



Memorandum

To: Grid Reliability/Operations Committee
From: Kellan Fluckiger, Vice President, Operations
Stephen Greenleaf, Director of Regulatory Affairs
Armando Perez, Director of Grid Planning
CC: ISO Board of Governors; ISO Officers
Date: October 20, 1999
Re: *Long-term Grid Planning Policy*

EXECUTIVE SUMMARY

This memorandum requires Board action. Management is requesting Board resolution of three fundamental policy issues related to Long-Term Grid Planning:

- Should the ISO develop and implement a competitive solicitation for alternatives to identified transmission projects and how should that process be structured?
- Should the ISO sponsor "economic" transmission projects?
- How should the costs of non-wires projects selected in Part II of the planning process be recovered?

In August, responding to stakeholder comments, the Board directed Management to continue seeking to build stakeholder consensus on the overall policy direction and implementation details. Based on policy issues approved by the Board in June, we met with stakeholders to seek to reach further agreement. Not all stakeholders agree that issues contained in the list of June Board policy decisions were settled in June. In other cases, there was agreement that the issues were no longer relevant or did not require action. The outstanding issues, which have been vetted through four stakeholder meetings since August, fall into five categories: Foundational Issues; Fundamentals of the Two-part Process; Cost-Recovery Issues; Implementation Details-RFP; and Implementation Details-Form of Contract. From within this list of 23 outstanding issues and certain of the issues resolved in June, Management has distilled three outstanding policy questions for Board consideration. Resolution of these policy issues will allow us to finalize the implementation details of the ISO's long-term grid planning process through planning procedures. **Attachment A** graphically demonstrates how resolution of these fundamental policy issues will facilitate resolution of the remaining outstanding issues.

Since the August Board meeting a series of five stakeholder meetings and conference calls have been held, on September 3, September 7, September 20, September 27 and October 15. Stakeholders have also been offered additional opportunities to provide written comments on outstanding issues. There is no "consensus" yet, so the overriding issue for the Board is "why act now?" The option most stakeholders support is to treat each remaining question separately, flesh out all the details and come to resolution before moving forward with any tariff language or Board action. There is no doubt that the remaining questions need to be answered, and they will be, through a combination of pilot projects and continued stakeholder development. Management believes, however,

that this approach has significant drawbacks and, significantly, no upside. Waiting to act has the following serious drawbacks:

- Political activity is underway at various state agencies to clarify roles and responsibilities with respect to electric system reliability and supply, both short term and long term;
- Article 3 of AB 1890 provides the ISO not only with specific responsibilities for long-term grid planning, but also responsibility for the processes that will be used to actualize them;
- The RTO NOPR contemplates a strong affirmative role for the RTO in planning. The only FERC RTO requirement the ISO does not yet meet is to have the lead role in planning. The ISO is an RTO and we believe that fully defining and articulating responsibility and process is necessary to strengthen the ISO role in planning in order to be fully consistent with the NOPR principles;
- Uncertainty is damaging to the market because it produces mixed signals and results in collective “breath holding” while both generation and transmission projects are held hostage to the uncertainty;

Thus, it is critical to get both roles and processes clarified. For the reasons above, ***Management believes now is the time to set the policy, file the tariff changes and continue to work through the active stakeholder group to fill in the framework.*** It is likely that this process will take well into the next year. It must be completed in time to issue the first Part II RFP, which we expect to be ready in the spring.

Therefore, Management recommends the following motion:

MOVED, that the Committee recommends that the Board:

- ***Establish the following policies concerning long-term grid planning:***
 - ***a formal solicitation for competitive alternatives (the “two-part” process) shall be used, including, for sponsors of transmission projects subject to rate of return regulation, that that the expenditure will be deemed prudent only if the final cost comes within the range submitted in the sponsor’s competitive bid;***
 - ***the ISO may act as the Project Sponsor of an economic transmission expansion project as a “backstop” if:***
 - ***no other sponsor is forthcoming;***
 - ***the Board approves the project; and***
 - ***the beneficiaries of such project are identified pursuant to the procedure outlined in existing tariff language, including, if necessary, resolution of the issue through ADR;***
and
 - ***costs of non-wires projects (i.e. generation or demand-side management programs that are selected in lieu of expansions to the ISO’s transmission grid) shall be recovered as a transmission related expense item;***
- ***Direct Management to continue working with stakeholders on completing, consistent with Board policy, the necessary tariff revisions and Long-Term Grid Planning policies containing implementation details; and***
- ***Authorize the President and Chief Executive Officer or his designee, to finalize the ISO Tariff language provided as Attachment B to the memorandum dated October 20, 1999, consistent with Board policy, and to file such tariff language with the Federal Energy Regulatory Commission in December, 1999.***

BACKGROUND

Why is it necessary to do something now?

One question that has been raised regards the need to act. It has been suggested that it would be better to treat each remaining question separately, flesh out all the details and come to resolution before moving forward with any tariff language or Board action. This is certainly an option. Management believes that this approach has significant drawbacks and no upside. There is no doubt that the remaining questions need to be answered, and they will be, through a combination of pilot projects and continued stakeholder development.

For the reasons above, ***Management believes now is the time to set the policy, file the tariff changes and continue to work through the active stakeholder group to fill in the framework.*** It is likely that this process will take well into the next year. It must be completed in time to issue the first Part II RFP that should be ready in the spring.

Project Timeline and Stakeholder Process

In August, responding to stakeholder comments, the Board directed Management to continue seeking to build stakeholder consensus on the overall policy direction and implementation details. To create a framework for further stakeholder discussions, Management outlined the policy issues approved by the Board in June and distributed this list to the Board subsequent to the August meeting. Based on that list, Management and stakeholders attempted to reach agreement on what issues were resolved by the Board in June.

Attachment A indicates how resolution of the fundamental policy issues will facilitate resolution of the remaining outstanding issues. ***Attachment B*** reflects the issues on which there is consensus. In certain cases, there was not agreement on whether issues were fully resolved in June. In other cases, the issues were no longer relevant or did not require action. ***Attachment B*** summarizes the status of the June policy issues and highlights where changes were made to accommodate stakeholder concerns. The attached Tariff language, ***Attachment C***, reflects the policy issues resolved by the Board to date. ***Attachment D*** reflects those issues that remain outstanding or unresolved and Management's position on those issues. These outstanding issues, which have been vetted through four stakeholder meetings since August, fall into five categories: Foundational Issues; Fundamentals of the Two-part Process; Cost-Recovery Issues; Implementation Details-RFP; and Implementation Details-Form of Contract. The proposed response to stakeholder concerns regarding the form and substance of the PTO annual planning process is a planning procedure (see ***Attachment E***). From within this list of 23 outstanding issues and certain of the issues Management believes the Board resolved in June, Management has distilled three outstanding policy questions for Board consideration. Resolution of these policy issues is the "fork in the road" we need to take to finalize the implementation framework of the ISO's long-term grid planning process.

This policy initiative has involved a lengthy process with substantial stakeholder input and changes to the proposal in response to that input. The ISO first began discussing issues surrounding long-term grid planning in April, 1998, with White Paper No. 1. The ISO then developed White Papers 2 and 3. These initial grid planning concepts led to the development of Strawperson 1 in March, 1999, Strawperson 2 in April, 1999, and Strawperson 3 in May, 1999. The ISO's conceptual efforts culminated in the development of the long-term grid planning framework presented to a special Grid Ops Committee meeting in May and then approved by the Board in June, 1999. In June the Board also directed Management to develop the implementation details of the proposal for presentation at the August meeting. In August, due to stakeholder concerns about the readiness of the implementation details, the Board deferred approval of the Tariff changes and directed Management to engage in additional collaboration with stakeholders.

Since the August Board meeting a series of five stakeholder meetings and conference calls have been held, on September 3, September 7, September 20, September 27 and October 15. Stakeholders have also been offered additional opportunities to provide written comments on outstanding issues. For more information regarding stakeholder feedback, please see the **Position of the Parties** section below.

The timeline below outlines the process through which the ISO has developed a Long-Term Grid Planning process. The timeline demonstrates the effort put forth by stakeholders and Management in fashioning an approach to grid planning that satisfies and ensures the reliability of the grid through cost-effective expansion.

1998

April 30 White Paper No.1
July 17 White Paper No.2
October 20 White Paper No.3

1999

February Board update on long-term planning issues
March 18 Strawperson I
April 20 Strawperson II
May 11 Strawperson III
May 14 Special Grid Ops Meeting to discuss Grid Planning
June 23-25 ISO Board approves conceptual framework
August 5 Stakeholder meeting to discuss implementation details and solicit feedback
August 11 MIF Update
August 18 Stakeholder conference call to discuss draft tariff language
August 19 Management recommendation sent to Board
August 25 ISO Management presented implementation details at Grid Ops Committee meeting
August 26 ISO Management presented implementation details at ISO Board meeting
September ISO Management and Stakeholders continue to address policy issues.
October 15 Stakeholder conference call to discuss approach and recommendations for October Board meeting
October 27 ISO Management presents fundamental policy issues at Grid Ops Committee meeting
October 28 ISO Management presents fundamental policy issues at ISO Board meeting
Fall 1999 Continue with development of implementation framework, including:
 1) development of Form of Contract between ISO and Generator/Load selected under Part II competitive solicitation;
 2) further refinement of Planning Procedures; and
 3) development of Part II request for Proposals (RFP).
February 2000 Management presents to Board ISO's first ISO Controlled Grid-wide integrated grid plan. Part I completed.
Spring 2000 First Part II process initiated. Management and stakeholders continue to address outstanding issues and refine the grid planning process.

ISSUE STATEMENT AND OPTIONS TO SOLVE PROBLEM OR DEAL WITH THE ISSUE

Should the ISO develop and implement a competitive solicitation for alternatives to identified transmission projects?

- Option 1: Develop and implement a formal competitive solicitation with binding bids (two-part process).
- Option 2: Do not develop and implement a formal competitive solicitation but instead rely on an informal or case-by-case approach to weighing alternatives to transmission investment (one-part process).

Should the ISO develop and implement economic projects?

- Option 1: The ISO should serve as Project Sponsor in the event that an essential economic transmission expansion project is identified and no other sponsor is forthcoming.
- Option 2: The market alone will decide where, when and if an economic project is built.

How should the costs of non-wires projects be recovered?

- Option 1: The ISO and the non-wires project sponsor would submit the contract for filing at FERC, and justify the cost of each non-wires contract. Subsequent to FERC acceptance, the ISO would pass the costs incurred under such contract along to the applicable PTO, who would recover such costs in its transmission rates.
- Option 2: The costs of non-wires contracts would be charged as a stand-alone component of the ISO Tariff and the rates collected by the PTOs.

CRITERIA FOR DECISION AND PROS AND CONS OF EACH OPTION

Criteria for Decision

The following criteria were used to arrive at Management's recommendations for each option:

- Will the option result in the development of an integrated transmission plan that ensures both reliability and cost-effective solutions?
- Will the option result in an appropriate lead role for the ISO in grid planning?
- Will the option result in a market-driven solution?
- Will the option result in the development of proper price signals?

Policy Question 1: Should the ISO develop and implement a competitive solicitation for alternatives to identified transmission projects and require binding bids?

A summary of the application of the criteria to the options is as follows:

1. Should the ISO develop and implement a competitive solicitation for alternatives to identified transmission projects and require binding bids?	Option will result in integrated plan ensuring reliability and cost-effective solutions	Option will result in appropriate lead grid planning role for the ISO	Option will result in market-driven solutions	Option will result in the development of proper price signals
Option 1: Option 1: Develop and implement a formal competitive solicitation	Yes	Yes	Yes	Yes
Option 2: Do not develop and implement a formal competitive solicitation but instead rely on an informal or case-by-case approach to weighing alternatives to transmission investment.	No	No	Possible	Yes

As noted, two options were considered: 1) a formal and structured competitive solicitation for alternatives to identified transmission projects (the “two-part” process); and 2) a one-part process without identified transmission projects. The structured competitive solicitation is more likely to provide timely, clear and appropriate signals to the market on the need for transmission expansion and the possibilities for generation and load-based projects to satisfy the ISO’s transmission system reliability needs. A one-part process, even if it considers alternatives to proposed transmission projects on a less formal basis, will be less likely to provide the market clear and timely opportunities to explore and consider proposing alternatives to transmission projects.

While a less formal alternatives analysis may reduce the overall grid planning process timeline and may provide the ISO more discretion in considering alternatives (*i.e.*, the ISO would not be bound by the more formal structure and criteria proposed to be implemented under the proposed Part II solicitation), the structured process envisioned will provide for more transparent signals to the market on the need for transmission expansion and possible alternatives to such expansion.

In addition, completion of an initial transmission assessment (Part I of the two-part process) will ensure the best transmission proposals are determined. This would not be the case with a one-part process. Moreover, a more formal and structured process, where the ISO is bound to satisfy certain threshold criteria, will provide Participating Transmission Owners and their customers the assurances they need that the ISO is making correct, cost-effective decisions. To the extent market participants and FERC approve the process by which alternatives are selected, it is less likely the results of the process will be challenged and brought into question later.

A related and important sub-issue is the nature of the bids submitted in response to the Part II RFP. We believe that requiring binding bids is a necessary prerequisite to a successful competitive solicitation. If respondents, whether a transmission, generation or load-based project, are able to secure payments from the ISO and/or transmission customers that are widely divergent from the bids received in Part II, the results of the Part II

process and the viability of the whole approach will be questioned. Therefore, we believe that binding bids are essential to establishing a credible competitive solicitation.

Management is aware and sensitive to the concerns raised by stakeholders of the difficulty of submitting binding bids for projects that may be operational a few years out in the future. This risk can be included in a market-based bid (such as for generation) and, in fact, independent power developers regularly take this risk. The issue is problematic, however, for rate of return regulated transmission owners. The ISO would not limit a PTO's Federal Power Act rights to file for changes to its transmission rates, but the issue is what the ISO's position should be in such proceedings. We consider it appropriate to support cost recovery at FERC of a PTO's costs incurred pursuant to the planning process, with transmission owners required to submit binding bids, with a reasonable ceiling limit, so as to ensure a credible competitive solicitation process.

Policy Question 2: Should the ISO develop and implement economic projects?

A summary of the application of the criteria to the options is as follows:

2. Should the ISO develop and implement "economic" projects?	Option will result in integrated plan ensuring reliability and cost-effective solutions	Option will result in appropriate lead grid planning role for the ISO	Option will result in market-driven solutions	Option will result in the development of proper price signals
Option 1: The ISO should serve as Project Sponsor in the event that an essential economic transmission expansion project is identified and no other sponsor is forthcoming.	Yes	Yes	Possible	Yes
Option 2: The market alone will decide where, when and if an economic project is built.	Possible	Possible	Yes	Yes

The market should be, and will be, be the primary source for economic projects. However, we also believe that the ISO must ensure that essential economic transmission projects get identified and built. Absent the ISO assuming such a "backstop" role, we believe that economic projects that clearly benefit the market or state as a whole, but the costs of which cannot be reasonably borne by individual market participants, may not be built.

The alternative option is to let market forces alone dictate whether an essential project gets built. This alternative ignores the possibility that there may be instances in the future where an economic project may have the potential to provide far greater benefits than its cost to consumers but at the same time, market participants have little incentive to build it. For example, new generation may be unwilling to bear the costs of expanding transmission capability into a constrained area or import zone, while incumbent generation, located within the import zone which benefits from a higher market clearing price and the local Participating Transmission Owner, who

receives congestion revenue, have little incentive to expand import capability into the zone. In such circumstances, however, the potential savings to the market as a whole (both from reduced energy prices and expanded opportunities for new generation) justify expansion of the grid.

Certainly, there a number of factors exist in today's market that may constrain transmission investment. Such constraints include potential change to the Access Charge and the effective retail rate freeze. The downside of ISO sponsorship of economic projects is the potential reluctance of market participants to step forward and sponsor projects if they believe the ISO will sponsor such projects. Moreover, ISO sponsorship could also involve the ISO in certain tedious and time-consuming disputes over the cost-responsibility for such projects. Thus, the policy question is whether, despite these concerns, the ISO should have an appropriate backstop role in facilitating the development of economic transmission projects, particularly when we believe ISO sponsorship of an economic project will be rare and that the Board will have to be fully convinced that the benefits outweigh the burdens?

