major requirement of Order No. 1000 and notes that there is no stakeholder opposition to this change.
7. Large Generator Interconnection Procedures facilities and Location Constrained Resource Interconnection Facilities - Management is not proposing changes to who builds these two types of facilities.	SCE – Supports. SDG&E – Supports.	CPUC – Facilities that otherwise meet "regional" criteria, are funded through transmission access charge, and do not constitute upgrades to existing participating transmission owner facilities should be open to competitive development. LS Power – All transmission projects driven by the Large Generator Interconnection Procedures that will get finalized through transmission planning process should be considered	FERC ruled in Order No. 1000 that issues related to the Large Generator Interconnection process and interconnection cost recovery were beyond scope of Order No. 1000. FERC approved the Location Constrained Resource Interconnection Facilities tariff as a just and reasonable variation from Order No. 2003 generator interconnection procedures. Management believes that changes to these two tariff provisions are beyond scope of the compliance filing.

Management Proposal	Participating Transmission Owners	Other Stakeholders	Management Response
		regional.	
8. Elimination of tariff language affirming right of first refusal for existing rights-of-way - Eliminate tariff provisions that provide participating transmission owners with exclusive right to build on their rights-of-way.	SCE – Does not support. Believes existing tariff language is consistent with Order No. 1000. SDG&E – Does not believe these tariff modifications are necessary to comply with Order No. 1000.	CPUC – Supports.	Management believes this change to the ISO's existing tariff language is consistent with Order No. 1000 statements (at paragraph 319) that an incumbent transmission provider's use and control of its existing rights-of-way is governed by state law.
9. Clarification of right of first refusal for existing facilities - Clarify ISO tariff provisions that provide participating transmission owners with the exclusive right to build upgrades on their existing facilities.	SCE – Supports.	LS Power – Reconductoring and tower change outs should be added to definition of existing facilities. Believes there is no right of first refusal on substations.	Management believes its proposed clarification is required so the ISO tariff becomes consistent with clarification provided by Order No. 1000-A at paragraph 426. Management points out the express clarification provided in Order No. 1000-A that identification of reconductoring and tower change outs are merely examples of potential actions that constitute upgrades to an existing transmission facility; Management does not propose to add such examples in ISO tariff. The ISO is not maintaining a right of first refusal for existing substations, but because substations and equipment located within them are existing transmission facilities, permitted right of first refusal for upgrades applies to any upgrade of, addition or improvement to, or replacement of an existing substation or equipment within an existing substation.
10. Selection criteria - Retain project section criteria in current tariff.	SCE – Supports. SDG&E – Supports.	CPUC – Supports. Urges after-the-fact transparency on how selection criteria were applied. LS Power and WITG – Believe the ISO's reliance on its current competitive solicitation process is not compliant with Order No. 1000. WITG – Need greater detail on selection process and in advance how ISO will evaluate competing proposals. After-the-fact explanations do not provide transparency. ISO should assign explicit evaluation weights to selection criteria. LS Power – Believes no nexus has been demonstrated between ISO's	Management disagrees with the opinion of some stakeholders that the ISO's current competitive solicitation process is not compliant with Order No. 1000. The current ISO competitive solicitation process is FERC-approved and FERC referred to it in Order No. 1000. Despite this, Management is proposing tariff modifications that will add clarity to and increase the transparency of the ISO's competitive solicitation process. Further, nothing in Order No. 1000 suggests that the ISO must modify the existing process to require specific weights to be accorded to each selection criteria. Nowhere in Order No. 1000 does FERC require—or even mention—the implementation of a mathematical

