

February 18, 2015

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

**Re: California Independent System Operator Corporation
Docket No. ER13-1470
Compliance Filing**

Dear Secretary Bose:

The California Independent System Operator Corporation (“CAISO”) submits this filing to comply with the Commission’s order issued on December 18, 2014 in the above-referenced proceeding.¹ In that order, the Commission accepted tariff revisions submitted by the CAISO and other utilities in the western United States to comply with the interregional transmission planning coordination and cost allocation requirements of Order No. 1000, subject to a further compliance filing.

I. BACKGROUND

On May 10, 2013, the CAISO and other western public utilities, on behalf of the CAISO, Columbia Grid, WestConnect, and Northern Tier Transmission Group, filed revisions to their respective open access transmission tariffs to comply with the interregional transmission coordination and cost allocation requirements of Order No. 1000. In the December 18 Order, the Commission conditionally accepted the interregional compliance filings effective October 1, 2015, subject to a further compliance filing.

With respect to the CAISO, the December 18 Order noted that the CAISO’s Commission-approved regional cost allocation methodology does not include any regional determination of benefits to be applied to regional and interregional transmission facilities. Instead, under its regional cost allocation methodology the CAISO allocates the costs of regional transmission facilities to all users of the CAISO controlled grid based on their actual MWh use of the system. Accordingly, the Commission stated that it was unclear how the CAISO would determine regional

¹ *Public Service Company of New Mexico, et al.*, 149 FERC ¶ 61,247 (2014) (*December 18 Order*).

benefits, stated in dollars, resulting from a proposed interregional transmission facility, pursuant to its regional cost allocation methodology, such that the planning regions can each determine their *pro rata* and total shares of interregional transmission facility costs to determine whether the proposed interregional facility is a more efficient or cost-effective solution to a regional transmission need than an identified regional solution.²

The Commission found that the CAISO's interregional cost allocation methodology did not fully comply with Interregional Cost Allocation Principle 1 of Order No. 1000.³ The Commission stated the CAISO's proposed method to assign a dollar value to the benefits it will consider in allocating the costs of an interregional transmission facility pursuant to the proposed interregional cost allocation method differs from the other western filing parties. Specifically, the Commission noted that NTTG, Columbia Grid, and WestConnect "assign a specific dollar amount to the benefits (*e.g.*, avoided costs, production costs savings, reduction in reserve sharing requirements, and reducing line losses) of an interregional transmission facility."⁴ However, the Commission noted that unlike the other western filing parties, the CAISO proposed an avoided-cost only approach to select an interregional transmission solution in its regional plan if the CAISO determines that the proposed interregional solution is a more efficient or cost-effective solution to meet a regional transmission need and can be constructed and operational in the same time frame as the regional transmission solution.⁵ The Commission found that the CAISO's avoided cost-only approach to estimate regional transmission benefits is inconsistent with Interregional Cost Allocation Principle #1 of Order No. 1000 that requires the cost of a new interregional transmission facility to be allocated to each planning region in a manner that is at least roughly commensurate with the estimated benefits for the transmission facility in each planning region. The Commission stated that the differences between the CAISO's avoided cost-only method and the other planning regions' avoided cost-plus other benefits method could result in CAISO paying disproportionately lower share of costs for an interregional transmission project. The Commission noted that in its regional transmission planning process the CAISO considers benefits such as congestion costs and transmission losses in addition to avoided costs when evaluating projects.⁶ The Commission noted that such an approach to interregional cost allocation would allow for an accounting of interregional transmission facility benefits and promote greater consistency between neighboring regions.⁷ Accordingly, the Commission directed the CAISO to submit a compliance filing that remedies the discrepancy between the estimation of regional benefits among the four regions.

² December 19 Order at P 159.

³ *Id.* at P 165.

⁴ *Id.*

⁵ *Id.*

⁶ *Id.* at P 166.

⁷ *Id.*

On January 22, 2015, the CASO posted the proposed compliance tariff language on its website. On January 29, 2015 the CAISO held a conference call with stakeholders on which it discussed the tariff language with and provided a couple of examples of how it would calculate the regional benefits of an interregional transmission project for purposes of cost allocation among planning regions. Subsequently, the CAISO posted the examples, which are set forth below.