Policy Question 3: How should the costs of non-wires projects be recovered?

A summary of the issues and application of the criteria is provided below:

3. How should the costs of non-wires projects be recovered?	Option will result in integrated plan ensuring reliability and cost-effective solutions	Option will result in appropriate lead grid planning role for the ISO	Option will result in market-driven solutions	Option will result in the development proper price signals
<p>Option 1: Performance Contracts for non-wires projects filed at FERC and passed through to PTOs. PTOs shall then charge for and seek recovery of the non-wires projects in the same manner as they would charge for and seek recovery of costs for transmission facilities.</p>	<p>Yes</p>	<p>Yes</p>	<p>Yes</p>	<p>Yes</p>
<p>Option 2: The ISO and PTOs would be responsible for charging for and seeking recovery of the costs of non-wires projects from customers as a stand-alone component of their respective rates.</p>	<p>Yes</p>	<p>Yes</p>	<p>Yes</p>	<p>No</p>

In the first instance, the ISO would contract with such non-wires projects and would file such contracts at FERC. The ISO would bear the responsibility of justifying the costs of such contracts at FERC. Upon acceptance of the contracts for filing at FERC, the ISO would pass the costs incurred under such contracts along to the applicable Participating Transmission Owner, pursuant to the relevant provisions of the ISO Tariff, who would then recover such expenses through its transmission rates.

The strength of this proposal is that transmission customers will see more accurate price signals for transmission, as opposed to transmission rates that do not reflect the full cost of providing service. The downside of this approach is that it will require FERC to approve recovery of non-wires costs in transmission rates; an approach heretofore prohibited under FERC's generally applicable precedent. In addition, recovery of non-wires costs through transmission rates will require the ISO to maintain the delicate balance between paying generators a locational incentive to locate where they will benefit the transmission system and subsidizing their market activities.

An alternate option, authorizing the ISO to charge for, and seek recovery for, the costs of such purchases, directly from the Transmission Owner, who would then bill these expense items as a separate, stand-alone charge, is problematic from the standpoint that it would send inappropriate price signals to transmission customers, who would not see the true full cost of transmission.

POSITIONS OF THE PARTIES

As discussed above, a series of stakeholder meetings were held in September and October to fully vet the outstanding issues with market participants. **Attachment F** contains stakeholder comments and questions on the outstanding grid planning issues and the ISO responses to stakeholders.

MARKET ANALYSIS OPINION

The Department of Market Analysis (DMA) agrees with Management that the Board should act now on the three issues presented in this Memorandum. These are fundamental design issues which can be resolved today in a manner that is consistent with both a sound Grid Planning process and a vision of the ISO's role in that process as articulated in AB 1890 and the FERC RTO NOPR. To delay deciding these issues would not likely lead to new insights and a better decision, but would instead postpone the significant effort still required to resolve the outstanding policy issues and specify the needed implementation framework.

DMA supports the two-part planning process. The two-part process is crucial to efficient and cost-effective long-term system expansion, because it provides a transmission-based framework in Part One that serves as a reference against which alternative projects, including non-wires as well as transmission projects, must compete in Part Two. We also agree that the bids submitted in Part Two should be binding in order to provide an accurate reference for the Part Two comparisons, with a reasonable margin of error in the cost estimates to allow for unavoidable cost over-runs. A future development of this process may be to consider expanding the scope of the Part Two solicitation to allow parties to offer competing bids on projects that were included in Part One, in addition to proposing new projects. This provision could allow implementation of desirable projects that otherwise might have been priced out of consideration.

Regarding ISO sponsorship of economic projects, we believe the ISO's intervention in the market process should be kept to a minimum. In principle, ISO intervention should be limited to circumstances where dominant market players cause barriers to network reinforcements that would reduce their market power. (The example cited above of a constrained import area suggests such a situation.) At the same time, although it would be desirable to clearly define the circumstances under which the ISO could sponsor economic projects, we believe it is premature, and unnecessary, to be so precise at this time, particularly as the proposed approach to Grid Planning is new and innovative. Instead, we believe that Management's recommendation of a case-by-case assessment by the

Governing Board, with the additional guidelines proposed above, will lead to prudent and efficient decisions. With some experience, such assessments will likely evolve into more well-defined policies regarding ISO sponsorship of projects. We would add, however, that the economic projects identified and sponsored by the ISO should be restricted to only transmission projects.

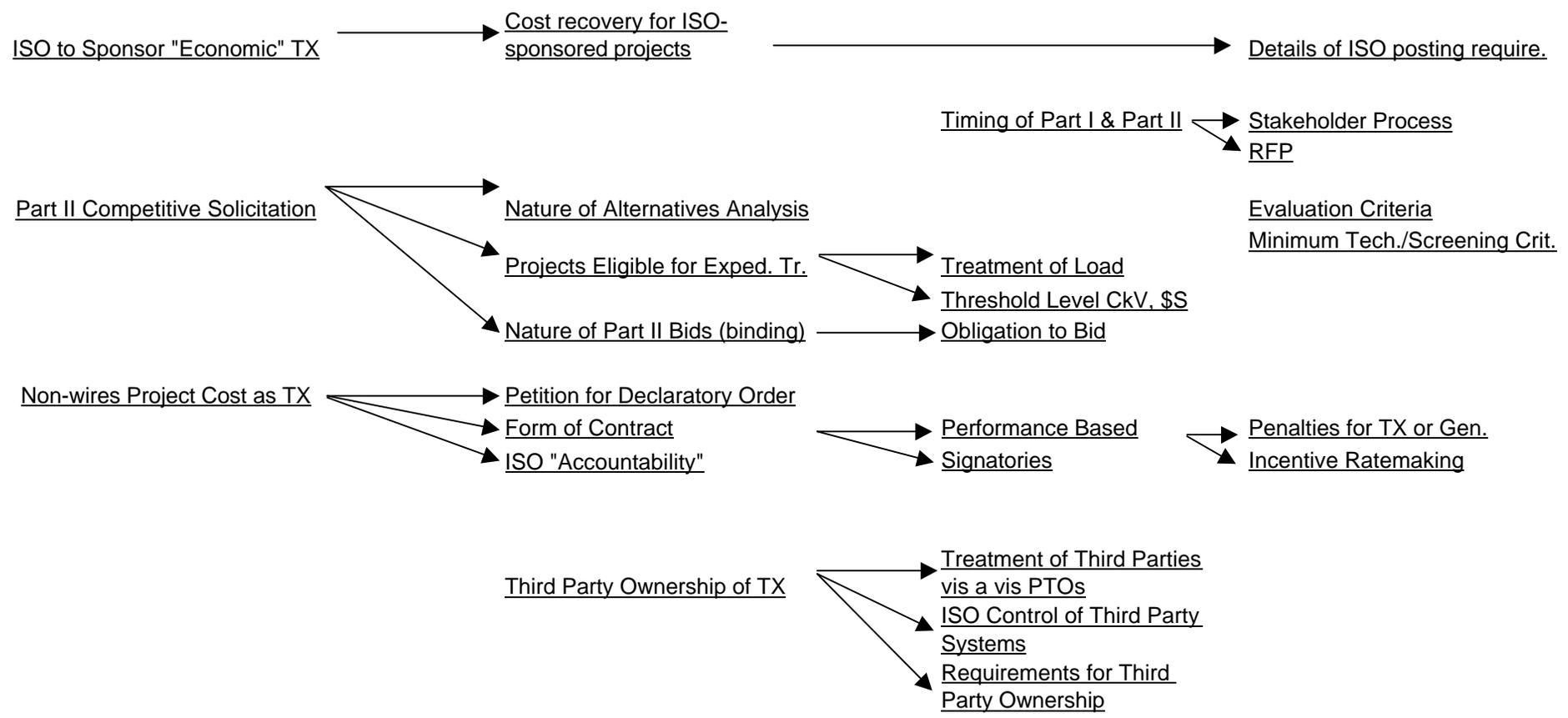
We agree that the costs of non-wires projects should be recovered as transmission-related expenses. This is consistent with the two-part planning approach, where the reference against which the non-wire projects compete is transmission system expansion. It is also consistent with accurate pricing for use of the transmission system.

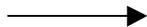
MANAGEMENT RECOMMENDATION

Management recommends Board approval of Option 1 for each of the three policy questions under consideration. In each case, Option 1 best fits the criteria chosen to assess the options: an integrated transmission plan that meets ISO standards for reliability and cost effectiveness, an appropriate lead role for the ISO, and results in market-driven solutions and the proper development of accurate price signals. This entails adopting as policy that the ISO:

- ***Shall establish a formal solicitation for competitive alternatives (the “two-part” process) shall be used, including, for sponsors of transmission projects subject to rate of return regulation, that that the expenditure will be deemed prudent only if the final cost comes within the range submitted in the sponsor’s competitive bid;***
- ***May act as the Project Sponsor of an economic transmission expansion project as a “backstop” if:***
 - ***no other sponsor is forthcoming;***
 - ***the Board approves the project; and***
 - ***the beneficiaries of such project are identified pursuant to the procedure outlined in existing tariff language, including, if necessary, resolution of the issue through ADR; and***
- ***Shall take action to provide that costs of non-wires projects (i.e. generation or demand-side management programs that are selected in lieu of expansions to the ISO’s transmission grid) shall ultimately be recovered as a transmission-related expense item.***

POLICY → IMPLEMENTATION DETAILS





Attachment B

ISO Long-Term Grid Planning Policy Issues

#	June Policy Issues	Revisions to Previously Identified Issues and Map to Draft Tariff Language
1	The ISO has lead role in planning, including the review of annual transmission plans and competitive alternatives	Section 3.2, 3.2.1, 3.2.2 and 3.3.1. Same as previously identified issue No.1.
2	The ISO will develop and publish an ISO-Controlled Grid transmission plan through consolidation of the PTO Annual Transmission Plans, ISO identified/sponsored projects and third party projects (TX and NewGens)	Section 3.2.1. Same as previously identified issue No.2.
3	The PTOs will annually develop transmission plans for their systems consistent with ISO Grid Planning Criteria	Section 3.3.1. See previously identified issue No. 3. Characterization of this issue has been modified based on PTO feedback that their role is more comprehensive.
4	The PTOs should adopt a common format and approach to submitting their annual transmission plans. Specifically, the PTOs should: 1) have a common approach for soliciting stakeholder input; 2) submit the same type of information, in the same format, to the ISO and stakeholders; 3) apply the ISO's Grid Planning Criteria; and 4) develop, open for public comment and submit their Annual Transmission Plans on the same or comparable timetable.	Section 3.3.1. Issues 4 and 5 on the previous version were consolidated. This revised issue statement represents a further delineation of PTO responsibilities based on stakeholder feedback. Stakeholders were concerned that a common approach, with an open stakeholder process, be utilized by the PTOs in developing their annual transmission plans. In response to these concerns the ISO has developed Planning Procedure P-104 (See Attachment G)
5	The ISO can direct PTOs to perform any reasonably necessary studies and the ISO or third-part should pay the costs of PTO studies necessary to support an ISO or third-party sponsored project.	Section 3.3.2. Issues 6 and 8 on the previous version were consolidated. The previous issue statement was modified to reflect that the ISO will apply a "reasonable" standard here.
6	The ISO will conduct a competitive solicitation for alternatives (non-wires) to projects identified in the integrated plan.	Section 3.2.2. Same as previous issue No. 12.
7	The applicable projects identified in the Part I integrated plan will compete against non-wires projects in the Part II competitive solicitation.	Sections 3.2.2.1 and 3.2.2.2. This is a revision to issue No. 13 on the previous list. The revision reflects a fundamental shift, based on PTO concerns, in the ISO's previous position. Management no longer is recommending the publication of a cost "bogey" or benchmark against which non-wires alternatives will compete. Management now recommends that project specifics be provided but that no cost be provided. The proposed tariff language has been modified accordingly. As a result of this revision, Management now recommends that the PTOs bid their TX projects in Part II. A critical Outstanding issue is whether such PTO bids will be binding.
8	Third-party economic sponsored projects and NewGens will not be subject to Part II (where project sponsor has agreed to pay costs of facility).	Section 3.2.2. See previously identified issue No. 17.
9	The Part II RFP will specify minimum performance criteria and information requirements.	3.2.2.2. See previously identified issue No. 18. Based on stakeholder feedback the ISO clarified this issues by stating that "performance" criteria and minimum "information requirements" would be specified in the RFP.
10	The Part II RFP will specify basic evaluation criteria (e.g., cost-	3.2.2.2. See previous issue Nos. 16 and 19.

	effectiveness, subject to operating characteristics, availability, start-date, etc.)-	Management and stakeholders revised this issue to include examples of the type of evaluation criteria that the RFP will contain.
11	The ISO will, to the extent practicable and consistent with its obligations to protect market sensitive information, conduct a transparent, but not open, review of all Part II bids.	Section 3.2.2.3. See previous issue No. 20. This statement represents a change in position on this issue. Based on stakeholder feedback, Management now proposes for the ISO to review all bids without direct involvement of stakeholders. Stakeholders were concerned about respondents participating in the review process.
12	The PTOs and third-parties will seek with all necessary regulatory approvals for PTO and third-party sponsored projects.	Section 3.2.3. Consolidation of previously identified issues Nos. 21 and 22.
13	Non-wires projects selected in Part II will execute contracts specifying that the ISO may call upon the resource to support the system and will specify the payment to such resource for such service.	Section 3.2.3. See previously identified issue No. 23.
14	Payments to non-wires projects will be based on their bids. The premise of the ISO's competitive solicitation is that such bids should be based on such factors as locational cost differences and the benefits of deferring TX projects.	Section 3.2.2. Same as previously identified issue No. 24. See also previous issue No. 15. Management has revised the characterization of payments to non-wires projects to clearly state that payment will be based bids, which should reflect locational cost differences and the benefit of deferring TX investment.
15	The ISO has statutory responsibility for operating the grid reliably. The reliable planning of the grid is a shared function, overseen by the ISO, where the ISO, PTOs, third parties and other stakeholders identify and sponsor needed projects.	Section 3.2 and 3.2.1. See previously identified issue No. 26. Management and stakeholders clarified this issue to reflect that while the ISO has statutory responsibility for grid reliability, reliability is a shared responsibility.
16	The ISO should support ongoing initiatives to consolidate regional planning activities.	Section 3.2.4. See previous issues Nos. 11 and 27. The tariff section reflects certain modifications to the ISO's earlier position. Originally, the ISO had proposed to coordinate regional representation in the regional planning forums (WSCC, WRTA, SWRTA, etc.). The language now reflects that the ISO will actively participate in these forums. Management also revised the language from June to state that no Market Participant can take a position in these forums inconsistent with a decision reached through the ISO's ADR process. This is consistent with the existing tariff language. The ISO had first proposed to no market Participant could take a position inconsistent with the Integrated Plan.

3. RELATIONSHIP BETWEEN ISO AND PARTICIPATING TOs AND GRID PLANNING PROCESS

3.1 General Nature of Relationship.

Each Participating TO shall enter into a Transmission Control Agreement with the ISO.

3.2 Grid Planning Process.

In accordance with its responsibility to ensure the reliable and efficient operation of the statewide transmission system, the ISO will assume the lead coordination role in the Grid Planning Process as defined in this Section 3. The Grid Planning Process consists of two stages: (a) development annually of an Initial Integrated Transmission Plan; **and** (b) **the** Solicitation for Competitive Alternatives to develop and obtain approval of a Final Integrated Transmission Plan.

3.2.1 Initial Integrated Transmission Plan . The ISO will be responsible for developing each year an Initial Integrated Transmission Plan for the **State ISO Controlled Grid** for the next five years. The Initial Integrated Transmission Plan shall consist of the following: (a) a list of transmission projects developed from the consolidation of the Annual Transmission Plans of each of the Participating TOs that have been prepared as described in Section 3.3; (b) a list of transmission projects sponsored

under Section 3.4; and (c) a list of projects developed as part of transmission additions or upgrades in connection with a request for generation interconnection governed by Section 5.7.

