

Memorandum

To: ISO Board of Governors

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

Date: March 13, 2013

Re: Decision on FERC Order 1000 Compliance – Interregional Requirements

This memorandum requires Board action.

EXECUTIVE SUMMARY

Management requests Board approval to file tariff revisions, described herein, which were developed through a comprehensive stakeholder process to comply with the interregional requirements of the Federal Energy Regulatory Commission's Order 1000.¹

FERC issued Order 1000 in an effort to remove perceived barriers to the development of transmission facilities by requiring public utility transmission providers² to improve transmission planning processes and allocate costs for new transmission facilities to beneficiaries of those facilities. To accomplish this, Order 1000 imposes requirements on two specific levels: (1) regional (i.e., ISO system-wide) planning and cost allocation and (2) interregional (i.e., west-wide) planning and cost allocation. The proposal to meet the regional requirements was approved by the Board at its September 13, 2012 meeting and the associated tariff amendments were filed with FERC by the October 11, 2012 deadline. The proposal to meet the interregional requirements is the subject of this memorandum. Order 1000 required that the compliance filing be made by April 11, 2013. On February 26, 2013, FERC granted a 90-day extension to the filing deadline (now July 10, 2013). Despite this late development, Management is on track to meet the original filing deadline and does not recommend delaying compliance. However, Management does intend to take additional time beyond April 11 to engage with stakeholders in developing the detailed tariff language to be submitted as part of the compliance filing.

Management's recommended approach to comply with the interregional requirements of Order 1000 is the product of collaboration between the ISO, ColumbiaGrid, Northern

¹FERC 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."

² The ISO is the public utility transmission provider for the ISO controlled grid contemplated by Order 1000. The ISO must comply with Order 1000 on behalf of its participating transmission owners.

Tier Transmission Group, and WestConnect; henceforth referred to as the “planning regions”. The primary objective of this effort has been for the planning regions to jointly develop a proposal for Order 1000 interregional compliance and subsequent common tariff language for the planning regions, in time to make the original Order 1000 compliance filing deadline of April 11, 2013. Such filings must include a process for interregional transmission planning coordination and a methodology for allocating the costs of interregional transmission projects among the affected planning regions. Management believes that its recommended approach meets these objectives.

Management’s recommended approach to comply with the interregional requirements of Order 1000 builds on the ISO’s regional transmission planning process and provides for an annual exchange of interregional information between the planning regions and an annual interregional coordination meeting open to stakeholders to discuss that information. Further, the recommended approach provides for an interregional transmission project joint evaluation process that builds on the ISO’s regional transmission planning process and provides opportunities for developers of interregional transmission project proposals to submit their proposals simultaneously to each planning region’s regional transmission planning process on a biennial timeframe. Lastly, the proposal provides for an interregional cost allocation process which includes a common methodology for allocating the costs of proposed interregional transmission projects between the planning regions.

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 1000 compliance filing as described in the memorandum dated March 13, 2013; and

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

DISCUSSION AND ANALYSIS

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. While the ISO’s existing regional transmission planning process largely complies with the regional requirements of Order 1000, the ISO’s October 2012 compliance filing proposed tariff amendments to meet the specific regional requirements of Order 1000 with which the ISO’s existing planning process does not already fully align. Therefore, the ISO’s existing regional transmission planning process, with the addition of the tariff amendments proposed in its October 2012 filing, which FERC has not yet ruled on, forms the foundation on which

the ISO is proposing additional modifications to comply with the interregional requirements of Order 1000.

In developing Management's proposed approach for interregional compliance, the ISO utilized the innovative approach of simultaneously relying on two stakeholder processes. One was administered by the ISO with a focus on ISO stakeholder engagement and a second was jointly hosted by the four planning regions with a focus on stakeholder engagement from across the entire Western Interconnection. Both processes issued a series of written proposals to stimulate discussion on several possible approaches to comply with Order 1000 interregional coordination and cost allocation requirements. To obtain stakeholder feedback, both processes included multiple stakeholder meetings and solicited multiple rounds of written stakeholder comments.

Through this comprehensive and innovative stakeholder approach, Management reviewed with stakeholders the requirements of Order 1000 and proposed modifications to the tariff that it believes are necessary to comply with Order 1000. Management did not consider tariff modifications suggested by stakeholders that were unrelated to and beyond the scope of Order 1000 compliance. Accordingly, Management is proposing the following modifications to the tariff to fully comply with the interregional requirements of Order 1000:

- Interregional coordination – The ISO and the other planning regions will annually exchange interregional information regarding each region's most recent information relating to its transmission needs. In addition, the ISO and the other planning regions will hold an annual interregional coordination meeting open to stakeholders to discuss that interregional information. The annual meeting will also provide an opportunity to identify potential interregional solutions and provide status updates on interregional transmission projects being evaluated or previously selected.
- Joint evaluation of proposed interregional transmission projects – The ISO and the other planning regions will provide an opportunity for proponents to submit interregional transmission projects into the regional transmission planning process of each relevant planning region no later than March 31st of any even-numbered year. A proponent need not request interregional cost allocation to obtain joint evaluation by the relevant regions. However, a proponent requesting interregional cost allocation must request it from each relevant planning region. The planning regions will endeavor to accomplish the joint evaluation in a two-year timeframe.
- Interregional cost allocation – Should a proponent of an interregional transmission project make a submittal to the ISO and one or more other relevant regions requesting interregional cost allocation, the ISO and the other relevant planning regions will determine if the proposed interregional transmission project meets any of its regional transmission needs and, if so, determine if it is a more cost effective or efficient solution to one or more of its regional transmission needs. The ISO and other relevant region(s) would then calculate its assigned

pro rata share of the projected costs of the proposed interregional transmission project by multiplying its share of the total benefits by the projected costs of the project. If the relevant regions select the proposed interregional transmission project in their respective regional transmission plan, then each relevant region will apply its regional cost allocation methodology (filed with FERC in the October 2012 compliance filing) to its assigned share of the project costs. If at least two but fewer than all of the relevant regions select the project, then the regions that selected the project will reevaluate whether the project remains selected in light of the costs being shared by fewer regions. This reevaluation will be repeated as many times as necessary.

- Avoided cost approach to assessing benefits – The ISO will assess the benefits of a proposed interregional transmission project in terms of the cost of needed regional solutions that could be eliminated or deferred if the proposed interregional transmission project were selected instead of the regional solution(s). Other regions are proposing different ways for assessing the benefits of interregional transmission projects that are more aligned with their particular approach for measuring benefits under their proposed regional planning process.
- Continually assess the progress of selected interregional transmission projects against the timing of identified regional needs – If a selected interregional transmission project is not making satisfactory progress, the ISO would have to “de-select” it and return to the regional solution(s) and proceed with phase 3 (i.e., the competitive solicitation phase) of the ISO’s transmission planning process.
- Path forward for selected interregional transmission projects – Project implementation issues (such as project financing, ownership and construction, operational control, scheduling rights and other matters) were not addressed in Order 1000 and are therefore outside the scope of the order. However, once an interregional transmission project has been selected in the ISO comprehensive transmission plan and the transmission plans of all relevant planning regions, Management proposes to coordinate with the project proponent and the other relevant planning regions to address project implementation issues.

POSITIONS OF THE PARTIES

Management conducted a comprehensive stakeholder process that began in September 2012. Management posted three proposals (an issue paper, a straw proposal and a draft final proposal), held four stakeholder meetings and received four rounds of written comments from stakeholders. This was in addition to the parallel stakeholder process held jointly by the four planning regions.

Overall, stakeholders are supportive of the proposal developed to comply with the interregional requirements of Order 1000. Management kept the focus of the initiative on the tariff amendments necessary to meet the compliance requirements and the proposal described in this memorandum reflects that focus. Despite this broad support, some stakeholders have expressed concerns in specific areas.

The first area is Management's proposed process for interregional coordination which includes an annual exchange of interregional information and an annual interregional coordination meeting open to stakeholders to discuss that interregional information. Several stakeholders (CPUC staff, PG&E, and public interest groups³) have requested that greater specificity be added in this area. Management appreciates the desire for additional details beyond that described in the proposal and intends to address the need for additional details in the tariff development and business practice manual stakeholder processes. SCE suggests that the process should be sufficiently flexible to allow for additional interregional coordination meetings and information exchanges. Management agrees and believes that the proposed process is sufficiently flexible to allow for this. TransWest Express comments that the proposed process should make use of transmission planning information developed under the auspices of the WECC Transmission Expansion Planning Policy Committee and the DOE-sponsored Regional Transmission Expansion Planning initiative. Management believes that the proposed process is sufficiently flexible to take this transmission planning information into consideration.

The second area is Management's proposed process for joint evaluation of interregional transmission projects submitted into the regional transmission planning process of each relevant planning region. SCE commented that it would be beneficial to have additional detail regarding the timing and interaction between planning regions once each planning region has completed its assessment of an interregional transmission project's benefits. CPUC staff requested additional detail on how the evaluation of interregional transmission projects will occur within the ISO's transmission planning process and whether that will occur under existing or modified structure and timelines. Management intends to address these details in the tariff development and business practice manual stakeholder processes. The public interest groups want to ensure that all aspects of the joint evaluation are open and transparent. Management points out that per Order 1000 each planning region has a responsibility to ensure that its regional transmission planning process is open and transparent and that it provides for meaningful stakeholder participation. Management is committed to an open and transparent evaluation of interregional transmission projects and believes that the ISO's regional transmission planning process already provides for that. PG&E does not support the proposed approach of requiring that all proposed interregional transmission projects be subject to the two-year joint evaluation process. PG&E would prefer an alternative process be made available for the evaluation of certain interregional transmission projects, such as those interconnecting PG&E with a non-Participating Transmission Owner already interconnected with the ISO controlled grid (e.g., the Sacramento Municipal Utility District or the Western Area Power Administration). More specifically, PG&E would prefer that these projects be evaluated in one annual cycle of the ISO's regional transmission planning process without requiring they be subject to the proposed two-year evaluation. In Management's view, such projects would constitute the interregional transmission projects contemplated in Order 1000 and therefore require a careful evaluation of the extent to which they can meet one or more identified