The CAISO discusses its compliance with the Commission's directives below.

II. COMPLIANCE WITH THE DECEMBER 18 ORDER

To comply with the Commission's directive, the CAISO proposes to revise sections 24.17.2 and 24.17.3 of its tariff to include a method for quantifying the regional benefits of an interregional transmission project for purposes of interregional transmission cost allocation and determining whether the proposed interregional project is a more efficient or cost-effective solution to a regional transmission need than the regional solution identified by the CAISO. Specifically, for purposes of allocating costs for an interregional transmission project, the CAISO will determine the regional benefits of an interregional project to the CAISO, in dollars, by calculating: (1) the net cost of the regional transmission solution for which the interregional transmission project eliminates or defers the regional need, where net cost is the cost of the regional transmission solution minus net economic benefits determined in accordance with tariff section 24.4.6.7 and the Business Practice Manual for Transmission Planning Process; and (2) the regional economic benefits of the interregional transmission solution consistent with section 24.4.6.7 of the ISO tariff and the Business Practice Manual for Transmission Planning Process.

The following examples show how the CAISO's proposed methodology for calculating regional benefits would work in practice.⁸

Example for Policy or Reliability Driven Project:

Determining CAISO benefits for purpose of Interregional Transmission Project cost sharing (24.17.3)

Cost of Regional Solution = \$100M

Regional project economic benefits = \$20M (e.g. losses, production simulation benefits)

Net Cost of Regional Solution = \$100M - \$20M = \$80M

⁸ On its call with stakeholders, the CAISO agreed to provide greater detail -- along the lines of the foregoing examples -- in its Business Practice Manual for Transmission Planning Process showing how the benefits calculation would work in practice.

Economic Benefits of Interregional Project = \$30M

CAISO benefits of proceeding with interregional project that eliminates the regional solution: \$80M plus \$30M = \$110M

CAISO share of cost of interregional project = \$110M x Cost of interregional project ÷ (sum of \$110M plus benefits to other regions as determined by their methodologies)

Assume the CAISO share of the interregional project is \$100 million

From CAISO perspective (in considering the overall costs and benefits as per 24.17.2):

Regional solution costs \$100M, economic benefits of \$20M, net cost of \$80M

Interregional solution costs (CAISO) \$100M, benefits \$30M, net cost of \$70M

The interregional project would be preferred.

Example for an Economically Driven Project:

Determining CAISO benefits for purpose of Interregional Transmission Project cost sharing (24.17.3)

Cost of Regional Project = \$100M

Regional project economic benefits = \$120M (e.g. losses, production simulation benefits)

Net Cost = \$100M - \$120M = -\$20M

Economic benefits of Interregional Project = \$130M

CAISO benefits of proceeding with interregional project that eliminates the regional solution = -\$20M + \$130M = \$110M

CAISO share of cost of interregional project = \$110M x cost of interregional project / (sum of \$110 Million plus benefits to other regions as determined by their methodologies)

Assume the CAISO share of the interregional project is \$100 million

From CAISO perspective (in considering the overall costs and benefits as per 24.17.2):

Regional solution costs \$100M, economic benefits of \$120M, net cost of -\$20M (e.g., savings of \$20M)

Interregional project costs (ISO) \$100M, benefits \$130M, net cost of -\$30M (e.g. savings of \$30M).

Interregional project would be preferred.

In accordance with the Commission's directive, the CAISO proposes to move from an avoided cost-only method to calculate regional benefits to an avoided cost-plus other benefits method. The compliance tariff language takes into account the actual savings the CAISO achieves from the foregone regional project plus the benefits to the CAISO of the interregional project. Importantly, the CAISO's methodology will calculate the regional benefits of an interregional project, **in dollars**, just as the other western planning regions are doing.

By determining the regional benefits of an interregional transmission project consistent with tariff section 24.4.6.7, the CAISO's proposed methodology will consider, in addition to avoided costs, benefits such as "reduction in production costs, Congestion costs, Transmission Losses, capacity or other electric supply costs resulting from improved access to cost-efficient resources." This is consistent with the benefits considered by the other planning regions as recognized by the Commission in paragraph 165 of the December 18 Order, *i.e.*, avoided costs, production cost savings, reduction in reserve sharing requirements, and reducing line losses).