3.2.1.1 Development of Initial Integrated Transmission Plan. In developing an Initial Integrated Transmission Plan, the ISO will take the Participating TO's Annual Transmission Plans or projects that the ISO deems necessary through the following steps: (a) direct Participating TOs to perform, consistent with the timeline in the Participating TO's tariff, any System Planning Study or Facility Study that the ISO believes is reasonably necessary to evaluate proposed projects, including studies that allow the evaluation of proposed projects using alternate assumptions, including but not limited to those such as revised load growth, revised levels of generation and alternate projects; (b) solicit, under a reasonable due date, comments by ~~stakeholders, public agencies~~ Market Participants or others on the Annual Transmission Plans of the Participating TOs and any other proposed project, and evaluate such comments; and (c) evaluate the proposals and select those that (i) conform to the ISO Grid Planning Criteria, Applicable Reliability Criteria, and the technical standards for interconnection of any applicable Participating TO or affected UDC, (ii) are cost-effective and (iii) produce expansions and upgrades that are required for the continued reliable and efficient expansion and operation of the ISO Controlled Grid.

3.2.1.2 Timing. The ISO will endeavor to complete its review and submit to the ISO Governing Board for approval an Initial Integrated Transmission Plan within 120 days after the ISO receives the Annual Transmission Plans of the Participating TOs.

3.2.1.3 Publication. The ISO will publish and make available to the public an Initial Integrated Transmission Plan after its approval by the ISO Governing Board.

3.2.2 Solicitation of Competitive Alternatives. In order to assure that the expansion of the ISO Controlled Grid is developed consistent with market principles and is cost-effective, the ISO will conduct a solicitation of competitive alternatives to projects identified in the Initial Integrated Transmission Plan, provided that no alternatives will be sought for projects proposed under Section 3.2.3.1, 3.4 or 5.7 of the ISO Tariff.

3.2.2.1 Request for Proposals. Within thirty (30) days after publication of the Initial Integrated Transmission Plan, the ISO will issue a Request for Proposals for (a) projects proposed and (b) alternatives to those projects identified in years three through five of the Initial Integrated Transmission Plan. The Request for Proposals shall ~~consider~~ seek all forms of alternatives to the projects, including transmission, generation and load or demand-based proposals.

3.2.2.2 Contents of Request for Proposals. The Request for Proposals shall include the following items: (a) identification of the specific projects in the Initial Integrated Transmission Plan for which competitive alternatives are sought; ~~(b) identification of a range of costs for each such project;~~ (bc) establishment of a response date to the Request for Proposals, which shall be at least sixty (60) days after the issuance of the Request for Proposals; and (cd) specification a description of the screening and evaluation criteria that will be used by the ISO in evaluating the responses. The screening and evaluation criteria will be developed by the ISO with input from ~~stakeholders,~~ Market Participants ~~and public agencies~~ and others. The criteria shall include but not be limited to items such as cost, timing, availability, ability to provide service, environmental impact, and safety.

3.2.2.3 Evaluation of Responses to Request for Proposals. The ISO will initially screen the responses and within twenty-five (25) days from the due date of the responses publish a list of responses, while maintaining the confidentiality of market sensitive information, that have passed the screening criteria. ~~The ISO will solicit comments on the responses that have passed the screening criteria, establishing a reasonable due date for such comments.~~ The ISO may choose to direct Participating TOs to perform, consistent with the timeline in the Participating TO's tariff, any System Planning Study or Facility Study that the ISO believes is necessary to evaluate the responses quantitatively or qualitatively, including studies

that allow the evaluation of the responses using alternate assumptions, including but not limited to those such as revised load growth, revised levels of generation or alternate projects.

3.2.2.4 Timing.

The ISO will endeavor to complete its review, seek ISO Governing Board approval of, and issue a Final Integrated Transmission Plan within ninety (90) days after the publication of the list of projects that have satisfied the screening criteria. The Final Integrated Transmission Plan will include the projects selected under the competitive evaluation criteria, as well as all projects developed under Section 3.4 or Section 5.7 of the ISO Tariff that were included in the Initial Integrated Transmission Plan.

3.2.3 Development of Approved Projects.

The development of projects included in a Final Integrated Transmission Plan shall vary depending on the type of project. The development shall be as follows: (a) for projects to be constructed by a Participating TO, the Participating TO shall be responsible for all aspects of the project, including but not limited to obtaining regulatory and siting approval of the project and regulatory approval of any required cost recovery. The ISO will support the regulatory filings by the Participating TO to the extent such filings are consistent with the approved Final Integrated Transmission Plan and, with respect to rate recovery, to the extent the cost the Participating TO seeks to include in its rates is below the top of the estimated cost range submitted

by the Participating TO in its proposal; (b) for projects under Section 3.4 of the ISO Tariff, the Project Sponsor shall be responsible for all aspects of the project, including but not limited to planning, coordination, construction, costs, and regulatory approvals; (c) for projects under Section 5.7 of the ISO Tariff, the responsibilities for all aspects of the project, including but not limited to planning, coordination, construction, costs and regulatory approvals, shall be governed by Section 5.7; and (d) for projects involving generation construction or demand-based projects, the project developer shall be responsible for all aspects of the project, including but not limited to planning, coordination, construction, costs, and regulatory approvals.

The developer of ~~these~~ generation and demand-based projects shall also be required to execute a contract with the ISO giving the ISO the right to call upon the project to provide the necessary support to the ISO Controlled Grid in a manner consistent with the grid needs satisfied by the project and consistent with the cost used in the evaluation of the selected project pursuant to Section 3.2.2.

3.2.3.1 Expedited Planning and Approval Process. In order to expedite the planning and approval of transmission projects needed to maintain the reliability of the ISO Controlled Grid, the ISO will consider, on a case-by-case basis, approving proposed transmission projects on an expedited basis. Projects so approved shall not be subject to the requirements of Section 3.2.2. Transmission projects eligible for expedited consideration

include, but are not limited to, those required by equipment failure, anticipated equipment failure, unanticipated load growth, significant changes in congestion, and other system anomalies which require prompt action to maintain reliability and cannot be addressed through the regular grid planning process. The ISO ~~and Market Participants shall~~will develop and post on the ISO's Home Page ~~appropriate~~ planning procedures that outline the process and timeline for consideration of projects on an expedited basis.

3.2.4 Representation in Regional Coordination Forums. In order to assure consistency with the Grid Planning Process, the ISO will actively participate in all regional coordination forums. The ISO will be a member of WSCC and applicable RTGs and participate in WSCC's operation and planning committees and in the applicable RTG coordinated planning process. No Participating TO, ~~other~~ Market Participant ~~nor~~ the ISO shall take any position before the WSCC or an RTG or other regional coordination forum that is inconsistent with a binding decision reached through the ISO ADR Procedure.

3.3 Information Provided By Participating TOs. Participating TOs shall be responsible to prepare studies or provide information as described in this Section 3.3.

3.3.1 Annual Transmission Plans. Each Participating TO shall develop annually a transmission plan covering a minimum five-year planning horizon for its service area. Such Participating TO shall coordinate with the ISO and other Market Participants in the development of such plan. ~~and all~~ All plans shall adhere to a common methodology or format that has been developed by the ISO in consultation with all the Participating TOs the details of which shall be included in the ISO's planning consistent with the procedures posted on the ISO Home Page. The Participating TO shall be responsible for ensuring that its Annual Transmission Plan meets all Applicable Reliability Criteria, ISO Grid Planning Criteria, and factors in items such as load growth, congestion mitigation, LARS requirements, and known new transmission or generation projects.

3.3.1.1 Disputes Regarding Inclusion of Projects in Annual Transmission Plans. Where a Project Sponsor believes that a transmission addition or upgrade is economically beneficial, but is unwilling to commit to pay the full cost of the addition or upgrade, it may submit its proposal to a Participating TO. If the Participating TO does not include the proposed project in its Annual Transmission Plan, the Project Sponsor may submit its proposal to the ISO ADR Procedure for determination of whether

the project should be included in the Annual Transmission Plan. A determination of whether to include the project shall be made as follows:

3.3.1.1.1 The Project Sponsor shall include in its proposal a showing:

(a) that the economic benefits of the proposed transmission addition or upgrade are expected to exceed its costs (giving consideration to any reasonable alternatives to the construction of transmission additions or upgrades); and (b) a proposed pricing methodology for the transmission upgrades that, to the extent practicable, assigns the costs of the planned upgrades to the beneficiaries in proportion to their net benefits.

3.3.1.1.2 If no Market Participant disputes the Project Sponsor's showing, then the proposal shall be included in the Annual Assessment.

3.3.1.1.3 If any Market Participant disputes the Project Sponsor's showing, then the disputing Market Participant, or the Project Sponsor may submit to resolution through the ISO ADR Procedure the issues of (a) whether the economic benefit of the transmission addition or upgrade exceeds its costs, (b) whether the beneficiaries of the transmission addition or upgrade can or have been reasonably identified, and (c) if so, the identity of those beneficiaries and their respective net benefits. If a Market Participant fails to raise through the ISO ADR Procedure a dispute as to whether a proposed transmission addition or upgrade is economically beneficial, or as to the identity, if any, of the beneficiary, then the Market Participant shall be deemed to have waived its right to raise such dispute at a later date. The

determination under the ISO ADR Procedure as to whether the transmission addition or upgrade is beneficial and the identity, if any, of the beneficiaries, including any determination by FERC or on appeal of a FERC determination in accordance with that process, shall be final.

3.3.1.1.4 Even if it is finally determined that a project should be included in a Participating TO's Annual Transmission Plan, the project shall still be subject to the Grid Planning Process of Section 3.2 of the ISO Tariff and if the project is not included in the approved Final Integrated Transmission Plan, it shall not be ~~constructed~~ interconnected to the ISO Controlled Grid without the ISO's approval and there shall be a presumption that its cost shall not be recoverable in regulated rates.

3.3.2 Other Studies. Each Participating TO shall be responsible for preparing any study or providing any information as directed by the ISO in accordance with Section 3.2 of the ISO Tariff.

3.3.3 Other Information. Each Participation TO shall provide to the ISO any information that the ISO requires to comply with any of its regional coordination responsibilities pursuant to Section 3.2.4.

3.3.4 Costs of Studies. The ISO will be responsible for and pay the cost of any studies it directs a Participating TO to make on its behalf or the

costs of any information it requires the Participating TO to develop in connection with Section and 3.3.2. The Participating TO shall be responsible for the costs of developing the Annual Transmission Plan, including any such studies as may be reasonable necessary as a result of identified deficiencies in the Participating TO's Annual Transmission Plan, and the studies that support such plan, or the need to examine the results of such studies using different assumptions.

3.3.5 Disputes. Any dispute relating to any study or information required to be provided by a Participating TO under Section 3.2 or 3.3, including disputes regarding costs of providing such studies or information, shall be resolved through the ISO ADR Procedures.

3.4 Economically Driven Projects. Where a Project Sponsor commits to pay the full cost of construction of a transmission addition or upgrade and its operation, and demonstrates to the ISO financial capability to pay those costs, such commitment and demonstration shall be sufficient to demonstrate that the project is economically driven. The ISO will include economically driven projects in the next succeeding Initial Integrated Transmission Plan proposed by the ISO, and as long as the project remains economically driven, the project shall be included in the Final Integrated Transmission Plan that is thereafter approved by the ISO

Governing Board. To ensure that the Project Sponsor is financially able to pay the costs of the project to be constructed by the Participating TO, 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.

3.4.1 The ISO may, on its own initiative, identify and become the Project Sponsor of an economic expansion. Any such ISO-sponsored economic expansion shall be included in either the applicable Participating TO's Annual Transmission Plan or the Initial Integrated Plan developed by the ISO, subject to the provisions of Section 3.3.1.1. If approved and included in the Final Integrated Transmission Plan, the applicable Participating TO shall construct the economic project pursuant to Section 3.5.

3.4.1.1 Prior to the ISO sponsoring an economic expansion, the ISO will notify Market Participants of its intention to become the Project Sponsor of an economic expansion. The ISO will post on the ISO Home Page all relevant information regarding the proposed project, including the economic basis on which the ISO believes the project is warranted. If, within thirty (30) days of the ISO's posting, a Market Participant requests to become the Project Sponsor of the proposed transmission project, such Market Participant shall become the Project Sponsor of said project. To

the extent that no Market Participant requests to become the identified Project Sponsor of the project, the ISO will be identified as such and Section 3.4.1 shall apply.

3.5 Construction of Transmission Expansion by Participating TO

A Participating TO shall be obligated to construct all transmission additions and upgrades within its Service Area that are determined to be required to be constructed in accordance with the requirements of an approved Final Integrated Transmission Plan as described in Section 3.2, above. A Participating TO's obligation to construct such transmission additions and upgrades shall be subject to: (1) its ability, after making a good faith effort, to obtain all necessary approvals and property rights under applicable federal, state, and local laws and (2) the presence of a cost recovery mechanism with cost responsibility assigned in accordance with Section 3.6.

3.5.1 Property Rights. The Participating TO shall be obligated to 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 transmission additions or upgrades required to be constructed in accordance with an approved Final Integrated Transmission Plan.. This obligation includes the Participating TO's use of eminent domain authority, where provided by state law.

3.5.1.1 If the Participating TO cannot secure any such necessary approvals or property rights and consequently is unable to construct a transmission addition or upgrade, it shall promptly notify the ISO and the Project Sponsor and shall comply with its obligations under the TO Tariff to convene a technical meeting to evaluate alternative proposals. The ISO shall take such action as it reasonably considers appropriate, in coordination with the Participating TO, the Project Sponsor (if any) 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.

3.5.1.2 Where 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 an approved Final Integrated Transmission Plan (including the use of eminent domain authority, where provided by state law) the ISO may confer on a third party, or the party to whom ownership and control is transferred prior to the in-service date of the project, the right to build the transmission addition or upgrade. Such third party shall enter into a Transmission Control Agreement in relation to such transmission addition or upgrade.

3.6 Cost Responsibility for Transmission Expansions or Upgrades.

Cost responsibility for transmission additions or upgrades constructed pursuant to Section 3.2 (including the responsibility for any costs incurred under Section 3.2.6) shall be determined as follows:

3.6.1 Where a Project Sponsor commits to pay the full cost of a transmission addition or upgrade as set forth in Section 3.4 the full costs shall be borne by the Project Sponsor. Where a project is constructed under Section 5.7, the costs shall be borne as provided in that Section 5.7.

3.6.2 Where the need for a transmission addition or upgrade is determined through an approved Final Integrated Transmission Plan, except for those projects encompassed by Section 3.4 or Section 5.7 of the ISO Tariff, the costs shall be borne by the beneficiaries, in the approximate relative proportions by which they benefit, if those beneficiaries and such proportions can reasonably be determined.

3.6.2.1 If specific beneficiaries cannot be reasonably identified then the cost of the transmission addition or upgrade borne by the Participating TO that is the owner of the transmission addition or upgrade shall be reflected in its Access Charge. Each of the Project Sponsors and specifically identified beneficiaries shall be entitled to receive:

(a) its share of the Wheeling revenues attributable to the transmission addition or upgrade, which shall be allocated to each of the Project Sponsors and specifically identified beneficiaries in the proportion that

the cost of the transmission addition or upgrade borne by it bears to the total cost of the transmission addition or upgrade; and

- (b) a share of any revenues from the auction of Firm Transmission Rights, Congestion Charges for the use of a Congested Inter-Zonal Interface of which the transmission addition or upgrade forms part in the proportion that the incremental transmission capacity of the Inter-Zonal Interface the cost of which has been allocated to it bears to its total transmission capacity.

3.7 Cost Responsibility for Non-wires Projects

The costs incurred by the ISO under each non-wires contract entered into pursuant to Section 3.2.3 shall be payable to the ISO by the Participating Transmission Owner in whose Service Area the non-wires projects are located. Participating TOs will recover such costs as transmission related expenses under their respective TO Tariff.

3.73.8 Ownership of and Charges for Expansion Facilities.

3.87.1 All transmission additions and upgrades constructed in accordance with an approved Final Integrated Transmission Plan shall form part of the ISO Controlled Grid and shall be operated and maintained by a Participating TO in accordance with the Transmission Control Agreement.

3.87.2 The Participating TO that owns or operates transmission additions and upgrades constructed in accordance with an approved Final Integrated

Transmission Plan shall provide access to them and charge for their use in accordance with this ISO Tariff and the TO Tariff.