Management Proposal	Participating Transmission Owners	Other Stakeholders	Management Response
		competitive bid selection factors and FERC's Order for ISO to select most efficient or cost-effective projects. Believes Order No. 1000 requires clarity and transparency in how winners will be selected and not just a list of factors. ISO must outline in tariff how it will evaluate among competing solutions and resources. Least cost projects should be selected.	methodology for selecting project sponsors that contains pre-established weights in the applicable selection criteria. However, to address stakeholder concerns, the ISO proposal also includes a provision where the ISO will announce before the start of each competitive solicitation process the key factors that will be considered when evaluating proposals for each project.
11. Consideration of public policy requirements – The ISO's current transmission planning process already provides for the identification and consideration, with stakeholder input, of public policy directives and requirements that affect infrastructure needs.		Sierra Club – Disagrees that existing ISO tariff complies with requirements of Order 1000 regarding consideration of public policy requirements. Believes that the ISO's existing tariff erroneously focuses solely on compliance with renewable portfolio standard objectives even though there are other policy objectives that impact the state's approach to clean energy. Suggests that the ISO's planning process does not permit stakeholders to participate in the identification of public policies that should be assesses in the planning process.	Management disagrees. The Sierra Club does not correctly characterize the ISO's current transmission planning process. The ISO's transmission planning tariff provisions do not limit evaluation of policy directives and requirements to renewable portfolio standard goals. The ISO's transmission planning process provides numerous opportunities for stakeholders to participate in identification of public policy objectives that the ISO should consider. Despite this, Management will propose additional tariff language regarding stakeholder opportunities to propose public policy requirements and directives and will include a commitment to provide a public explanation as to why specific public policies were selected for consideration and others rejected.
12. Information requirements during permitting and construction - Additional tariff provisions are needed providing project progress reporting requirements and to address situation in which an approved project sponsor is failing to meet its milestones.	SCE – Supports. SDG&E – Supports.	CPUC – Supports. LS Power – For reliability projects with a delay of more than six months of a critical path milestone and there is material evidence of abandonment or lack of commercially reasonable competence by the project sponsor to advance the project, then project could be taken to ISO Board for reassignment to another project sponsor.	Management believes it is critical that the tariff addresses the need for regular reporting from approved project sponsors as well as a process for addressing possible reliability violations due to project delays. Management will develop this process with stakeholders through the tariff language development process.
13. Backstop obligations of participating transmission owners - The ISO tariff currently provides that if an approved project	SCE – Opposes participating transmission owners having a backstop obligation for economic	CPUC – Supports.	Management has made the following change to its proposal to address SCE's concern: For reliability-driven transmission

Management Proposal	Participating Transmission Owners	Other Stakeholders	Management Response
sponsor is unwilling or unable to complete a project, the ISO may, at its discretion, either direct the participating transmission owner to build it or hold a competitive solicitation.	or policy transmission projects, which Order No. 1000 does not require. Recommends a solicitation for abandoned economic- or policy-driven projects in which participating transmission owner with a service territory could participate if they so desired. If FERC rejects a request for abandoned plant cost recovery for a backstop project, then participating transmission owner should no longer be required to build the project. SDG&E – Supports.		facilities, the ISO may, at its discretion, direct the participating transmission owner to build the facility or the ISO may open a new solicitation. For all other projects, the ISO shall open a new solicitation. Where there remains no approved project sponsor, the ISO shall direct the participating transmission owner to build it. Management does not consider it appropriate to incorporate references to abandoned plant protection in its tariff. However, Management proposes that in the instance an approved project sponsor's abandoned plant cost recovery request is denied by FERC, the ISO would take such action as it reasonably considers appropriate, in coordination with the participating transmission owners and other affected market participants, to facilitate the development and evaluation of alternative proposals.
14. Intervener funding - The ISO does not propose to incorporate a mechanism in its tariff to provide funding for interveners.	SCE – Supports PG&E – Supports.	CDWR – Supports. Sierra Club and NRDC – Disagree with ISO's position. Support intervener funding for stakeholders. CCA – Requests that ISO reconsider its current position on the need for an intervener funding mechanism.	Order No. 1000 does not require intervener funding. Management does not see a current need for such a mechanism. Management offers that ISO staff is available to explain its study results to interested stakeholders and answer questions about planning assumptions and other details. If non-market participants believe it would be helpful, the ISO can provide additional, less technical descriptions of its studies and extent to which alternatives were considered. The ISO's stakeholder process is open, transparent and compliant with the requirements of FERC Orders No. 890 and No. 1000. It may also be the case that transmission approved for cost recovery through ISO process will be submitted to CPUC for permitting and the CPUC process will involve an examination of ISO's studies and findings. Interested parties may avail themselves of intervener compensation in the CPUC process.

Attachment D – Prepared Testimony of Neil Millar

California Independent System Operator Corporation

Order 1000 Compliance Filing

October 11, 2012

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

California Independent System Operator Corporation	**)** **)**	**Docket No. ER13-**

PREPARED DIRECT TESTIMONY
OF
NEIL A. MILLAR

Q. What is your name and who is your employer?

A. My name is Neil A. Millar. I am employed by the California Independent System Operator Corporation (ISO), 250 Outcropping Way, Folsom, California as the Executive Director, Infrastructure Development.