The CAISO has reviewed its proposed tariff revisions with the other western planning regions. The proposed tariff language fits within Section 5.2(c) of the common tariff language, which applies to the "regional cost allocation, as applied to ITPs." The CAISO's revisions in section 24.17 set forth a methodology for determining the regional benefits, in dollars, of an interregional project to the CAISO and provide a means for allocating the costs of an interregional project to the CAISO. Accordingly, no changes to the common tariff language or other transmission providers' tariff language is necessary.

III. Materials Provided in this Compliance Filing

In addition to this transmittal letter, this compliance filing includes Attachments A and B. Attachment A contains clean CAISO tariff sheets reflecting the tariff revisions described above. Attachment B shows these revisions in black-line format.

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If there are any questions regarding this filing, please contact the undersigned.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon the parties listed on the official service list in the captioned proceedings, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom this 18th day of February, 2015.

S/ Sarah Garcia
Sarah Garcia

Attachment A – Clean Tariff Records
Order 1000 Interregional Second Compliance Filing
California Independent System Operator Corporation

24.17 Evaluation of Interregional Transmission Projects

In coordination with other Planning Regions and in accordance with the Order 1000 Common Interregional Coordination and Cost Allocation Tariff Language set forth in Section 24.18, the CAISO will assess whether proposed Interregional Transmission Projects provide more cost effective or efficient solutions to regional transmission needs than proposed regional solutions and should be included in the comprehensive Transmission Plan. The CAISO's evaluation will generally be conducted in a two year evaluation cycle as set forth in this section, but could be concluded earlier if all Relevant Planning Regions complete their assessments to allow an earlier decision.

24.17.1 Submission of Interregional Transmission Projects

Starting at the beginning of the first even-numbered calendar year after the effective date of this section 24.17, and at the beginning of every even-numbered year thereafter, the CAISO will initiate a submission period in which proponents may request evaluation of an Interregional Transmission Project. The date upon which the submission period begins will be as set forth in the Business Practice Manual and the CAISO will provide notice of this date to interested parties. The submission window will close on March 31. Interregional Transmission Project proponents must use the forms and satisfy the technical and other requirements set forth in the Business Practice Manual for Transmission Planning.

24.17.2 Interregional Transmission Project Assessment

During the planning cycle in which an Interregional Transmission Project is submitted, the CAISO will make a preliminary assessment as to whether the submitted project could potentially meet a regional need by eliminating or deferring the need for a regional transmission solution. The CAISO, working with its stakeholders, will then develop an initial estimate of the benefits, in dollars, of the CAISO share of the costs of the Interregional Transmission Project, determine whether it meets the regional reliability, economic, or public policy need identified by the CAISO in the transmission planning process, and use such information to determine if the Interregional Transmission Project will more cost effectively or efficiently address the regional transmission solution identified in the comprehensive Transmission Plan consistent with Tariff Sections 24.17.2 and 24.17.3. The CAISO determination will consider and compare the benefits and costs of the regional transmission solution and the estimated CAISO benefits and CAISO costs of the Interregional Transmission Project which eliminates or defers the regional need consistent

with Tariff Section 24.4.6.7 and the applicable Business Practice Manual. If the Interregional Transmission Project could potentially meet a regional need more cost-effectively and efficiently than the regional transmission solution and the project proponent has properly requested Interregional Cost Allocation from each Relevant Planning Region, the CAISO will confer with the Relevant Planning Regions, consistent with Section 24.18.4, to determine the assignment of Interregional Transmission Project costs to the CAISO. Based on this initial assessment of Interregional Transmission Project benefits, the CAISO cost share assignment and the urgency of the need for a regional transmission solution, the CAISO will determine whether to further evaluate the project during the next planning cycle. Should the CAISO determine that the need for the regional solution is not urgent, the CAISO will defer approval of the regional solution until the Interregional Transmission Project assessment is concluded in the second cycle.