3.98 Expansion by “Local Furnishing” Participating TOs.

Notwithstanding any other provision of this ISO 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 ISO or Project Sponsor has tendered an application under FPA Section 211 that requests FERC to issue an order directing the Local Furnishing TO to construct such facilities pursuant to Section 3.2 of the ISO Tariff. The Local Furnishing TO shall, within 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 TO shall construct such facilities in accordance with this Section 3.2.

Attachment D

ISO Grid Planning Outstanding Policy Issues

#	Issue Description	ISO Management Position
1	Form of Contract for non-wires projects. What will be length of contract, generation outage provisions, on-line date guarantees, and performance incentives? Generation and demand-based performance contract issues must be addressed, e.g. was the project completed on time and on budget? What are the consequences if the project is completed under or over budget? Does it produce expected or guaranteed system benefits? Does it continue to produce benefits with no more degradation of performance than planned or guaranteed system benefits?	The ISO is in the process of developing a <i>pro forma</i> non-wires performance contract. It is the ISO's intent to circulate the draft <i>pro forma</i> agreement to stakeholders when completed. The ISO intends to submit for filing at FERC the <i>pro forma</i> agreement and will not enter into any non-wires contract prior to FERC acceptance of such contract. In addition, it is Management's position that the ISO will sign and, along with the other party, submit for filing at FERC any such executed contract. The <i>pro forma</i> contract will include all performance and technical requirements to ensure that the resource will be available when called and will enable the ISO to satisfy all applicable reliability criteria.
2	Signatories to Form of Contract.	See response to No.1 above.
3	RFP for Part II solicitation.	The ISO is in the process of developing the RFP that will be issued to begin the Part II process. It is the ISO's intent to circulate the draft RFP to stakeholders when completed. Management anticipates that the form and content of the RFP will be similar to that used for the LARS solicitations. The ISO proposes that such RFP contain explicit requirements as to the minimum amount of information a respondent must provide in response to the RFP. The RFP will also contain the evaluation criteria on which each respondent's proposal will be judged. Such evaluation criteria will also explain whatever weighting the ISO intends to apply in evaluation transmission, generation and load-based projects. The RFP will also specify that each non-wires project selected must execute the <i>pro forma</i> non-wires performance contract, which will be attached to the RFP.
4	Evaluation criteria and weighting factors for RFP. If a PTO is required to build a transmission project, FERC would allow it full recovery of prudently incurred costs as a regulated monopoly. Alternatively, a non-wires solution in lieu of transmission would be compensated at market-based prices. Should the PTO participate in an "explicit" or "implicit" bid solicitation process? An explicit process is one contemplated by the ISO's proposal where a transmission proposal competes head to head with non-wires alternatives. An implicit process could be designed to allow the ISO to integrate the best components of the PTOs transmission plans, which contains non-binding	See response to issue No. 3 above and identified Policy Issue No. 1 in memo.

#	Issue Description	ISO Management Position
	estimates, and non-wires plans, which contain binding bids. These separate transmission and non-transmission plans do not compete head to head. The ISO, however, would integrate both plans into the most suitable for purposes of meeting reliability requirements at reasonable cost.	
5	Minimum/Technical/Screening requirements for RFP; Technical requirements must be stated in the RFP, which participant must demonstrate his ability to meet, e.g. reliability standards of NERC, WSCC, ISO, RMS and an appropriate operating agreement with the ISO.	See response to issue No.3 above.
6	Recovery/allocation of costs for non-wires projects. Is there a need for a Petition for Declaratory Order? Is it appropriate for the costs of non-wires alternatives to be recovered as a component of a transmission charge? Should there be a designation of the FERC USA.	<p>ISO Management believes that the costs of non-wires projects selected pursuant to the Part II process should ultimately be borne by transmission customers. For that reason, Management believes that a petition for Declaratory order is necessary, since FERC ratemaking would typically not permit this type of costs to be included in Transmission rates. The process for recovery of these costs would be as follows:</p> <ul style="list-style-type: none"> • ISO files Petition for Declaratory Order with FERC to seek approval for classification of these costs as TX related; • ISO files <i>pro forma</i> non-wires performance contract with FERC; • ISO files necessary tariff changes to pass these costs through to the PTOs; • ISO conducts Part II solicitation; • ISO submits for filing at FERC the non-wires performance contracts, and, upon FERC acceptance, the contracts become effective; • ISO passes costs of non-wires contracts on to applicable PTO and PTO recovers such costs under applicable PTO Tariff.

#	Issue Description	ISO Management Position
7	<p>Recovery/allocation of costs for third-party TX projects; How will a third party PTO who builds a reliability project recover its costs if it does not have load? From the ISO through Scheduling Coordinators? From the PTO(s)? Others?</p>	<p>ISO Management believes that the recovery of third-party transmission projects will continue as provided for under the existing tariff. To the extent wishes a third party wishes to own a transmission facility, that party would, under certain circumstances, become a FERC-jurisdictional transmission provider. Pursuant to the existing Tariff, that party would become a PTO and would have to execute the TCA and would recover its transmission costs pursuant to the ISO tariff methodology that exists at the time. For purposes of today's tariff, such TP would need to establish an Access Charge and would receive transmission revenues through that Access Charge and the related Wheeling Access Charge, if applicable. Alternatively, a third-party TZ project sponsor could offer to pay the entire cost of a TX project where such project would be built and owned by the applicable PTO. In such instances, the project-sponsor would be entitled to receive any applicable congestion revenues, wheeling revenues and FTRs. Finally, the ISO Tariff currently provides that third-parties can sponsor economic TX projects and, where they do not offer to pay the entire cost of the facility, can attempt to identify the beneficiaries of such project and to have those beneficiaries pay the project's costs. To the extent the identified project beneficiaries contested the identification o beneficiaries, the issue would be resolved according to the ISO's ADR procedures.</p>
8	<p>Recovery of ISO-sponsored TX projects;</p>	<p>See response to issue No. 7. In such instances, Management believes the provisions of the ISO Tariff relating to economic transmission projects would apply.</p>
9	<p>ISO accountability/liability for ISO decisions (TX and non-wires projects); Impact of non-wires projects on reliability. What is the appropriate liability for the consequences of decisions made through this new planning process and nonperformance to be shared, if at all, among the ISO / PTO / third Party liability? Is the ISO to be held accountable as the operator for performance issues, such as lack of performance on the part of third-parties and Generators who may jeopardize the reliability and integrity of the operating system?</p>	<p>See response to issue No.6. ISO Management believes that to he extent the ISO and the non-wires project proponent assume the burden of justifying the cost of non-wires costs (i.e., filing at FERC), then the ISO is properly accountable. ISO Management believes that selection of non-wires alternatives will have no adverse impact on reliability. As long as the ISO adheres to the ISO Grid Planning Criteria, Management believes that reliability will not be compromised. Moreover, as noted above, Management intends that the non-wires performance contract will include necessary performance obligations and penalties that will ensure compliance with reliability standards.</p>
10	<p>Treatment of third-party TOs and PTOs (level playing field);</p>	<p>ISO Management believes that all PTOs should and will be treated comparably.</p>

#	Issue Description	ISO Management Position
11	ISO Operational control of third-party project sponsor's "systems";	Pursuant to the Tariff and the TCA, the ISO will have operational control over all facilities that comprise the ISO Controlled Grid. Pursuant to the TCA, any upgrade to the ISO Controlled Grid becomes part of the grid.
12a	Projects eligible for expedited treatment; Should the proposed planning process should apply to major projects that have regional impacts. In essence, only regional projects would be subjected to bid solicitation. Should there be parameters of cost, size, need, location, etc. that should apply to any project that would be treated under an expedited process?	ISO Management believes that the draft tariff language properly defines the standards under which projects will be eligible for expedited treatment. Management does not support establishment of an arbitrary dollar or voltage level threshold. Basically, Management believe that the tariff language should specify that projects eligible for expedited treatment should include those necessary to address unanticipated events, circumstances or conditions that, absent expedited action, may impair the reliability of the system.
12b	Treatment of interconnections of load (i.e., a distribution/TX substation necessary as a result of distribution level activities).	See response to issue No.12a. Generally, Management believes the same conditions or approach referenced in Issue 12a would apply. However, Management needs more information on the possible circumstances that may arise before making further recommendations.
13a	Potential differences in estimated/bid cost of TX projects versus actual costs and proper role/support from ISO in regulatory proceedings. What will happen to Part II results if costs are different? ? If binding estimates are required, what other bidding alternative strategies would allow a PTOs to manage the risk of cost overruns resulting from construction activities? If PTOs bid in the solicitation is binding for that solicitation and if a PTO wants to recovery more than its solicitation bid, (the PTO will have to justify such a choice before FERC as actual cost) – is the FERC process sufficient if it permits parties to challenge amount a PTO is seeking to recover. Is there a need for the ISO to determine in a stakeholder process what happens if their are potential differences in the bid/cost of PTO transmission projects?	ISO Management believes that binding bids for TX projects submitted as part of the Part II competitive solicitation are necessary. Absent the submission of binding bids, the ISO will be unable to guarantee, to the extent practicable, that projects selected in Part II are the best or most cost-effective solution. ISO Management recognizes the difficulty in PTOs, subject to cost-based regulation, in submitting binding bids for TX projects when preliminary cost estimates for such projects can often vary from actual costs significantly. The end result of requiring binding bids may be that PTOs are forced to submit high bids to cover their risk of cost overruns. One possible solution is to petition FERC to permit PTOs to keep the amount between bids and actuals if actuals are less, or for the PTOs to assume costs if actual costs are higher than estimated. Management also believes that a dead-band approach applying the same principle could work.
13b	PTO obligation to bid (either binding bid or Part I costs)	See issue No. 13a.
14	Potential inconsistencies between ISO Tariff, TCA and TO Tariff and the desirability of making simultaneous coordinated TO Tariff and ISO Tariff filings to the extent necessary.	ISO Management agrees that it is preferable to make simultaneous filings with the PTOs when the ISO Tariff, TCA, and TO Tariffs are all affected. However, we believe that if coordinated action is not possible for timing or preparation reasons, there is no need to delay ISO Tariff changes. The ISO is willing to continue to work with the PTOs on resolving any potential inconsistencies.

#	Issue Description	ISO Management Position
15a	Timing of Part I and Part II;	The timing of Part II is as laid out in the proposed tariff language. Completion of the PTOs annual assessment typically takes around 6 months and it is anticipated to take around another few months for the ISO to develop the integrated plan. Management is hopeful that as the ISO, PTOs and stakeholders develop a common approach for developing the annual plans that the timeline can be shortened. Management believes that such timeline can be specified in Planning Procedure P-104 and that it is not critical to specify dates at this time. However, we note that the ISO anticipates that it will complete its first integrated plan and submit it to the Board in January-February 2000 timeframe. Part II could begin shortly thereafter.
15b	Timing and content/approach of annual stakeholder planning process (both for PTO Transmission Plans and ISO planning process)	See proposed Planning Procedure P-104 and response to issue No. 15a.
16	Is there a need to develop methods/Incentives for PTOs to pass-through costs related to non-wires projects.	Management believes that with the necessary process in place that will ensure ISO support and sponsorship (ISO accountability) of non-wires contract filings at FERC that PTOs will not need further incentives to pass through non-wires costs. Management does not have a proposed method for PTO recovery.
17	Do the PTOs have the ability to exercise eminent domain for "economic" TX projects; should they have an obligation to try?	Management believes that this is a legal issue which requires more research. Management does not believe that resolution of this issue is critical at this time.
18	Circumstances under which a third party should be allowed to (or prohibited from) construct and own transmission facilities which are integrated with the PTO facilities. (What are the reliability, operating, planning, and maintenance implications of such installations.	See response to issue Nos. 7,10 and 11. ISO Management believes that such expansions if part of the ISO Controlled Grid will have to satisfy ISO Maintenance and Planning standards and all other applicable criteria of the WSCC.
19	Ability of ISO to sponsor "economic" transmission projects.	Management believes that the ISO, in a backstop capacity, should be able to sponsor economic projects. See memo.
20	Application of performance-based contracts/penalties for non-performance to both non-wires and transmission projects.	At this time, Management does not see the necessity of requiring performance contract and/or penalty provisions for transmission projects. Transmission projects or facilities are already required/subject to the ISO's maintenance standards and potential penalties.

Planning Procedure P-104

Development of Participating Transmission Owner Annual Transmission Plans

The following table lists the work products and process envisioned for the properly-coordinated development of a Participating Transmission Owners annual transmission plan. Except for Detailed Project Submittals, all these work products would be submitted to the ISO and posted on the Planning web site under the corresponding utility, for public view and comment.

Deliverable	Roles / Description
Stakeholder Meeting Announcements, Agendas	Provide as needed, two weeks minimum notice.
Study Plan	Draft developed by Transmission Owner, with stakeholder input and refinement of assumptions, sensitivities, and analysis to be performed. The Study Plan should include general overviews of: the study methodology, the applied reliability criteria, and critical assumptions (load, generation, etc.). Also, an initially-proposed Annual Schedule should be included.
Annual Schedule	Stand-alone document (initially matching the schedule provided in the Study Plan) which lists the dates for major milestones, stakeholder meetings, and deliverables. This should be updated from time to time throughout the year, adjusting for changes in due dates.
5-year Power Flow Basecases	Minimum of 5 basecases, representing the TO's expected summer peak condition for each of the next 5 years (i.e., 2000-2004 cases provided for the 1999 Planning cycle). The power flow cases should be developed in GE format. The cases should include network changes for all expected projects. To the extent that problems are anticipated for winter or off-peak conditions, the TO should develop and make available additional cases, as needed.
Contingency List	Comprehensive listing of all outages to be performed. The contingency list should be organized by contingency class (N-1, N-2, G-1, etc.), voltage level, and geographic/regional subsystem. The contingency list should also identify critical busses to be checked for reactive margin and bus faults.
Contingency Results	Results of applying the Contingency List to one mid- to final-year basecase (2001-2004). The case studied should contain <u>all</u> proposed projects through that year. Contingency results can be provided in tabular format (for example, Autocon or PflowPro output). For simplicity, tables may only list those outages with results approaching severe conditions: thermal loadings of 95% or greater, voltage deviations >4%, residual voltages of .975 or lower, etc. Unresolved / residual criteria violations should be flagged.
Study "Report" / Published Transmission Plan	Consolidated presentation of the study assumptions, analysis, and results. The Study Report should include a discussion of the TO's load forecasts, and a discussion of types of problems or developing trends. A summary of the anticipated 5-year capital costs associated with the proposed transmission plan should also be included. The Study Report should also include a project summary listing, including the project title, expected date of operation, and cost (expressed in relative terms, i.e. >\$5 million).
(General) Project Descriptions	As an attachment to the Study report, provide a brief summary of each proposed project, including Project title, expected date of operation, and cost (expressed in relative terms, i.e. >\$5 million, cost estimates will not be disclosed to the public and the IOS will keep all cost information confidential), problem background (cause/need for project, including % overload or other criteria violation), description of alternatives, proposed solution description, and a sketch of the proposed project. [Project Descriptions for projects greater than 100kV should also be provided to WICF.]
(Detailed) Project Submittals	For projects requiring some/all capital expenditure occurring prior to the end of the first studied year (end of 2000), a <u>detailed</u> description must be provided for each project. The content of these detailed project summaries should approach the level of detail described in the document, "ISO Grid Project Review Information Requirements". This includes (but is not limited to) all of the basic project information provided in the General Project Descriptions, plus: detailed solution description (i.e., if reconductoring, include mileage, and "before & after" conductor types and ampacities), cost estimates, and "before & after" powerflow plots. These write-ups

DRAFT, 10/20/99

	can either be submitted "en masse" as expanded project descriptions attached to the Study Report, or as separate stand-alone project write-ups submitted progressively throughout the year (i.e., as the project goes up independently for TO management approval). [Note: Such detailed project Submittals will be kept internally within the ISO, and not posted for public comment.]
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Stakeholder Comments on Management's Grid Planning Proposal

Automated Power Exchange

First, there is no conceivable excuse for allowing market participants so little time to comment on these proposals before they are submitted to the California ISO Governing Board. An afternoon and all night leave hardly enough time to properly think through all of the relevant issues, let alone compose them into a thoughtful response.

Second, these proposals are totally unjustified in a competitive marketplace. Transmission and generation are substitutes for one another, and they should be allowed to compete head on with one another. If anything, the ISO staff should be recommending that project developers be permitted to build and operate merchant transmission projects, subject to reasonable technical standards promulgated by the ISO.