Q. Please briefly describe your employment and educational background.

A. I received a Bachelor of Science in Electrical Engineering degree at the University of Saskatchewan, Canada, and am a registered professional engineer in the province of Alberta.

I have been employed for over 28 years in the electricity industry, primarily with a major Canadian investor-owned utility, TransAlta Utilities, and with the Alberta Electric System Operator and its predecessor organizations. Within those organizations, I have held management and executive roles responsible for preparing, overseeing and providing testimony for numerous transmission planning and regulatory tariff applications. I have appeared before the Alberta Energy and Utilities Board, the Alberta Utilities Commission, the British Columbia Utilities Commission and the California Public Utilities Commission. Since November, 2010, I have been employed at the ISO, leading the Transmission Planning and Grid Asset departments.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to describe the engineering and transmission planning practices and principles supporting the ISO's continued use of its existing cost allocation "split" between high and low voltage transmission facilities under ISO operational control for purposes of identifying and allocating the costs of local and regional transmission upgrades or additions under FERC Order No. 1000.

Q. Please describe the ISO's proposal.

A. The ISO's current tariff recovers the costs of high voltage facilities -- facilities at 200 kV and above -- on a system-wide basis on a simple usage charge to load based on $/MWh. The costs of low voltage networked transmission facilities (facilities less than 200 kV) are allocated to the applicable individual participating transmission owner who recovers the costs through its individual Transmission Owner tariff from its customers that actually withdraw energy from low voltage facilities. Any low voltage facilities that are not networked are not under ISO operational control. Under Order No. 1000, the ISO proposes to utilize the same voltage differentiation to separate new regional transmission projects, projects at or greater than 200 kV, from local projects of less than 200 kV. Specifically, local transmission facilities will be those facilities (or entitlements represented by a converted right) under ISO operational control that operate at less than 200 kV. Regional transmission facilities or converted entitlements are all other facilities under ISO control that are not local or location constrained resource interconnection facilities or merchant transmission facilities. Under the ISO proposal, "regional" facilities essentially constitute the grid's high voltage transmission backbone. Consistent with the ISO's current cost allocation mechanism, the ISO proposes to allocate the costs of regional upgrades or additions to all ISO ratepayers because all ratepayers benefit from the high voltage grid. The costs of local facilities will be allocated to the applicable

participating transmission owner who recovers the costs from its low voltage customers, consistent with its transmission owner tariff.

Q. Please describe the transmission network design origins of the ISO's current high and low voltage cost allocation mechanism.

A. The current high and low voltage cost allocation was developed with stakeholders at the time that the ISO was created and is based on the historic engineering principles used by California's investor-owned utilities in designing their transmission networks. To explain this, one must consider the evolution of the lower voltage transmission system. Much of the existing low voltage transmission system (less than 200 kV) was at one time the highest voltage on the transmission grid.[1] As larger amounts of power were being transmitted greater distances, higher voltage facilities were introduced that eventually created an overlay of first 115 kV or 138 kV facilities, then 220 to 230 kV, and then 500 kV.

Initially, these high voltage systems (200 kV and greater) operated in parallel with the low voltage systems. Flows on the higher voltage and lower voltage systems were balanced based on the equivalent impedances of the different transmission facilities. The lower voltage facilities provided alternative or "backup" paths to the higher voltage transmission lines, as well as connections to lower voltage substations that were located at more frequent intermediate points than the high voltage terminations. As time progressed, load increased and the transmission systems reinforced, the initial high voltage systems were reinforced with other parallel paths at the same voltage, and the parallel paths at low voltages were no longer needed to provide backup to the larger high voltage lines.

However, thermal transfer capabilities are not always at the same ratio as equivalent impedances. This means that operating parallel low voltage facilities

[1] One of the first "long distance" transmission lines in the country- and California's first such line- was the low voltage line built from the hydroelectric facility in Folsom to provide electricity to the capital city of Sacramento.

will eventually limit flows on high voltage systems, especially if the higher voltage grid has redundancy such that it no longer relies on the lower voltage grid for redundancy. The low transmission voltage facilities, instead of providing some level of redundancy or backup to the higher voltage paths, became problematic, because when thermal limits were reached on the sub-transmission systems they risked becoming the limits on the higher voltage path flows as well.

