

Memorandum

To: ISO Board of Governors

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

Date: September 7, 2012

Re: **Decision on Participating Transmission Owner Application of Valley Electric Association, Inc.**

This memorandum requires Board action.

EXECUTIVE SUMMARY

In June 2012, Valley Electric Association, Inc. (Valley Electric) submitted an application to the California ISO to become a participating transmission owner. Valley Electric and its wholly-owned subsidiary, Valley Electric Transmission Association, LLC own certain 230 kV and 138 kV transmission facilities in Nevada which will be placed under the operational control of the ISO. A new Transmission Access Charge Area (TAC Area) for Valley Electric is needed to allocate Valley Electric's capacity procurement costs solely to Valley Electric.

Management requests that the Board of Governors approve the ISO's acceptance of the Valley Electric application and requests that, upon execution of the Transmission Control Agreement, Valley Electric become a participating transmission owner, subject to the Federal Energy Regulatory Commission accepting Valley Electric's transmission owner tariff and transmission revenue requirement. Management also requests that the Board create a new TAC Area called North Central and assign Valley Electric to that TAC Area.

Moved, that the ISO Board of Governors approve the ISO's acceptance of the application of Valley Electric Association, Inc. for participating transmission owner status, conditioned on (1) Valley Electric Association, Inc. executing the Transmission Control Agreement and (2) the Federal Energy Regulatory Commission accepting a transmission owner tariff and transmission revenue requirement for Valley Electric Association, Inc., as described in the memorandum dated September 7, 2012; and,

Moved, that the ISO Board of Governors approve the ISO's creation of a new Transmission Access Charge Area called North Central and assignment of Valley Electric Association, Inc. to the North Central Transmission Access Charge Area, as described in the memorandum dated September 7, 2012.

DISCUSSION AND ANALYSIS

In accordance with the procedures established pursuant to section 4.3 of the ISO tariff and section 2 of the Transmission Control Agreement, Valley Electric submitted an application on June 21, 2012, that proposed turning over operational control of Valley Electric's 230 kV and 138 kV transmission facilities and entitlements to the ISO.

In order for an applicant to become a participating transmission owner in the ISO, sections 2.2.3 and 2.2.5 of the Transmission Control Agreement require that the ISO accept the application and permit a party to become a participating transmission owner if the ISO determines that:

- The transmission lines and associated facilities to be placed under the ISO's operational control can be incorporated into the ISO controlled grid without any material adverse impact on its reliability;
- Incorporating such transmission rights will not put the ISO in breach of applicable reliability criteria and its obligations as a member of the Western Electricity Coordinating Council (WECC);
- The ISO has no outstanding objections regarding any of the applicant's transmission facilities or entitlements;
- The applicant is capable of performing its obligations under the Transmission Control Agreement; and
- All applicable regulatory approvals of the applicant's transmission owner tariff have been obtained.

Valley Electric satisfies the first element because incorporation of Valley Electric's system into the ISO controlled grid was studied by the ISO and no impacts to reliability were identified. The ISO anticipates that Valley Electric will satisfy the second element by becoming certified and registered with WECC and NERC as a transmission operator, and by entering into a Coordinated Functional Registration Agreement with the ISO that delineates Valley Electric's and the ISO's respective responsibilities with respect to the NERC transmission operator functional requirement. The ISO and Valley Electric are currently finalizing the Coordinated Functional Registration Agreement, and the ISO understands that Valley Electric is moving forward with WECC and NERC on the certification and registration process. Valley Electric satisfies the third element, as the ISO has no objection to Valley Electric's transmission facilities or entitlements because the facilities proposed to be transferred to ISO operational control meet the applicable reliability criteria, the facilities are not subject to any encumbrances, and technically the facilities can be integrated into the ISO controlled grid. Valley Electric also satisfies the fourth element because Valley Electric, as a member-owned electric cooperative, is an experienced transmission owner and operator and will perform the operational obligations under the Transmission Control Agreement. These obligations include compliance with ISO operating orders, the transmission maintenance standards, and other actions associated with the physical transmission facilities themselves. Valley Electric has been very responsive to the ISO during the participating transmission owner application process and has demonstrated its willingness to perform obligations associated with the Transmission Control Agreement.

The fifth element is addressed through the conditional nature of the Board's approval. Valley Electric has advised that it intends to file its transmission owner tariff and associated transmission revenue requirement with FERC once the Board approves its application. The proposed motion states that FERC acceptance of these filings is an express condition of accepting Valley Electric as a participating transmission owner. If Valley Electric does not complete all of these requirements, including FERC approval, then the ISO would not agree to accept Valley Electric as a participating transmission owner.

A new TAC Area is needed for Valley Electric because the ISO's settlement systems allocate local capacity procurement costs by TAC Area. If the ISO were to procure local capacity for Valley Electric, due to the configuration of Valley Electric within the ISO balancing authority area, it is appropriate to establish a separate TAC Area for allocation of these costs. The ISO proposes to create a North Central TAC Area and to assign Valley Electric to that new TAC area to appropriately allocate Valley Electric's unmet capacity procurement costs solely to Valley Electric.

POSITIONS OF THE PARTIES

As required by section 2.2.2 of the Transmission Control Agreement, the ISO posted Valley Electric's application for participating transmission owner status on the ISO website on June 27, 2012 for a 60 day comment period ending August 27, 2012 to give interested parties an opportunity to review the application and submit comments to the ISO. The ISO did not receive any comments.

CONCLUSION

Management recommends that the Board approve the ISO's acceptance of Valley Electric's application for participating transmission owner status conditioned on (i) Valley Electric's execution of the Transmission Control Agreement and (ii) acceptance of Valley Electric's transmission owner tariff and transmission revenue requirement by FERC.

Based on the criteria set forth in the Transmission Control Agreement, Management has concluded that the application submitted by Valley Electric satisfies all of the requirements for acceptance.

Management also recommends that the Board approve the ISO's creation of a new TAC Area and assignment of Valley Electric to the North Central TAC Area.