Third, these proposals totally compromise the independence of the ISO, which is something the ISO Governing Board should absolutely not allow. By taking on the role of central planning authority for transmission, the ISO surrenders its "independence" each time it chooses some projects and rejects others, whether or not any of the projects have merit. A truly independent system operator would focus itself strictly on system operations and leave investment decisions to the marketplace. The ISO is no better equipped to determine the relative merits of transmission and generation projects now than the CPUC or the FERC was in the past. Only the marketplace can determine which investments make sense and which ones don't through the hundreds of individual decisions that buyers and sellers of energy and transmission make every day.

Fourth, by proposing to sponsor projects, the ISO puts itself in direct competition with generators, transmission providers and end-users, and this competition plays out in a particularly insidious fashion. The ISO has no capital at risk in any of the projects it sponsors, but it has the ability to protect capital invested by those who make ISO sponsored investments through its power to tax end-users, while ISO customers who build projects that are not sponsored by the ISO put their own capital at risk when they build merchant projects. The outcomes are both perverse and corrosive. Project developers will stop putting their own capital at risk and rely instead on ISO sponsorship to build what would otherwise be merchant facilities. Merchant project developers that have capital at risk and don't seek ISO sponsorship could find themselves competing with "sponsored" projects that employ protected capital. Both lead to the same result - an end to merchant projects and a return to the central planning regime that was supposedly swept away with restructuring.

I don't accept the notion that beneficial transmission projects are going begging. If, as stated in the position paper, new generation is unwilling to expand transmission capacity into a constrained zone, then in all likelihood new transmission investment cannot be justified. In this instance, end-users in the constrained zone have many alternatives - on-site generation, sponsoring additional transmission investment themselves, sponsoring the construction of a local central-station plant, fuel substitution, and perhaps others. Where project economics are not the decisive factor, the ISO should avoid attempt to compromise its independence by staying as far away from the issue as

possible. If the ISO does become involved in making choices, end-users are likely to end up worse off, even if they made choices that might otherwise be more cost-effective than the ISO's preferred alternative.

A principal justification cited by the ISO staff for taking a stronger role in transmission planning is that it comports with the FERC's policy direction on RTOs. Rather than following the FERC's lead blindly, we should be questioning the wisdom of their policy guidance. Why indeed, in an environment where generation and transmission are competitive alternatives to one another, should any central body be dictating the nature and extent of future transmission investments. Such decisions are best left to those who can manage them - merchant builders. There are numerous examples around the world, most notably South America, where transmission expansion is a competitive undertaking. There's no reason we can't do the same in California.

This ISO staff recommendation is a grievous mistake. If adopted, it will turn California away from competition and back toward regulated monopoly electric service with the ISO as regulator.

The ISO Governing Board should reject this recommendation.

United American Energy

Thank you for the opportunity to provide comments regarding proposal solicitation and compensation for transmission and distribution (T&D) alternative projects. United American Energy is actively involved in the development of a specific T&D alternative to portions of a T&D project proposed by one California utility. We eagerly await the ISO's RFP for T&D alternatives on this project and believe our proposal is a suitable "pilot project" for the ISO to implement and monitor as it continues to develop policy in this area.

In brief, United American Energy is highly supportive of ISO Management's recommendations for a two part formal solicitation process for competitive alternatives to T&D proposals. We agree that such alternate proposals should be binding but with leeway for cost variances as outlined in your documentation.

We further support ISO's desire to create a mechanism by which non-wires projects (including generation) can recover costs through transmission rates as a transmission related expense item. However, the magnitude of this cost recovery should reflect the significant capital cost avoidance, differed wires maintenance costs, VARS support, and system reliability benefits (RMR-style) provided to the system and California rate payers by these wires alternatives.

Most of all, United American Energy encourages the ISO to move policy development in these areas ahead on a fast track schedule. Our firm stands ready to implement a variety of wires alternative projects that will provide significant savings to rate payers throughout the State. We have initiated engineering and permitting activities on several such projects and require the development of clear policy for project approval by ISO and compensation for cost savings benefits (vs wires) and reliability services.

We look forward to continuing to work with the ISO at the Long Term Grid Planning Stakeholders forums.

IEP

Irrespective of IEP's position regarding the content of your "Proposed Long Term Grid Planning Policy," the CAISO is making a mistake by continually "jamming" market participants and stakeholders in terms of the time to review and comment on these documents. Distributing an important document related to long-term grid planning in the afternoon and then expecting effective comments by 9:00 a.m. the next morning is inappropriate.

Personally, I believe we are getting perilously close to effectively having no effective stakeholder input into many CAISO issues/matters except from those that have the resources and people to camp on email (i.e. the utilities) . If that comes to pass, then the CAISO will clearly not be in a position to use the "stakeholder" process as the patina in FERC filings for stakeholder input.

Regarding the substance of the memo, I do have some questions. During our last call Kellan mentioned "pilot projects." This is not addressed in the memo, and IEP believes that some ground rules or guidelines are appropriate if that approach is still on the table. Our concern is that a pilot could pop up with little warning, effectively precluding any meaningful participation by non-wires alternatives. We would suggest that something be pulled together that is similar to an abstract of an experiment, something that would indicate what the goals of such a pilot would be, what the approach and timeline would be, and what would be necessary to declare it a success or failure. If pilots are still on the table, its it vital that this guideline / ground rules be put into place soon.

As to the discussion of the competitive approach, we agree with your assessment that the 2-step process is the way to go. I'm not sure what the "one-step" process would be (is the what a pilot project would be?), and although I may have missed a couple of grid planning discussions, I really don't know what that term is about.

We think you have described the ISO "backstop" sponsorship of economic projects well. This obviously is a controversial subject, and we support the notion that the market should be the primary (if not sole) source for these projects. Nonetheless, ISO does identify a potential market failure in this regard, as well as the practical aspect that no such ISO-sponsored projects would move forward unless some extremely high hurdles are cleared. It is our expectation that the ISO would never sponsor a project, but the provision will highlight what the operator feels is a flaw with the transmission system.

IEP hopes that the efforts undertaken to date are not lost. (Particularly because we have no abandoned project" or ratepayer funding for our participation to date.) We look forward to getting a meaningful process into place.

Susan Schneider

PQ1:

The choices here are a little convoluted. There are really two issues, I think: (1) whether you should put out a transmission alternative first; and (2) whether the bidding process should be formal, with binding bids.

For example, (unless I am missing something significant here), you could have an open, one-part bidding process with formal, binding bids.

So, I think that your memo really should address the merits of whether having a transmission alternative out front would help the ultimate choice, vs. giving everyone the same info the TOs have about requirements and constraints, and then treating all bids the same, including transmission bids.

Then, you need to address the relative merits of having formal, binding bids vs. a more informal process (including what you would do if a non-binding bid didn't happen, etc.) - this would seem to be a much less controversial issue.

PQ2:

You touch on a few problems that raise some obvious questions:

> As with so many other things, if you could just "fix the incentives," would some of this problem go away? For example, if the TOs didn't get all the congestion revenue, would they be more willing to build economic transmission (on which they would earn a return, presumably)? And, if you gave some of that congestion revenue to others (generation or third parties), would they take the initiative to remedy the congestion in a market-based manner?

> Given the transmission construction timelines, the retail rate freeze is largely irrelevant and probably doesn't add much weight to your argument.

> You state that "the ISO must ensure that "essential" (my quotes here) economic transmission projects are identified and built," but you really don't say why. If it's not a reliability problem, where is the statutory or other support for this position?

I'm not disagreeing necessarily, only saying that you haven't made your case. For example, you don't explore other options for how these projects might get built, such as the ISO or some other group acting as a facilitator to negotiate cost-sharing agreements among all who might benefit.

PQ3:

I don't understand why this is a big deal, but then I'm not a lawyer. The ISO now bills TOs for RMR (i.e., "non-wires") projects now, separately from transmission rates, and I don't see why you

couldn't do that for anything else that might substitute without running afoul of FERC. Maybe I'm missing something.

At the very least, you should need to address how this would affect the ISO's move generally toward more uniform transmission pricing through the TAC process.

ISO Recommendations:

What do you mean by "no other sponsor is forthcoming?" Will the ISO make efforts to elicit sponsors? You should articulate, if you can, what conditions are necessary for this determination to be made.

If the ISO were "sponsoring" projects, would the ISO need to get involved in the mechanics of getting transmission built, e.g., environmental/siting issues? Are there financial risks associated with "sponsorship" of a project that the ISO would bear (and have to pass on to others)?

New Energy, Inc.

The proposal is deficient in that there is no discussion of timeline to expedite the process.

Also, as long as price caps are in place, distorted price signals are sent to the market and distort the proposed planning process such that wires solutions are favored over load responsive and generation solutions.

Thank you for the opportunity to comment, although very short notice.

Southern California Edison Company

Policy #1: The ISO should clarify which policy question language will be forwarded to the Board. The language at the beginning of the memo differs from the language on page 2. The first version includes a phrase "...and how should that process be structured." which cannot be answered by the Board without more details provided about the process alternatives. Edison supports using a competitive solicitation process to identify alternatives to transmission projects, however these alternatives should be limited to generation or load projects not third party transmission projects. Requiring binding bids is acceptable as long as that term means a limit on the amount of project cost the ISO is willing to support at FERC and not a limit on what the PTO can request recovery for at FERC. Perhaps another term would better describe the ISO's intended limit on support rather than a limit on recovery. Strictly speaking, the ISO should be willing to support recovery of actual costs up to the next lowest bid, not the lowest bid, since there is still value derived up to the next lowest bid.

Policy #2: Again, the ISO needs to clarify which policy question language it is proposing to the Board. The language at the beginning of the memo is different than the language on page 3. Edison does not support the ISO sponsoring economic projects. It is not clear what "sponsor" means. Does the ISO sponsorship mean the ISO identifies the "need" for an economic project and puts it out for parties to bid on? Or does it mean that the ISO will direct a PTO to build a project the

ISO determines is needed? Or does it mean that the ISO will develop and implement an economic project? Without some clarity, these options have very different ramifications. If the ISO can sponsor economic transmission projects, why can't it sponsor economic generation or load projects, since they are legitimate alternatives to transmission? We think such ISO sponsorship is an inappropriate intrusion into the market function, and seriously compromises the ISO's independent role.

Policy #3: Edison supports recovery of non-wires project costs through PTO transmission access charges as long as the ISO justifies the non-wires service contract at FERC, bills the PTO for the non-wires service charges, and FERC authorizes recovery of non-wires charges as part of the transmission access charge.

Pacific Gas & Electric Company



October 20, 1999

Mr. Stephen Greenleaf, Director of Regulatory Affairs
California Independent System Operator
151 Blue Ravine Road
Folsom, California 95630

Dear Mr. Greenleaf:

Thank you for your memo October 19, 1999 concerning the ISO management's policy recommendations to the ISO Governing Board on long-term grid planning policy issues. PG&E's comments are outlined below and are segregated into two categories: (i) process and (ii) substance.

Process

At the August 25, 1999 Grid Operations meeting the ISO Board directed the ISO staff to work with stakeholders to identify significant policy issues inherent in the ISO staff's general proposal for coordinating planning of the ISO controlled transmission grid. ISO management was then to bring a package of policy recommendations to the ISO Board for review and approval or redirection. PG&E was pleased to work with you and the rest of the staff to reach consensus with stakeholders on a list of 23 substantive issues. The process was working very well at that point. The next steps agreed upon by the stakeholders, including yourself, was to then discuss the substantive policy issues and attempt to put a package of policy recommendations together for ISO Board Review. We were completely stunned, however, when the ISO put a halt to the stakeholder process, and unilaterally decided to propose policy recommendations on only three issues. Contrary to the view expressed in your memorandum, PG&E, and perhaps most other stakeholders do not want to "flesh out all the details and come to resolution before moving forward. This is an extremely important public policy debate, and should not be given short-shrift. PG&E has consistently agreed that it is urgent that the ISO conduct Part I of (an integrated transmission

planning) the process in order to maintain adequate reliability in the state, our main concerns are related to the commercial implications of the second part of the ISO's process. PG&E believes the ISO board deserves to hear and review a coherent set of policy recommendations on grid planning before it votes on particular issues. The ISO's process continues to frustrate PG&E and other stakeholders and appears to ignore the expressed needs of the ISO Governing Board.

Substance

Policy Issue 1:

One key issue the ISO's analysis fails to address is the effect of binding PTO bids. Requiring PTOs to submit binding estimates will create very substantial financial risks for PTOs. Even if it were to agree to committing the significant amount of resources to develop a binding estimate, it is unclear whether the FERC would allow the PTO's to include anything other than actual costs in its base rates. On the other hand, the ISO's proposal suggests that FERC should only allow the original estimate into rate base. PG&E will not submit to this asymmetric unfair risk/reward profile.

Alternative suppliers will likely have the choice of whether or not to compete to provide reliability services. The PTOs, however, apparently would have no such choice. To the extent the regulated utilities are the successful bidders to provide or are required to provide reliability service they should be guaranteed recovery of all prudently incurred costs over the life of facilities constructed to meet reliability needs, especially for those that result from planning standards set by the ISO, or other governmental agencies. Additionally, the PTO's should be allowed to submit estimates based on economic depreciation lives far shorter than the currently adopted 40 to 50-year depreciation regulated depreciation lives for transmission assets.

Often, the most cost-effective solution may be a combination of different resource types (i.e., transmission, generation and customer demand responsiveness), but how will the ISO iterate? What would a bidder be bidding against? For example, a large and expensive transmission project might be transformed into a small and inexpensive one if a generator is also included in the plan. Each iteration may create changes to the scope and cost of the proposed transmission project. Does each iteration require a new "bid" from the PTO? Additionally, during this process, third parties might think it unfair that the PTO's can view others bids while it may be formulating its own "bid."

Policy Question 2:

The ISO fails to make a case as to why the originally proposed stakeholder process for identifying economic projects may not be effective and why a "backstop" role for the ISO is necessary or warranted. The ISO's role should be to disseminate relevant market information to stakeholders so they can evaluate whether or not a particular transmission project is economic.

It is unclear from a reading of the ISO's memorandum whether the ISO's "backstop" role as a "sponsor" would empower it to compel construction of transmission assets. ISO Board members should not vote on such an issue without knowing the answer to these questions.

The ISO's proposal on this question represents a return to central planning and should be rejected.

Policy Question 3:

PG&E agrees that the ISO should be responsible for justifying, before the FERC, the costs of any non-wires contracts it enters into. However, FERC "acceptance" of non-wires contracts does not

Attachment F

assure that Participating Transmission Owners will be able to pass through such cost to transmission customers. PG&E will aggressively defend itself against any proposal that foists risks upon the utility for decisions that are made completely by the ISO.

The cost recovery proposal must be comprehensive and supported by a majority of stakeholders if PTOs are to be successful in obtaining cost recovery. Stakeholders must agree that the ISO's Phase II process is fair and reasonable before they will agree to pay the costs of non-wires alternatives.

Omitted Policy Questions:

The ISO fails to address a number of substantive policy issues in its memorandum. For example, bid evaluation principles and the impact of ISO decisions on system reliability need to be addressed simultaneously. The issue of whether or not third party transmission owners should be able to participate and own reliability-based transmission projects is not addressed. PG&E does not believe the ISO Board has enough information to evaluate the three policy questions raised in your memorandum.

PG&E recommends that the ISO return to the stakeholder process of developing solutions to all the substantive policy issues before bringing recommendations to the board.

Sincerely,

Brian Hitson
Policy Director, Generation, Transmission and Supply

Southern Energy

SCD Energy Solutions Strategic Creative Directed

Date: October 20, 1999

To: Steve Greenleaf
ISO

From: Phil Muller

Subject: Southern Energy Comments on LT Grid Planning Proposal

Southern Energy supports the ISO's role in the long term grid planning process. We believe that it is very important that an independent entity like the ISO have an active oversight role in the implementation of transmission improvements. We do have specific comments and questions about the proposals raised by the ISO.