While some level of reinforcement on the low voltage system can be justified, there comes a time where it is no longer practical to reinforce the thermal capacity of the underlying systems to maintain the ability to operate the entire system in parallel configurations.

This has led as a planning philosophy of opening low voltage systems on overloaded transfer paths, while providing redundancy to reinforce the reliability of the low voltage systems either (1) from within a cluster of substations served from the high voltage system or, (2) in the more extreme case, from a single originating high voltage substation. The former arrangement is more common in the PG&E and SDG&E systems, and the latter is more common in the SCE system. That is why the lower voltage facilities of PG&E and SDG&E remain networked and therefore remain under ISO operational control, even though their function is clearly to serve a local load pocket and not to support bulk power delivery on a broad basis across the larger region. The latter approach, of creating local systems and operating 115 kV systems as radial low voltage pockets with all the looped 115 kV facilities in an area closing back to the same source substation, is becoming more common in the SCE system.

In general, the planning decisions made to either continue to reinforce the sub-transmission system to allow continued parallel operation, or to create gaps in the sub-transmission system to divert all bulk power flows up onto the higher voltage systems, tend to be made on a pragmatic, case by case basis considering the cost of transitioning to a more localized sub-transmission operation versus increasing the capacity on the sub-transmission path. The

need to actually provide a parallel path on facilities under 200 kV to support path limits on facilities greater than 200 kV is rarely a consideration.

Q. Explain how these transmission network design principles support a difference in high voltage versus low voltage cost allocation?

A. Given this transition of the use of facilities under 200 kV, it is clear from a reliability planning perspective that facilities at or above 200 kV support broad bulk power transfers that benefit a broader geographic region. On the other hand, existing facilities less than 200 kV generally support local service, and in instances where they remain parallel to high voltage facilities, they remain so only because the transition to higher voltage facilities is occurring gradually, only when increased flow patterns necessitate capital expenditures.

The ISO's original decision regarding high and low voltage cost allocation was based on the implicit understanding of the uses made and the services provided by the high voltage systems and low voltage systems. The high voltage lines allow market participants to engage in trade across the ISO system as a whole and permit consumers to fully reap the benefits of competitive markets. Low voltage facilities do not have such region-wide benefits. In other words, high voltage lines benefit consumers and market participants throughout the region.

The ISO's low voltage facilities do not support bulk energy transmission. These lines primarily deliver energy to localized distribution areas after the energy has already flowed on the bulk system, or they attach to individual generation that is used to serve more localized areas. The low voltage lines do not support flows across the state or between the ISO's transmission owners. Also, they do not support the attachment and delivery of bulk supply resources for delivery throughout the grid. For example, there are no low voltage lines connecting the three investor owned utilities who are participating transmission owners. Further, the City of Banning is the only municipal participating transmission owner served off of a low voltage transmission line, and it is subsumed within the overall boundaries of Southern California Edison Company's footprint.

Q. Was the original basis for the high and low voltage cost allocation framework consistent with the network design principles you described above?

A. Yes. When the ISO developed its existing transmission access charge framework, the ISO identified a number of technical, pragmatic, policy and governance based reasons supporting the high voltage/low voltage differentiation in the existing tariff structure. One of the primary reasons was that "*a single ISO Grid-wide rate for the region's high voltage transmission facilities would further advance the movement toward a regional transmission grid that was not tied to the facilities or service areas of the individual transmission owners. As an ultimate objective, a single postage stamp rate would appropriately reflect the fact that the high voltage regional transmission system benefits consumers and Market Participants throughout the region*."[2]

As I discussed above, at the time the high and low voltage split was developed, the ISO and its stakeholders recognized that the higher voltage lines support regional or inter-PTO area flows (*i.e.,* they provide greater transfer capability over a broad area); whereas the lower voltage facilities primarily support local transmission services, including providing more localized incremental transfer capability. Consequently, events on the higher voltage lines have greater impacts on the entire system, whereas events on the low voltage transmission lines are typically smaller and localized in nature. The higher voltage lines increase the system's ability to withstand extreme disturbance events, whereas, the lower voltage facilities are concerned more with individual local area overload problems (in contrast to cascading outages or similar problems associated with high voltage systems).

Q. Has the ISO found the high/low voltage cost allocation split to reasonably reflect grid operations and customer benefits?

[2] ISO Tariff Amendment No. 27, Docket No. ER00-2019, Transmittal Letter at 8 (March 31, 2000).