³ Combined comments of the Natural Resources Defense Council, Western Resources Advocates and The Vote Solar Initiative.

regional needs of the ISO planning region more efficiently or cost effectively than regional solutions identified to meet those needs. Management's proposed process is intended to do precisely that and does not believe it is in ratepayers' interest to cut short the two-year evaluation process that Management is proposing be used for interregional transmission projects. That said, it is not Management's intention to create an inflexible process. In cases where the evaluation of a proposed interregional transmission project does not necessarily require two annual cycles of evaluation, Management believes its proposed process contains sufficient flexibility to address these situations. However, in the case of most proposed interregional transmission projects, Management believes a full two year evaluation will be necessary.

The third area is Management's proposed process for each relevant planning region to determine its benefits using its own benefits assessment methodology (ISO will use an avoided cost approach to assessing benefits) and its assigned pro rata share of projected costs for those interregional transmission projects requesting interregional cost allocation from all relevant planning regions. Both SCE and the Interstate Renewable Energy Council question whether the proposal for each planning region to have its own unique (not common) benefits assessment methodology is consistent with Order 1000. Management has five responses to this comment. First, Management believes Order 1000 is quite clear that a common benefits assessment methodology is not required but that a common methodology for allocating the costs of interregional transmission projects among the relevant regions is required. Second, a significant starting assumption agreed to by the planning regions in developing a common compliance proposal was that each planning region's regional compliance filing (i.e., the October 11, 2012 filings) would be accepted by FERC and that this includes each planning region's respective methodology for assessing benefits. Third, an equally significant starting assumption agreed to by all four planning regions was that the interregional requirements of Order 1000 are intended as an additional layer of process on top of the foundational regional transmission planning processes and, as such, material changes to those underlying regional transmission planning processes are unnecessary. Fourth, consideration of material changes to the underlying regional transmission planning processes would make it impossible to develop a common compliance proposal and still meet the filing deadline. Fifth, in assessing whether an interregional transmission project could eliminate one or more regional solutions, a planning region's method for assessing the benefits of an interregional transmission project cannot be inconsistent with its own unique methodology for assessing the benefits of the regional solutions in the first place. PG&E commented that an interregional transmission project proponent should be afforded the opportunity to provide analysis supporting project benefits that are not otherwise considered in a region's own evaluation process. Management believes that its proposal does not preclude the provision of such supporting analysis and will address this detail in the tariff develop and business practice manual stakeholder processes. CPUC staff commented that the potential benefits of a proposed interregional transmission project should be calculated based on the same methodology that the ISO uses in evaluating economic-driven projects in its regional transmission planning process. Management believes that there is some confusion associated with its proposed avoided cost

approach to evaluating the benefits of interregional transmission projects. To clarify, Management is not proposing an approach that explicitly assesses the benefits of a proposed interregional transmission project; rather, the assessment of the benefits of an interregional transmission project is implicit in the avoided cost approach. This is because the interregional transmission project would have to provide at least the same benefits as the regional solution identified in the ISO's regional transmission plan that the interregional transmission project would eliminate or defer. The public interest groups expressed concern about how the planning regions will resolve any disagreements over the potential benefits and costs of a proposed interregional transmission project. In response, Management believes that the planning regions would seek to resolve such differences by conferring with the other planning regions and with stakeholders.

The fourth area is Management's proposed approach for addressing project implementation issues (including, but not limited to, project financing, ownership and construction, operational control, scheduling rights and other matters) once an interregional transmission project has been selected in the ISO comprehensive transmission plan and the transmission plans of all relevant planning regions. Several stakeholders, including the California Department of Water Resources, SCE, the public interest groups, and the Interstate Renewable Energy Council, recommend that further details be developed for addressing project implementation issues. In the case of interregional transmission projects that eliminate regional projects or elements identified to meet a reliability need, SCE recommends that the resolution of the project implementation issues must be completed some number of years (e.g., seven) prior to the reliability need date identified for the project. Management is committed to working further with stakeholders to address these issues in the tariff development and business practice manual processes.

A stakeholder comments matrix is attached which provides additional details on the positions expressed by participants, as well as Management's responses to the concerns raised.

CONCLUSION

The ISO and the other planning regions have produced a joint proposal that improves planning coordination, provides opportunities for developers of interregional transmission projects and establishes a common method for allocating the costs of such projects amongst the planning regions. Management has carefully considered stakeholder concerns in developing and refining this proposal and has appropriately limited tariff modifications to the scope of Order 1000 compliance requirements.

Management recommends that the Board approve this proposal.