2 part vs. 1 part solicitation:

A 2 part solicitation process appears to make sense. It is important to identify the problem that needs to be fixed, the functional requirements of a fix, and the transmission upgrade required to facilitate the fix. Once the ISO has that information, it is easier and more transparent to issue an RFP for alternative projects. Our only other concern is with the binding bid requirement. We are assuming that the binding aspect of the bid relates to cost, not performance. For example, a generation project proposal must complete the siting process before it can be built. Failure to obtain a license should be considered reasonable cause for not completing the commitment.

ISO Sponsorship Of Economic Projects

The independence of the ISO should not be compromised under any circumstances. As a result, the ISO should not have the ability to sponsor economic transmission projects. While the ISO cited an example of where existing PTOs or generation owners may not choose to go forward with an economic project, as long as other parties have the opportunity to build and own transmission facilities in competition with the PTO, the economic project is likely to be built. With this option available, the only way a project that the ISO deemed economic would not be built, is if the ISO's definition of economic was different than that of all other market participants. We are not comfortable trusting the ISO to know better than the market what is economic, especially when the impartiality and independence of the ISO is at stake.

Apply Costs As Transmission Charge

In this area we have more questions than comments. Such as:

Attachment F

How does the proposed allocation differ from the way RMR costs are currently allocated to PTOs? Is there reason to do things differently in the future?
Is it true that neither PTOs nor the ISO would be able to participate in RFPs for alternatives to proposed transmission projects?



Memorandum

To: Market Issues/ADR Committee
Grid Reliability and Operations Committee

From: Roger Smith, Senior Regulatory Counsel

CC: ISO Board; ISO Officers

Date: November 9, 1999

Re: *FERC Quarterly Amendment filing*

The ISO's December 1999 quarterly Tariff amendment filing will comprise changes from the Market Redesign 2000 initiative and the eight items identified below. The tariff changes associated with the elements of Market Redesign 2000 are addressed in a separate memorandum. The remaining items are distributed among two Committees. To guide the board on where the issues are presented, we provide the following consolidated list and direct you to memoranda in the applicable Committee materials.

Grid Reliability/Operations Committee

- Removal of restrictions on Imports of Regulation (part of Market Redesign 2000)
- Long-Term Grid Planning and Transmission Maintenance Scheduling Tariff Changes

Market Issues/ADR Committee

- Technical changes to FTRs
- Changes to allocation of RMR costs to account for the potential designation of San Onofre as an RMR unit
- SIT Payment Calendar changes
- TO Debit Clarification
- Release of Bid Information



Memorandum

To: Grid Reliability and Operations Committee

From: Roger Smith, Senior Regulatory Counsel

CC: ISO Board of Governors; ISO Officers

Date: November 9, 1999

Re: *Long-Term Grid Planning & Transmission Maintenance Scheduling Tariff Changes*

EXECUTIVE SUMMARY

This memorandum requires Board action.

At the October Board meeting, the Governing Board approved the filing of two sets of Tariff changes at FERC. The next quarterly filing is scheduled to be filed at FERC in mid-December.

One set of Tariff changes dealt with proposed Long-Term Grid Planning Tariff language, the other set dealt with Transmission Maintenance Scheduling Tariff language. With the Long-Term Grid Planning Tariff language, Management was directed to give the Board the opportunity to review the Tariff language at its November meeting. The proposed Tariff language is attached for the Committee's review and Management recommends the Committee authorize the filing at FERC of both the Long-Term Grid Planning Tariff language and the Transmission Maintenance Scheduling Tariff language.

Long-Term Grid Planning Tariff Changes

At the October Board meeting the Board approved the fundamental policy issues regarding Management's Long-Term Grid Planning proposal. The Board also directed Management to solicit additional stakeholder comments on the proposed Tariff language and to bring the tariff language back to the Board in November for further consideration.

Management held conference calls with stakeholders on the proposed Tariff language on November 2, 4, and 5. Management also accepted written comments on the proposed Tariff language. **Attachment A** is a listing of participants on the conference calls and all written comments received to date. **Attachment B** is the proposed Tariff language, as modified to address stakeholder's concerns and recommendations.

Transmission Maintenance Scheduling Tariff Changes

At the October Board meeting, Management put forth a proposal to clarify the ISO's process for Transmission Outage Scheduling. Specifically, Management recommended that the ISO be authorized to cancel and/or reschedule a planned transmission outage due to system reliability or significant market impacts prior to 5:00 AM of the day prior to the operating day on which the planned outage is scheduled to occur. The ISO proposed to notify Market Participants prior to the onset of the Day-Ahead Market of any such cancelled or rescheduled transmission outage.

If a Transmission Owner were to cancel or reschedule a planned transmission outage after 5:00 AM of the day prior to the operating day on which the planned outage is scheduled to begin, for reasons unrelated to system

reliability (*e.g.*, responding to market impacts), the ISO would not have to reflect the effects of the modified outage schedule on the related ISO Day-Ahead markets. However, the ISO would notify market participants and adjust the Hour-Ahead Market to reflect the physical capabilities of the facilities, as required, as soon as possible.

The Governing Board approved this proposal at its October Board meeting. **Attachment C** contains the proposed tariff language which was distributed to market participants on November 4, 1999. The ISO, thus far, the ISO has received one comment on the proposed tariff language. PG&E suggests that prior to implementing the tariff changes, the ISO should post daily updates (via PMI) to the current maintenance outage information. PG&E states this will give the market time to react to maintenance outages and reduce the ISO's need to invoke cancellations. Management appreciates PG&E's comments and agrees that improvement in the timeliness and accuracy of outage postings will be beneficial for the market. Management has redesigned the ISO Homepage to make the outage information easier to find and currently is exploring the possibility of daily updates. However, PG&E's suggestions should not delay the implementation of the approved Board policy regarding the rescheduling or cancellation of planned transmission outages.

MANAGEMENT RECOMMENDATION

Management recommends that the Committee authorize the filing of both the proposed Long-Term Grid Planning Tariff language and the proposed Transmission Maintenance Scheduling tariff language at the FERC as part of the ISO's quarterly Tariff filing.

Comments on Grid Planning Tariff Language

Conference calls on the proposed Grid Planning tariff language were held on the following dates. In addition, stakeholders were provided an opportunity to submit written comments, which are attached. SEMPRA/SDG&E, Edison and IEP also submitted revised versions of the proposed tariff language.

Grid Planning Conference Calls

November 2

Cal ISO
SCE
EOB
IEP
BPA
Southern
SEMPRA
Calpine
SDG&E
SMUD

November 4

Cal ISO
PG&E
SCE
EOB
IEP
BPA
Southern
SEMPRA
Calpine
SDG&E
SMUD

November 5

TANC
IEP
Calpine
PG&E
West
SDG&E
SCE
DWR

Comments on Grid Planning Tariff Language

CEC
SEMPRA
IEP
Electricity Oversight Board
PG&E

Stakeholder Comments

IEP

TO: Steve Greenleaf
FROM: Andy Brown
DATE: November 7, 1999; 4:12 PM
RE: IEP Mark-up of 11/5/99 Draft Long-Term Grid Planning Tariff (LTGP) Language

This memorandum provides IEP's comments regarding, and notes suggested changes to, the November 5, 1999, draft ISO Grid Planning Tariff Language. We note that SCE and PG&E will be offering additional language regarding the scope of TOs' "build obligation" and application of eminent domain respectively. We would like an opportunity to review and comment on that language when it becomes available.

- **3.2.1.1:** Are the references to "System Planning Study" and "Facility Study" in relation to the TO Tariff ("TOT")? Does ISO really want those types of studies, or something similar to the studies contemplated in the TOT? Referencing the TOT may compromise the annual timeline for the LTGP. Similarly, does the reference to a TO or UDC "standards" for interconnection evaluations point to a known and publicly available standard, or could something be imposed as a basis for rejecting the project that the sponsor could not have reasonably known beforehand?
- **3.2.1.2:** Clarification that the 120 day clock starts after all TO plans are submitted.
- **3.2.2.1:** Will the RFP have a difference response period than that contemplated under 3.2.2.2? We would urge flexibility on the response time, particularly if the integration of various individual TO plans into a larger plan impacts the total set of anticipated projects (i.e., upon ISO's review of all plans it is discovered that one would eliminate the need for another TO proposed project.) Also, as noted in the latest timeline, the process will not be "annual" per se, so there's little need to squeeze time out of the response period. Otherwise, the changes look good.
- **3.2.2.2:** Clarification that responses to the RFP are due "no sooner than" 60 days from issuance. Also, if its contemplated that there will be bidders' meetings or other mechanisms for bidders to get clarifications on the nature of the transmission problem the ISO wants solved,

Comments on Grid Planning Tariff Language

then we might need to think that process through. This doesn't have to be in the Tariff, but there have been similar steps in other RFPs designed to maximize the responses.

- **3.2.2.3:** Are the references to System Planning Study or Facility Study appropriate here, and is this a reference to a specific type of study in the TOT or ISOT? We shouldn't use defined terms if we're looking for more flexibility.
- **3.2.2.4:** Minor editorial changes which should not change substance.
- **3.2.3: "Milestones":** IEP has suggested the need to keep track of project approved by the ISO thorough the LTGP process. This need is important for at least two major reasons: (1) projects' timelines may slip which could create a situation where some form of "stop-gap" measure may be necessary to fill needs which will exist between the initially expected on-line date and the actual on-line date; and, (2) some projects may be effectively abandoned, and the project sponsor may fail to inform ISO. We believe that all parties agree that there is a real market need to know whether anticipated projects will fail to materialize in a timely manner. To this end, we would suggest a "milestones" procedure. To the extent there are existing public mechanisms or processes which can be used to provide that project status information, those should be used and referenced in the procedure. (We note that one possible approach is a status log similar to that which had been provided on the ISO website). Alternatively, the procedure could determine a set of milestones (e.g., environmental review completed and approved; regulatory approvals secured; construction initiated and percentage completed, etc.) which would indicate that the project is being diligently pursued. Exact timeframes for each project milestone could be set through the procedure. In this way the ISO and the market can know if a project is likely to be completed on time, completed late, or ultimately abandoned.
- **3.2.3: TO Cost Estimates:** We note that subsection (a) deletes references to the bounded cost estimate for wires projects by TOs. IEP is concerned that without some means of requiring a meaningful cost estimate for these projects, that the competitive process for alternatives will be compromised. The bounded cost range concept is one approach which may address this issue; but this deletion is problematic if the TOs are free to "low-ball" the cost estimates, knowing that they only need an estimate which will beat alternatives for purposes of the solicitation. IEP also recognizes that parties may challenge TO rate filings at FERC, but this regulatory process, potentially decades after the ISO solicitation, provides little comfort here. The concept of binding TO bids, subject to some bounded range of costs to reflect inflation, should be maintained in the Tariff.
- **3.2.3: Non-Wires Contract:** Clarification of language to ensure developer is required to enter contract specific to the project / need identified in the RFP, and that ISO call rights are similarly limited to that project at the price bid, or as agreed between developer and ISO. Our concern was that the prior language was too broad.
- **3.2.3.1:** Clarification that the types of projects which may be considered for expedited treatment are those which are necessary to address imminent reliability problems that could not be reasonably anticipated. IEP's concern is that this provision not provide a loophole for

Comments on Grid Planning Tariff Language

the otherwise market-based transmission planning process. **We believe that such projects should be subject to a high standard of proof** in order to be exempted from the otherwise applicable tariff provisions, and that such projects be tailored to the immediate problem (that is, "large" projects should not be approved on an expedited basis which address a remote problem, or which provide capacities far in excess of that needed to resolve the immediate problem). Additionally, a larger project should not be "piecemealed" and effectively approved through the expedited process. **Additionally, we believe the ISO should provide some examples of what it anticipates would qualify under this provision.**

- **3.2.4:** Additional clarifying language regarding the scope of this section. Forbidding parties to argue before any other group should only occur where that entity was a party to the ISO ADR provision, and the scope should be limited to specific projects or transmission plans. The current language may be too broad, and it is unclear whether, consistent with notions of due process, an entity not party to a dispute or settlement can be estopped from opposing the settlement. (Particularly for issues other than those spelled out Section 3.3.1.1.3, if that waiver is considered valid)
- **3.3.1:** Minor editorial changes which should not change substance.
- **3.3.1.1.3:** Potential due process issue. Not clear how a "market participant" can waive a right through inaction, particularly where there is no indication that they have been given notice.
- **3.3.1.1.4 through 3.3.4:** Minor editorial changes which should not change substance. Changes to 3.3.4 are consistent with changes to 3.3.3.
- **3.4:** IEP supports the deletion of language which could be read to imply a potential "double jeopardy" situation. We would suggest that the new language at 3.5.1.3 also include language regarding "no double jeopardy."
- **3.4.1:** ISO has indicated previously that this section would provide for a rare "backstop" capability should the market fail to pick up an economic project. This language would allow the ISO to come forward with such a project within the timeframe of the LTGP process on the same basis as any other party. Consistent with 3.4.1.1, the ISO would identify the project it believes to be economic to the market generally well before moving forward under this section. More than 30 days would be needed to evaluate a project that the ISO believes is economic (but not heretofore identified by the market).
- **3.4.1.3: Project Status:** IEP supports this additional language for the reasons identified with our Section 3.2.3 "milestones" comments. We would also support a sentence which makes explicit the "no double jeopardy" policy for previously approved projects.
- **3.6:** We noted in the last call that the reference to Section 3.2.6 was probably wrong (as the section did not exist), and guess that the correct reference could be 3.6.2. ISO should check this, however, because it creates an unneeded circular reference. We are not sure what was originally intended.

Comments on Grid Planning Tariff Language

- **3.7: FERC Approval of Non-Wires Contracts:** New language in Section 3.7 conditions a PTO's obligation to pay for non-wires alternatives upon the approval by FERC of the non-wires contract. We have added language that the non-wires project will not be obligated to provide the services if ISO is not going to pay for the service. While we understand that the PTO may not accept a charge from ISO that may be excluded from their transmission revenue requirement, it would be a significant risk upon the non-wires project developer to move forward with its project and then be exposed to non-payment for services. The ISO should seek any needed approval from FERC regarding the basic form and content of the non-wires performance contract as well as authority to enter such agreements at the conclusion of its LTGP process. This should address the need for ISO to gain FERC approval of the contracts entered at the conclusion of the solicitation. This approach would reduce developer risk and financing costs. IEP believes that once a project is accepted in the approved Final Integrated Transmission Plan, a contract for the provision of specifically identified services at a stated price should be formed, particularly if the contract does not require prior FERC approval. (Obviously if the developer does not have market-based rate authority, it may need FERC approval.) This section's new language would impose a new and undesirable condition which would alter the project's risk profile and which may unnecessarily increase the costs of such projects.
- **3.7.1:** IEP has some general comments regarding the new language concerning the non-wires cost allocation within TO Tariff functionalized revenue requirements. It would appear that the language contemplates the various potential TAC designs, which is important if this section is to be durable. But couldn't this be done by simply saying that the costs will be recovered in the same manner as cost would have been recovered for the proposed project(s) the non-wires alternative obviates. This should have the correct result, even if the non-wires project interconnects at a voltage level different than the proposed project(s) it replaces.

PG&E

PG&E's Comments On The CAISO's Proposed Tariff Language Of October 30, 1999 Concerning A Long-Term Grid Planning Process

November 4, 1999

Two-Step Process and Prudency Review of Transmission Costs By The ISO

The ISO management's proposal embodies asymmetric financial treatment of PTOs and other prospective bidders. Bidders other than PTOs are under no obligation to bid and may obtain market-based cost recovery under the bilateral, non-wires contract with the ISO. Under the proposal, PTOs are obligated to submit cost estimates for transmission wires contracts which are binding within an unspecified cost range.

Comments on Grid Planning Tariff Language

The ISO should change the tariff language in one of the following ways:

- Do not require PTOs to submit cost estimates (bids) which are binding within a range; or
- Require the PTOs to submit cost estimates (bids) but do not attempt to hold them accountable for construction costs when the ISO comments in PTO rate cases before FERC.

The ISO's proposal, in PG&E's view, is not legally supportable at FERC due to this asymmetric treatment. In addition, the ISO's proposal is unsound from an economic perspective because it will force conservative PTO cost estimates and increase non-wire procurement costs.

Cost Effectiveness Determinations by the ISO

Section 3.2.1.1 indicates that the ISO will formulate its integrated transmission plan by, among other things, selecting projects which are "cost effective." This tariff language puts the ISO in the role of a central resource and transmission planner. PG&E does not believe that this is an appropriate role for the ISO especially when no cost effectiveness criteria has been proposed.