A. Yes. The ISO has found that high voltage lines regionally mitigate reliability issues associated with delivering power to more distant load centers. Higher voltage lines reduce congestion and facilitate reserve sharing among load serving entities. These benefits result in annual savings in the form of lower re-dispatch costs, avoidance of curtailments, reduced reserve requirements that must be located within each participating transmission owner's individual system, savings from region wide planning, the promotion of demand response, and system wide access to more competitive energy and ancillary services supplies. High voltage transmission facilities enable the ISO to absorb unexpected changes in frequency that occur from time to time and support adequate voltage levels throughout the system, thereby reducing the risk of voltage collapse and thermal overloads throughout the region. The ISO's high voltage transmission facilities also provide greater market efficiency benefits than low voltage facilities because they allow the ISO to balance supply and demand at the lowest feasible cost. The simple engineering and operational fact is that 230 and 500 kV lines provide these benefits to a significantly greater degree than lower voltage lines (which on the ISO grid range from 55 kV to 138 kV). Thus, the ISO's experience, and experience elsewhere, demonstrates that higher voltage transmission lines can successfully accommodate and reap the benefits of major shifts in the resource mix within the region on a longer-term basis, and can respond to large-scale disruptions which can have wide-spread effects beyond the initial location of the specific event.

Q. How are the high and low voltage facilities under ISO control addressed in the transmission planning process and annual transmission plan?

A. The regional and local differences between the high and low voltage network facilities are clearly illustrated in the ISO's annual transmission plan and related studies. In planning for the ISO controlled grid, the ISO performs two types of assessments -- an assessment for the participating transmission owners' backbone facilities and a separate assessment for the participating transmission owners' local area facilities. As recognized in the ISO's most recent 2011/2012

transmission plan at pages, the PG&E backbone system, traversing the state from the California-Oregon border in the north to past Bakersfield in the south, transfers power between California and other states in the Northwest and western Canada. The high voltage backbone is also a gateway for excess resources located in the sparsely populated portions of northern California, and the system typically delivers these resources to population centers in the Bay Area and Central Valley. Additionally, a large number of generation resources in the central California area are delivered into southern California via high voltage lines. The typical direction of power flows through Path 26 is from north to south during on-peak periods, and in the reverse direction during off-peak load periods. On the other hand, the lower voltage facilities in PG&E's eight separate local areas are primarily designed to transmit energy from local generating facilities and facilitate deliveries within the local areas.

SCE's backbone transmission facilities are designed to meet the bulk of the energy needs for the 13 million people SCE serves. These facilities transmit energy to heavily populated load centers in southern California. SCE's high voltage lines and entitlements also are utilized to facilitate power transfers into southern California on DC and AC transmission lines from the Pacific Northwest and Desert Southwest. The SCE system under the ISO's operational control also includes "small pockets" of 115 kV and 66 kV network transmission facilities which are designed to serve local loads. These same functional distinctions also apply to SDG&E's high and low voltage transmission facilities.

The importance of the high voltage system in enabling regional competition has been further demonstrated by the results of including state public policy mandates into the transmission planning process. The state's 33% renewable energy goal has been driving significant high voltage transmission reinforcements as a large number of utility scale projects seek to connect directly to the high voltage transmission system to transfer large amounts of renewable energy from prime renewable energy locations to load centers. The renewable resource areas are not localized, with each utility sourcing generation adjacent to

its own load centers; rather, the generation generally develops across the state wherever high-quality primary energy sources are available and project permitting is feasible. These renewable generation resources can be under contract to any load serving entity connected to the ISO controlled grid. Accordingly, to accommodate the delivery of increasing amounts of renewable energy to load in California, the ISO to date has approved approximately $7.2 billion in high voltage network upgrades and additions.

There are some smaller generation projects seeking access through the low voltage transmission system as well, but relatively speaking these represent a small amount of the total capacity due to their size. Moreover, these upgrades focus primarily on upgrading the low voltage transmission system to deliver energy either locally or back to the nearest source substation – not to transmit this energy to more distant ISO load centers.

Q. Does this conclude your testimony?

A. Yes, it does.

DECLARATION OF WITNESS

I, Neil A. Millar, declare under penalty of perjury that the statements contained in the Direct Testimony of Neil A. Millar on behalf of the California Independent System Operator Corporation in this proceeding are true and correct to the best of my knowledge, information, and belief.

Executed on this 10th day of October, 2012.

Neil A. Millar