24.17.3 Selection in the Comprehensive Transmission Plan

During the second planning cycle after an Interregional Transmission Project is submitted, the CAISO will conduct a more in-depth analysis of the Interregional Transmission Project which will include a consideration of the timing in which a regional solution is needed and the likelihood that the proposed Interregional Transmission Project will be constructed and operational in the same timeframe as the regional solution. The CAISO will also determine the regional benefits of the Interregional Transmission Project to the CAISO that shall be used for purposes of allocating any costs of the Interregional Transmission Project to the CAISO. The CAISO shall determine those regional benefits to the CAISO, in dollars, by calculating (1) the net cost (cost of regional transmission solution minus its economic benefits determined in accordance with Tariff Section 24.4.6.7 and the applicable Business Practice Manual) for which it eliminates or defers the regional need, plus (2) the regional economic benefits of the Interregional Transmission Project determined in accordance with Tariff Section 24.4.6.7 and the applicable Business Practice Manual. If the CAISO determines that the proposed Interregional Transmission Project is a more efficient or cost effective solution to a regional need and the Interregional Transmission Project can be constructed and operational in the same timeframe as the regional solution, the CAISO will identify such facility as the preferred solution and recommend it for approval by the CAISO Governing Board in the comprehensive Transmission Plan. The CAISO will also identify the regional

transmission additions or upgrades that were initially identified but were eliminated by selecting the Interregional Transmission Project. Once an Interregional Transmission Project has been selected in the CAISO comprehensive Transmission Plan and the transmission plans of all Relevant Planning Regions, the CAISO will seek to coordinate with the project proponent, the other Relevant Planning Regions and all affected transmission providers to address project implementation issues, including, project financing, cost overruns, ownership and construction, operational control, scheduling rights and other matters related to the Interregional Transmission Project.

24.17.4 Interregional Transmission Project Cost Recovery

The designated owner of the Interregional Transmission Project shall recover the CAISO's assigned share of the Interregional Transmission Project costs through its Regional Transmission Revenue Requirement as approved by FERC.

24.17.5 Monitoring the Status of Interregional Transmission Projects

The CAISO will monitor the progress of an Interregional Transmission Project selected in the comprehensive transmission plan to meet regional needs with regard to the status of the project owner, financing, permitting, construction, and other milestones pertinent to the completion and commercial operation date of the Interregional Transmission Project. Such monitoring may include a request for periodic reports from the project sponsor and the Relevant Planning Region or affected transmission provider who are sharing the costs of the project. The CAISO shall make available to all Participating TOs with which the project interconnects all information about the status of the project and its progress towards completion and energization. As necessary, the CAISO will hold a call with such Participating TO to review whether the project completion date for the Interregional Transmission Project owner can reasonably be expected to be met and to review any other items of concern to either the CAISO or the Participating TO.

24.17.6 Delay in Interregional Transmission Project In Service Date

If the CAISO determines that the Interregional Transmission Project completion and energization date has been delayed beyond the date upon which the regional transmission solution was found to be needed, the CAISO shall issue a Market Notice stating that it is necessary for the CAISO, the Interregional Transmission Project owner and the applicable Participating TO 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 to the CAISO or Participating TO. If the potential NERC Reliability Standards violations or other issues of material concern cannot be promptly and adequately addressed, the CAISO shall reconsider the need for a regional solution and identify a regional solution to supplant the Interregional Transmission Project. The CAISO will use its best efforts to identify such a regional solution during the planning cycle in which the CAISO determined that the Interregional Transmission Project would not be completed and energized in the identified timeframe to meet the regional need originally identified in the comprehensive Transmission Plan. The regional solution may consist of the same transmission elements that were originally identified in the comprehensive Transmission Plan in which the Interregional Transmission Project was selected, or it may be a different transmission or non-transmission solution.

Attachment B – Marked Tariff Records
Order 1000 Interregional Second Compliance Filing
California Independent System Operator Corporation

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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 to the CAISO or Participating TO. If the potential NERC Reliability Standards violations or other issues of material concern cannot be promptly and adequately addressed, the CAISO shall reconsider the need for a regional solution and identify a regional solution to supplant the Interregional Transmission Project. The CAISO will use its best efforts to identify such a regional solution during the planning cycle in which the CAISO determined that the Interregional Transmission Project would not be completed and energized in the identified timeframe to meet the regional need originally identified in the comprehensive Transmission Plan. The regional solution may consist of the same transmission elements that were originally identified in the comprehensive Transmission Plan in which the Interregional Transmission Project was selected, or it may be a different transmission or non-transmission solution.