Process Timeline

The process timeline is too long and inflexible to be effective. This process is similar in nature to the central planning process attempted by the CPUC in the form of the Biennial Resource Plan Update (BRPU). In addition, the proposal is asymmetric in that it holds Market Participants and PTOs to firm timetables whereas the ISO is not held accountable to firm timetables. This treatment is unlikely to be sustainable before FERC.

Projects Needed for Efficient Distribution Expansion By UDCs

Transmission projects sometimes need to be coordinated with distribution reinforcements. The ISO's process does not allow for this type of coordination. PG&E believes that projects which are coordinated with cost-effective distribution reinforcements should be excluded from the bidding process or given special consideration in the evaluation of alternatives.

Responsibility of Project Developers and Sponsors

Section 3.2.3 of the draft tariff language states that a Project Sponsor, for projects under Section 3.4, is "responsible for all aspect of the project." PG&E does not understand how the ISO could construct a project and obtain regulatory approvals when acting as a Project Sponsor. This drafting ambiguity needs to be cleaned up.

Comments on Grid Planning Tariff Language

Demand-Based Projects

PG&E does not understand how use of demand-based projects would be coordinated with existing demand-based projects and how a UDC would be involved under the provisions of the TCA and the UDC Agreement. It would seem these agreements would need to be modified to incorporate the notion of new demand reduction contracts.

Cost Responsibility For Non-Wires Projects

Section 3.7 states that PTOs shall pay the ISO for any non-wires contracts entered into by the ISO. PG&E cannot support this language because it currently has no cost recovery mechanism for such costs. This section should be changed to as follows:

"The costs incurred by the ISO under each non-wires contract entered into pursuant to Section 3.2.3 shall be payable to the ISO only after: (i) the ISO has filed such contracts with FERC, (ii) the FERC has ruled that such contracts are just and reasonable, (iii) and a stakeholder supported methodology for recovering such costs through access charges is approved by the ISO Governing Board and the FERC."

Additional PG&E Comments

Steve:

Sorry to take so long getting this to you. Here is my suggested wording for a change at the end of section 3.5.1 of your previous draft, i.e. the draft we discussed in our last conference call on 11/5/99. Delete the words "...as provided by state law." and insert "...where such use is within the scope of the eminent domain authority granted to the Participating TO under state law." This would make clear that a PTO would not have to attempt to condemn property where the taking is not reasonably within the grant of the PTO's e.d. authority. In other words, a PTO could review both its specific grant of e.d. authority under the Public Utilities Code as well as the general provisions for use of e.d. under the Code of Civil Procedure in order to determine whether it can reasonably be obligated to assert its condemnation power.

I hope this helps.

John

Comments on Grid Planning Tariff Language

Southern Energy

Strategic Creative Directed SCD Energy Solutions

Date: November 8, 1999

To: Steve Greenleaf
CAISO

From: Phil Muller

Subject: SEI comments on Latest Grid Planning Tariff Language

Southern Energy has reviewed the latest (November 5) version of the grid planning tariff language, and would like to provide the following comments:

- SEI remains concerned about the prospect of the ISO having the ability to sponsor economic projects. This inappropriately provides the ISO with a vested interest in projects that it sponsors, an inconsistent position for an "Independent" system operator.

Other comments are on specific tariff language.

Sec 3.2.1.3 – reference to "as soon as practicable" should have specific time requirements – "within xx days"

Sec 3.2.2.3 – revised language appears to hold potential "third party contractor" to TO tariff requirements. I suspect that this is not the intent.

Sec 3.5.1.3 – here again keeping parties apprised should include some specific notification frequency, perhaps quarterly.

Comments on Grid Planning Tariff Language

SCE

I'm sure Scott will be discussing SCE's comments on 3.7 with you. SCE also promised you language for Section 3.5 (I think it fits at the end). Here it is:

Notwithstanding any other provision of this Tariff, a Participating TO's obligation to construct transmission additions, upgrades, and/or interconnection facilities shall be no greater than the obligation imposed by the Federal Power Act.

LADWP

LADWP Staff Comments on the CAISO's Proposed Tariff Language of November 5, 1999 Concerning the Long-Term Grid Planning Process

We realize that ISO is soliciting comments on the proposed tariff at this point, however we are taking this opportunity go on the record concerning the overall Grid Planning philosophy.

Concerns with the Direction the Grid Planning Process Is Headed

LA Policy Overview: As a general rule, congestion can be eliminated by either proper siting of new generation, i.e., a non-wires solution, or through building transmission upgrades or additions. We see the planning process to be iterative. If the marketplace does not offer up a "cheaper" non-wires solution to a congestion problem then the ISO wires-planning process acts as the backstop to cause cost effective transmission upgrade or additions to be built. The key to both the marketplace creating a non-wires solution and the transmission planners determining what is the appropriate wires solution alternative is clear non-muted transmission pricing, i.e., in ISO terminology, the Usage Charge. Mixing wire and non-wire solutions to solve persistent congestion defeats the underpinnings of deregulation: the power of marketplace innovation. The planning process is wallowing in uncertainty because the ISO fails to produce loud and clear congestion pricing signals. The ISO is failing to do the one non-wires job it's clearly charged to perform – create clear congestion pricing signals

ISSUE 1: The ISO should NOT consider transmission alternatives, i.e. "non-wires" solutions, to identified transmission projects.

Here's why:

1. If the congestion price signals were accurate, market solutions, when viable, would appear without ISO's proposed centralized planning.
2. Non-wires market solutions should be justified on their own merits and not be subsidized by ISO performance contracts.
3. Performance contracts for non-wires solutions are essentially RMR contracts. (Aren't we supposed to be getting out of the RMR business?)

Comments on Grid Planning Tariff Language

4. The ultimate goal of electrical utility restructuring should be creation of an uncongested super highway for electricity which the marketplace can use to work its magic.
5. Independence: ISO compromises its independence each time it chooses one project over another.
6. The new game in town is market driven planning, NOT Centralized Planning. If you do Centralized Planning, which is what the ISO is proposing, then you are back in the vertically integrated utility paradigm.
7. The ACCM proposal (new generator interconnection policy) was rejected by FERC because it did not send adequate congestion price signals. Improve the market signals and the reason for a complicated planning process that includes subsidies for non-wire alternatives disappears.
8. Transmission should not impede competition. After all is said and done, transmission amounts to a small fraction of an end-user's bill. The ISO is a wires business and should stick to transmission projects. A complicated two-part planning process including non-wires solutions builds spike strips into the planning of the transmission super highway.

ISSUE 2: The ISO should NOT sponsor "economic" transmission projects.

Here's why:

1. Independence: If the ISO sponsors an economic project it is then competing with generators, other would-be transmission owners and end-users.
2. If the marketplace does not produce the solution, then the ISO is justified in building a wires alternative commensurate with congestion pricing signals. If there is a problem it's that the signals are wrong or muted. ISO's definition of economic project distorts the meaning of economic. When you mix the two together at the outset you wave dollars in front of generators that they really have no legitimate claim to.

ISSUE 3: The costs of "non-wires" projects should NOT be recovered in the transmission access charge.

The new paradigm unbundles distribution, transmission and generation. Let's give this new paradigm a chance to mature before we corrupt it by reverting to the old bundled approach.

3. RELATIONSHIP BETWEEN ISO AND PARTICIPATING TOs AND GRID PLANNING PROCESS

3.1 General Nature of Relationship.

Each Participating TO shall enter into a Transmission Control Agreement with the ISO.

3.2 Grid Planning Process.

In accordance with its responsibility to ensure the reliable and efficient operation of the statewide transmission system, the ISO will assume the lead coordination role in the Grid Planning Process as defined in this Section 3. The Grid Planning Process consists of two stages: (a) development annually of an Initial Integrated Transmission Plan; and (b) the Solicitation for Competitive Alternatives to develop and obtain approval of a Final Integrated Transmission Plan.

3.2.1 Initial Integrated Transmission Plan . The ISO will be responsible for developing each year an Initial Integrated Transmission Plan for the ISO Controlled Grid for the next five years. The Initial Integrated Transmission Plan shall consist of the following: (a) a list of transmission projects developed from the consolidation of the Annual Transmission Plans of each of the Participating TOs that have been prepared as described in Section 3.3; (b) a list of transmission projects sponsored under Section 3.4; and (c) a list of projects developed as part of transmission additions or upgrades in connection with a request for generation interconnection governed by Section 5.7.

3.2.1.1 Development of Initial Integrated Transmission Plan. In developing an Initial Integrated Transmission Plan, the ISO will take the Participating TO's' Annual Transmission Plans or projects that the ISO reasonably deems necessary through the following steps: (a) direct Participating TOs to perform, consistent with the requirements and timeline in the Participating TO's tariff, any System Planning Study or Facility Study that the ISO believes is reasonably necessary to evaluate proposed projects, including studies that allow the evaluation of proposed projects using alternate assumptions, including but not limited to ~~these~~ such as revised load growth, revised levels of generation and alternate projects; (b) solicit, under a reasonable due date, comments by Market Participants or others on the Annual Transmission Plans of the Participating TOs and any other proposed transmission project, and evaluate such comments; and (c) evaluate the proposals and select the transmission projects that (i) conform to the ISO Grid Planning Criteria, Applicable Reliability Criteria, and the technical standards for interconnection of any applicable Participating TO or affected UDC, (ii) are cost-effective and (iii) produce expansions and upgrades that are required for the continued reliable and efficient expansion and operation of the ISO Controlled Grid.

3.2.1.2 Timing. The ISO will endeavor to ~~finalize complete its review~~ and submit to the ISO Governing Board for approval an Initial Integrated Transmission Plan within 120 days after the ISO receives the Annual Transmission Plans from all of ~~the~~ Participating TOs.

3.2.1.3 Publication. The ISO will publish and make available to the public an Initial Integrated Transmission Plan within five Business Days after its approval by the ISO Governing Board.

3.2.2 Solicitation of Competitive Alternatives. In order to assure that the expansion of the ISO Controlled Grid is developed consistent with market principles and is cost-effective, the ISO will conduct a solicitation of competitive alternatives to projects identified in the Initial Integrated Transmission Plan, provided that no alternatives will be sought for projects proposed under Section ~~3.2.3.13.2.3.1~~, 3.4 or 5.7 of the ISO Tariff.

3.2.2.1 Request for Proposals. Within ~~ten (10) Business Days~~thirty (30) days after publication of the Initial Integrated Transmission Plan, the ISO will issue a Request for Proposals for alternatives to the specific projects identified in the Initial Integrated Transmission Plan~~(a) projects proposed and (b) alternatives to those projects.~~ Each Project Sponsor of transmission projects identified in the Initial Integrated Transmission Plan, except for those projects proposed or required under Sections 3.2.3.1, 3.4 or 5.7 of the ISO Tariff, will submit, in accordance with the timeline for responses specified in the Request for Proposals, bid information for each proposed transmission project as is required to be submitted by all respondents to the Request for Proposals. The Request for Proposals shall seek all forms of alternatives to the projects, including transmission, generation and load or demand-based proposals.

3.2.2.2 Contents of Request for Proposals. The Request for Proposals shall include the following items: (a) identification of the specific projects in the Initial Integrated Transmission Plan for which competitive alternatives are sought; (b) establishment of a response date to the Request for Proposals, which shall be ~~at least no sooner than~~ sixty (60) days after the issuance of the Request for Proposals; and (c) a description of the screening and evaluation criteria that will be used by the ISO in evaluating the responses. The screening and evaluation criteria will be developed by the ISO with input from Market Participants and others. The criteria ~~may shall~~ include but not be limited to ~~characteristics items~~ such as cost, timing, availability, ability to provide service, environmental impact, and safety.

3.2.2.3 Evaluation of Responses to Request for Proposals. The ISO will initially screen the responses and within twenty-five (25) days from the due date of the responses publish a list of responses, while maintaining the confidentiality of market sensitive information, that have passed the screening criteria. The ISO may choose to direct Participating ~~TOes,~~ to perform, consistent with the ~~requirements and~~ timeline in the Participating TO's tariff, any System Planning Study or Facility Study that the ISO believes is necessary to evaluate the responses quantitatively or qualitatively, including studies that allow the evaluation of the responses using alternate assumptions, including but not limited to ~~those such as~~ revised load growth, revised levels of generation or ~~alternative~~ projects. The ISO may also contract with a third party to perform any such System Planning Study or Facility Study.

3.2.2.4 Timing.

The ISO will endeavor to complete its review, seek ISO Governing Board approval of, and issue a Final Integrated Transmission Plan within ninety (90) days after the publication of the list of projects ~~that have satisfied~~ the screening criteria. The Final Integrated Transmission Plan will include the projects selected under the competitive evaluation criteria, as well as all projects developed under Sections 3.2.3.1, 3.4 or Section 5.7 of the ISO Tariff that were included in the Initial Integrated Transmission Plan.

3.2.3 Development of Approved Projects.

The development of projects included in the Final Integrated Transmission Plan shall vary depending on the type of project. The development shall be as follows: (a) for projects to be constructed by a Participating TO, the Participating TO shall be responsible for the developmental aspects of the project, including but not limited to obtaining regulatory and siting approval of the project and regulatory approval of any required cost recovery. ~~The ISO will support the regulatory filings by the Participating TO to the extent such filings are consistent with the approved Final Integrated Transmission Plan and, with respect to rate recovery, to the extent the cost the Participating TO seeks to include in its rates is below the top of the estimated cost range submitted by the Participating TO in its proposal;~~ (b) for projects under Section 3.4 of the ISO Tariff, the Project Sponsor shall be responsible for all aspects of the project, including but not limited to planning, coordination, construction, costs, and regulatory approvals; (c) for projects under Section 5.7 of the ISO Tariff, the responsibilities for all

aspects of the project, including but not limited to planning, coordination, construction, costs and regulatory approvals, shall be governed by Section 5.7; and (d) for projects involving generation construction or demand-based projects, the project developer shall be responsible for all aspects of the project, including but not limited to planning, coordination, construction, costs, and regulatory approvals. The developer of generation and demand-based projects shall also be required to execute a contract with the ISO giving the ISO the right to call upon the project to provide the necessary support to the ISO Controlled Grid, [as defined in the contract](#), in a manner consistent with the grid needs satisfied by the project and consistent with the cost used in the evaluation of the selected project pursuant to Section 3.2.2.

3.2.3.1 Expedited Planning and Approval Process. In order to expedite the planning and approval of transmission projects needed to maintain the reliability of the ISO Controlled Grid, the ISO will consider, on a case-by-case basis, approving proposed transmission projects on an expedited basis. Projects so approved shall not be subject to the requirements of Section 3.2.2. Transmission projects eligible for expedited consideration include, but are not limited to, those required by equipment failure, anticipated equipment failure, ~~unanticipated~~ load growth [that could not be reasonable anticipated](#), significant changes in congestion [that may impair reliability](#), and other system anomalies which require prompt action to maintain reliability and [which](#) cannot be [reasonably](#) addressed through the regular grid planning process. The ISO will develop and post on the

ISO's Home Page planning procedures that outline the process and timeline for consideration of projects on an expedited basis.

3.2.4 Representation in Regional [Transmission Planning Coordination](#)

Forums. In order to assure consistency with the Grid Planning Process, the ISO will actively participate in all regional [transmission planning coordination](#) forums. The ISO will be a member of WSCC and applicable RTGs and participate in WSCC's operation and planning committees and in the applicable RTG coordinated planning process. No Participating TO, Market Participant or the ISO shall take any position before the WSCC or an RTG or other regional coordination forum that is inconsistent with a binding decision reached through the ISO ADR Procedure.

3.3 Information Provided By Participating TOs. Participating TOs shall be responsible to prepare studies or provide information as described in this Section 3.3.

3.3.1 Annual Transmission Plans. Each Participating TO shall develop annually a transmission plan covering a minimum five-year planning horizon for its service area. Such Participating TO shall coordinate with the ISO and other Market Participants in the development of such plan. All plans shall adhere to a common methodology or format that has been developed by the ISO in consultation with all the Participating [TOs](#), the details of which shall be included in the ISO's planning procedures posted on the ISO Home Page. The Participating TO shall be responsible for ensuring that its Annual Transmission

Plan meets all Applicable Reliability Criteria, ISO Grid Planning Criteria, and factors in items such as load growth, congestion mitigation, LARS requirements, and known new transmission or generation projects.

3.3.1.1 Disputes Regarding Inclusion of Projects in Annual Transmission

Plans. Where a Project Sponsor believes that a transmission addition or upgrade is economically beneficial, but is unwilling to commit to pay the full cost of the addition or upgrade, it may submit its proposal to a Participating TO. If the Participating TO does not include the proposed project in its Annual Transmission Plan, the Project Sponsor may submit its proposal to the ISO ADR Procedure for determination of whether the project should be included in the Annual Transmission Plan. A determination of whether to include the project shall be made as follows:

3.3.1.1.1 The Project Sponsor shall include in its proposal a showing: (a) that the economic benefits of the proposed transmission addition or upgrade are expected to exceed its costs (giving consideration to any reasonable alternatives to the construction of transmission additions or upgrades); and (b) a proposed pricing methodology for the transmission upgrades that, to the extent practicable, assigns the costs of the planned upgrades to the beneficiaries in proportion to their net benefits.

3.3.1.1.2 If no Market Participant disputes the Project Sponsor's showing, then the proposal shall be included in the [applicable Participating TO's Annual Transmission Plan Assessment](#).

3.3.1.1.3 If any Market Participant disputes the Project Sponsor's showing, then the disputing Market Participant, or the Project Sponsor may submit to resolution through the ISO ADR Procedure the issues of (a) whether the economic benefit of the transmission addition or upgrade exceeds its costs, (b) whether the beneficiaries of the transmission addition or upgrade can or have been reasonably identified, and (c) if so, the identity of those beneficiaries and their respective net benefits. If a Market Participant fails to raise through the ISO ADR Procedure a dispute as to whether a proposed transmission addition or upgrade is economically beneficial, or as to the identity, if any, of the beneficiary, then the Market Participant shall be deemed to have waived its right to raise such dispute at a later date. The determination under the ISO ADR Procedure as to whether the transmission addition or upgrade is beneficial and the identity, if any, of the beneficiaries, including any determination by FERC or on appeal of a FERC determination in accordance with that process, shall be final.

3.3.1.1.4 Even if it is finally determined, [pursuant to Section 3.3.1.1](#), that a project should be included in a Participating TO's Annual Transmission Plan, the project shall still be subject to the Grid Planning Process of Section 3.2 of the ISO Tariff and if the project is not included in the approved Final Integrated Transmission Plan, it shall not be interconnected to the ISO Controlled Grid without the ISO's approval ~~and there shall be a presumption that its cost shall not be recoverable in regulated rates.~~

3.3.2 Other Studies. Each Participating TO shall be responsible for preparing any study or providing any [relevant](#) information as directed by the ISO in accordance with Section 3.2 of the ISO Tariff [and, if applicable, in accordance with the requirements and timelines in the Participating TO's tariff.](#)

3.3.3 Other Information. Each Participation TO [and Project Sponsor](#) shall provide to the ISO any information that the ISO requires to comply with any of its regional coordination responsibilities pursuant to Section 3.2.4. [The ISO shall also provide to a Participating TO or Project Sponsor any information, as may be reasonably available to the ISO and not subject to confidentiality provisions of Section 20.3 of the ISO Tariff, to such Participating TO or Project Sponsor that may be required of such party in order to support a showing before a regional planning body.](#)

3.3.4 Costs of Studies. The ISO will be responsible for and pay the cost of any studies it directs a Participating TO to make on its behalf or the costs of any information it requires the Participating TO to develop in connection with Section and 3.3.2. The Participating TO shall be responsible for the costs of developing the Annual Transmission Plan, including any such studies as may be reasonable necessary as a result of identified deficiencies in the Participating TO's Annual Transmission Plan, and the studies that support such plan, or the need to examine the results of such studies using different assumptions.

3.3.5 Disputes. Any dispute relating to any study or information required to be provided by a Participating TO [or a Project Sponsor](#) under Section 3.2 or 3.3, including disputes regarding costs of providing such studies or information, shall be resolved through the ISO ADR Procedures.

3.4 Economically Driven Projects. Where a Project Sponsor commits to pay the full cost of construction of a transmission addition or upgrade and its operation, and demonstrates to the ISO financial capability to pay those costs, such commitment and demonstration shall be sufficient to demonstrate that the project is economically driven. The ISO will include economically driven projects in the next succeeding Initial Integrated Transmission Plan proposed by the ISO, [and as long as the project remains economically driven, and](#) the project shall be included in the Final Integrated Transmission Plan that is thereafter approved by the ISO Governing Board. To ensure that the Project Sponsor is financially able to pay the costs of the project to be constructed by the Participating TO, 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.

3.4.1 The ISO may, on its own initiative, identify and become the Project Sponsor of an economic expansion. Any such ISO-sponsored economic expansion shall be included in either the applicable Participating TO's Annual

Transmission Plan or the Initial Integrated Plan developed by the ISO, subject to the provisions of [the ISO's ADR Procedures as provided for in](#) Section 3.3.1.1. If approved [by the ISO Governing Board](#) and included in the Final Integrated Transmission Plan, the applicable Participating TO shall construct the economic project pursuant to Section 3.5.

3.4.1.1 Prior to the ISO sponsoring an economic expansion, the ISO will notify Market Participants of its intention to become the Project Sponsor of an economic expansion. The ISO will post on the ISO Home Page all relevant information regarding the proposed project, including the economic basis on which the ISO believes the project is warranted. If, within thirty (30) days of the ISO's posting, a Market Participant requests to become the Project Sponsor of the proposed transmission project, such Market Participant shall become the Project Sponsor of said project. To the extent that no Market Participant requests to become the identified Project Sponsor of the project, the ISO will be identified as such and Section 3.4.1 shall apply.

3.5 Construction of Transmission Expansion by Participating TO

A Participating TO shall be obligated to construct all transmission additions and upgrades within its Service Area that are determined to be required to be constructed in accordance with the requirements of an approved Final Integrated Transmission Plan as described in Section 3.2, above. A Participating TO's obligation to construct such transmission additions and upgrades shall be subject to: (1) its ability, after making a good faith effort, to obtain all necessary approvals and property rights under applicable federal, state, and local laws and

(2) the presence of a cost recovery mechanism with cost responsibility assigned in accordance with Section 3.6.

3.5.1 Property Rights. The Participating TO shall be obligated to 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 transmission additions or upgrades required to be constructed in accordance with an approved Final Integrated Transmission Plan. This obligation includes the Participating TO's use of eminent domain authority, where ~~provided by state law~~ such use is within the scope of the eminent domain authority granted to the Participating TO under state law.

3.5.1.1 If the Participating TO cannot secure any such necessary approvals or property rights and consequently is unable to construct a transmission addition or upgrade, it shall promptly notify the ISO and the Project Sponsor, if applicable, and shall comply with its obligations under the TO Tariff to convene a technical meeting to evaluate alternative proposals. The ISO shall take such action as it reasonably considers appropriate, in coordination with the Participating TO, the Project Sponsor (if any) 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.

3.5.1.2 Where 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 an approved Final Integrated Transmission Plan

(including the use of eminent domain authority, where provided by state law) the ISO may confer on a third party, or the party to whom ownership and control is transferred prior to the in-service date of the project, the right to build the transmission addition or upgrade. Such third party shall enter into a Transmission Control Agreement in relation to such transmission addition or upgrade.

3.5.1.3 Status of Approved Projects

Project Sponsors for projects that have been approved and included in the ISO's Final Integrated Transmission Plan shall keep the ISO and Market Participants apprised, on at least a quarterly basis, of the status of such projects, including the Project Sponsors efforts to obtain all approvals and property rights under applicable federal, state and local laws that are necessary to complete the construction of the proposed project.

3.6 Cost Responsibility for Transmission Expansions or Upgrades.

Cost responsibility for transmission additions or upgrades constructed pursuant to Section 3.2 (including the responsibility for any costs incurred under Section 3.6.22-6) shall be determined as follows:

3.6.1 Where a Project Sponsor commits to pay the full cost of a transmission addition or upgrade as set forth in Section 3.4 the full costs shall be borne by the Project Sponsor. Where a project is constructed under Section 5.7, the costs shall be borne as provided in that Section 5.7.

3.6.2 Where the need for a transmission addition or upgrade is determined through an approved Final Integrated Transmission Plan, except for those

projects encompassed by Section 3.4 or Section 5.7 of the ISO Tariff, the costs shall be borne by the beneficiaries, in the approximate relative proportions by which they benefit, if those beneficiaries and such proportions can reasonably be determined.

3.6.2.1 If specific beneficiaries cannot be reasonably identified then the cost of the transmission addition or upgrade borne by the Participating TO that is the owner of the transmission addition or upgrade shall be reflected in its Access Charge.

3.6.3 Each of the Project Sponsors, ~~and~~ specifically identified beneficiaries or applicable Participating TOs identified pursuant to the provisions of Sections 3.6.1, 3.6.2 and 3.6.2.1, shall be entitled to receive:

- (a) its share of the Wheeling revenues attributable to the transmission addition or upgrade, which shall be allocated to each of the Project Sponsors and specifically identified beneficiaries in the proportion that the cost of the transmission addition or upgrade borne by it bears to the total cost of the transmission addition or upgrade; and
- (b) a share of any revenues from the auction of Firm Transmission Rights, Congestion Charges for the use of a Congested Inter-Zonal Interface of which the transmission addition or upgrade forms part in the proportion that the incremental transmission capacity of the Inter-Zonal Interface the cost of which has been allocated to it bears to its total transmission capacity.

3.7 Cost Responsibility for Non-wires Projects

The costs incurred by the ISO under each non-wires contract entered into pursuant to Section 3.2.3 shall be payable to the ISO by the Participating Transmission Owner in whose Service Area the non-wires projects are located. Prior to the ISO assessing the applicable Participating TO for the costs incurred by the ISO under a non-wires contract, each non-wires performance contract will be filed by the non-wires Project Sponsor with FERC, if the non-wires contract is subject to FERC jurisdiction, seeking FERC acceptance of the contract for filing. If the non-wires performance contract is not subject to FERC jurisdiction, the ISO will make an informational filing of such contract with FERC. The effectiveness of any non-wires performance contract executed by the ISO with a FERC jurisdictional non-wires project will be conditioned upon FERC acceptance of the contract for filing. Payment by the ISO for service procured under each non-wires contract will be conditioned upon the ability of the ISO to bill and receive payment from the applicable Participating TO for the costs associated with such contract.

(CURRENT OR PRE-TAC VERSION)

3.7.1 A Participating TOs will recover ~~thesuch~~ costs of each non-wires performance contract, as assessed to the applicable Participating TO by the ISO pursuant to Section 3.7, as a transmission related expenses under ~~itstheir~~ respective TO Tariff.

(PROSPECTIVE OR POST-TAC VERSION)

3.7.1 A Participating TO will recover the costs of each non-wires performance contract, as assessed to the applicable Participating TO by the ISO pursuant to

Section 3.7, as a transmission related expense under the Regional Access Charge or its TO Tariff, as follows: If the non-wires project defers or eliminates a proposed Participating TO-sponsored transmission project that involves a Regional Transmission Facility, the costs of the associated non-wires performance contract shall be included in the Participating TO's Regional Revenue Requirement and recovered through the Regional Access Charge. If the non-wires project defers or eliminates a proposed Participating TO-sponsored transmission project that involves a Local Transmission Facility, the costs of the associated non-wires performance contract shall be included in the Participating TO's Local Revenue Requirement and recovered under the Participating TO's TO Tariff.

3.8 Ownership of and Charges for Expansion Facilities.

3.8.1 All transmission additions and upgrades constructed in accordance with an approved Final Integrated Transmission Plan shall form part of the ISO Controlled Grid and shall be operated and maintained by a Participating TO in accordance with the Transmission Control Agreement.

3.8.2 The Participating TO that owns or operates transmission additions and upgrades constructed in accordance with an approved Final Integrated Transmission Plan shall provide access to them and charge for their use in accordance with this ISO Tariff and the TO Tariff.

3.9 Expansion by “Local Furnishing” Participating TOs.

Notwithstanding any other provision of this ISO 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 ISO or Project Sponsor has tendered an application under FPA Section 211 that requests FERC to issue an order directing the Local Furnishing TO to construct such facilities pursuant to Section 3.2 of the ISO Tariff. The Local Furnishing TO shall, within 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 TO shall construct such facilities in accordance with this Section 3.2.

2.3.3.5 Maintenance Outage Planning. Each Operator shall, by not later than October 1 each year, provide the ISO with a program of all Maintenance Outages which it wishes to undertake during the next following year. In the case of a Participating TO, that program shall be developed in consultation with the UDCs interconnected with that Participating TO's system and shall take account of each UDC's planned maintenance requirements. The nature of the information to be provided and the detailed Maintenance Outage planning procedure shall be established by the ISO in consultation with the ISO Grid Operations Committee and set out in an ISO Protocol. Either the ISO, pursuant to Section 2.3.3.6, or an Operator, [subject to Section 2.3.3.5.4](#), may at any time request a change to an Approved Maintenance Outage. An Operator may, upon seventy-two (72) hours advance notice, schedule with the ISO Outage Coordination Office a Maintenance Outage on its system, subject to the conditions of Sections 2.3.3.5.1, 2.3.3.5.2, and 2.3.3.5.3.

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[2.3.3.5.4 In the event an Operator of facilities forming part of the ISO Controlled Grid cancels an Approved Maintenance Outage after 5:00 a.m. of the day prior to the day upon which the outage is scheduled to commence and the ISO determines that the change was not required to preserve System Reliability, the ISO may disregard the availability of the affected facilities in determining the availability of transmission capacity in the Day-Ahead Market, provided, however, that the ISO will, as promptly as practicable, notify Market Participants and reflect the availability of the affected facilities in determining the availability of transmission capacity in the Hour-Ahead Market.](#)

2.3.3.6 Maintenance Outage Requests by the ISO. The ISO Outage Coordination Office may at any time request a Maintenance Outage or a change to an Approved Maintenance Outage from an Operator if, in the opinion of the ISO Outage Coordination Office, the requested Maintenance Outage or change is required to secure the efficient use and reliable operation of the ISO

Controlled Grid. In addition, the ISO Outage Coordination Office may, by providing notice no later than 5:00 a.m. of the day prior to the day upon which the outage is scheduled to commence, direct the Operator of facilities forming part of the ISO Controlled Grid to cancel an Approved Maintenance Outage, when necessary to preserve or maintain System Reliability or to avoid unduly significant market impacts that would arise if the outage were to proceed as scheduled. The Operator acting in accordance with Good Utility Practice, shall comply with the ISO's direction and the provisions of Section 2.3.3.6.1 and 2.3.3.6.2 shall not apply. The ISO shall give notice of any such direction to Market Participants prior to the deadline for submission of initial Preferred Day-Ahead Schedules for the day on which the outage was to have commenced.

* * *

OCP 3.1.3 Changes to Planned Maintenance Outages

A Participating TO may submit changes to its planned Maintenance Outage information at any time, provided, however, that if the Participating TO cancels an Approved Maintenance Outage after 5:00 a.m. of the day prior to the day upon which the outage is scheduled to commence and the ISO determines that the change was not required to preserve System Reliability, the ISO may disregard the availability of the affected facilities in determining the availability of transmission capacity in the Day-Ahead Market. The ISO will, however, notify Market Participants and reflect the availability of the affected facilities in determining the availability of transmission capacity in the Hour-Ahead Market as promptly as practicable.

* * *

[New Section]

OCP 3.2.3 Direction by the ISO

The ISO Outage Coordination Office may, by providing notice no later than 5:00 a.m. of the day prior to the day upon which the outage is scheduled to commence, direct the Operator of facilities forming part of the ISO Controlled Grid to cancel an Approved Maintenance Outage, when necessary to preserve or maintain System Reliability or to avoid unduly significant market impacts that would arise if the outage were to proceed as scheduled. The Operator acting in accordance with Good Utility Practice, shall comply with the ISO's direction. The ISO shall give notice of any such direction to Market Participants prior to the deadline for submission of initial Preferred Day-Ahead Schedules for the day on which the outage was to have commenced.