California Independent
System Operator Corporation

December 6, 2007

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: Answer of the California Independent System Operator Corporation to Comments, and Protests
Docket No. ER08-140-001

Dear Ms. Bose:

Pursuant to Rule 213 of the Commission's Rules of Practice and Procedure, 16 U.S.C. § 385.213, the California Independent System Operator Corporation ("CAISO") submits its Answer to Motions to Intervene, Comments and Protests regarding the CAISO's Location Constrained Resource Interconnection ("LCRI") Amendment filed on October 31, 2007 in the above identified proceeding.

Respectfully Submitted,

<u>/s/ Anthony J. Ivancovich</u>
Anthony J. Ivancovich

Counsel for the California Independent System Operator Corporation

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

California Independent System Operator Corporation	**)** **)**	**Docket No. ER08-140-001**

ANSWER OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION TO COMMENTS, AND PROTESTS

Pursuant to Rule 213 of the Commission's Rules of Practice and Procedure, 16 U.S.C. § 385.213, the California Independent System Operator Corporation ("CAISO") [1] submits its Answer to Motions to Intervene, Comments and Protests regarding the CAISO's Location Constrained Resource Interconnection ("LCRI") Amendment filed on October 31, 2007 in the above identified proceeding.[2]

I. SUMMARY

None of the protesters or commenters has identified any reason for the Commission to reject or modify the LCRI Amendment, with the exception of some clarifying language proposed by Southern California Edison ("SCE") and possible clarifying language to address an issue raised by the State Water Project ("SWP"). A summary of the CAISO's response to these comments and protests is set forth below.

---

[1] Capitalized terms not otherwise defined herein have the meanings set forth in the Master Definitions Supplement, Appendix A to the ISO Tariff, and in the LCRI Amendment.

[2] The CAISO requests waiver of Rule 213(a)(2), 18 C.F.R. § 385.213(a)(2), to permit it to make an answer to the protests. Good cause for this waiver exists here because the answer will aid the Commission in understanding the issues in the proceeding, provide additional information to assist the Commission in the decision-making process, and help to ensure a complete and accurate record in this case. *See, e.g., Entergy Services, Inc.*, 116 FERC ¶ 61,286, at P 6 (2006); *Midwest Independent Transmission System Operator, Inc.*, 116 FERC ¶ 61,124, at P 11 (2006); *High Island Offshore System, L.L.C.*, 113 FERC ¶ 61,202, at P 8 (2005).

- Because the cap on total net LCRI investment is intended to mitigate rate impacts, it is properly based on the aggregate Transmission Revenue Requirement (or some proxy therefore) existing at the time a Location Constrained Resource Interconnection Facility ("LCRIF") [3] is approved.

- The proposed demonstration of interest requirement is in the middle of the range that the Commission preliminarily found to strike an appropriate balance between encouraging the development of location-constrained resources on the one hand and protecting ratepayers on the other. It is the result of the CAISO's stakeholder process and no party has presented any evidence that the Commission's preliminary determination was inaccurate. The arguments to the contrary disregard the fundamental purpose of the LCRI Amendment and offer no evidence that the proposed requirements are inadequate.

- The costs of an LCRIF are properly included in the Wheeling Access Charge assessed to Wheel-Throughs because they benefit from the existence of LCRIFs. LCRIFs also provide Wheel-Through customers the same access to location-constrained resources as they provide to Wheel-Out customers and Load served directly by the CAISO Controlled Grid.

- In order to expedite implementation of the LCRI initiative, it is appropriate to authorize the CAISO Board of Governors to designate Energy Resource Areas on an interim basis until the California Public Utilities Commission ("CPUC") and the California Energy Commission ("CEC") have developed criteria and a process for designation.

- The issue of whether potential Location Constrained Resource Interconnection Generators ("LCRIGs") must be remote from transmission facilities is properly addressed the CPUC's and CEC's designation of Energy Resource Areas and through the CAISO transmission planning process, not by definitional restrictions and vague tariff language.

- Arguments regarding the CAISO's compliance with Order No. 890[4] and the role of transmission planning in the approval of LCRIFs are premature. These matters will be addressed in the CAISO's Order No. 890 compliance filing to be filed on December 21, 2007.

---

[3] To avoid any confusion, the CAISO is using the term LCRIF throughout this filing even though a different term was used in the Petition.

[4] *Preventing Undue Discrimination and Preference in Transmission Service,* Order No. 890, 72 FR 12266 (March 15, 2007), FERC Stats. & Regs. ¶ 31,241 (2007), *reh'g pending.*

- The CAISO's transmission planning process will provide protection against the potential for inappropriate subsidies due to stranded transmission investment. The benefits to renewable LCRIGs provided by LCRIFs must be shared with non-renewable LCRIGs to avoid undue discrimination.

- In light of the previous proceedings and stakeholder processes, settlement proceedings would serve no purpose but to delay implementation of the LCRI initiative.

- Arguments that the LCRI Amendment are contrary to Commission policy and beyond the Commission's authority are collateral attacks on prior Commission decisions and not supported by case law.

- The CAISO believes that SCE's proposed revisions to the LCRI Amendment are helpful and appropriate clarifications or corrections. Similarly, it may be appropriate to add tariff language clarifying that the rate cap does not increase as the result of LCRIF investment. IID's proposed revisions are either superfluous or impose unnecessary and inappropriate limitations on the LCRI process.

II. BACKGROUND

The complete background regarding the LCRI Amendments is included with the CAISO's October 31, 2007, filing. The CAISO will only summarize it here.

On January 25, 2007, following an extensive stakeholder process, the CAISO filed a Petition for a Declaratory Order seeking Commission conceptual approval of a new financing mechanism to facilitate the construction of interconnection facilities for location constrained resources. The need for the new financing mechanism has been extensively discussed in the Petition and in the CAISO's filing in this docket.

As proposed in the Petition, Participating Transmission Owners ("Participating TOs") would pay the up-front costs of constructing LCRIFs. Participating TOs that construct LCRIFs would be permitted to reflect in their

Transmission Revenue Requirement ("TRR") the costs of a LCRIF which are not being directly recovered from generators connected to the LCRIF. The TRR determines the CAISO's transmission Access Charge and Wheeling Access charge (together the "TAC"). Additional generation owners that connect to a LCRIF would be assigned a "pro rata" share of the costs on a going-forward basis. Once the LCRIF is fully subscribed, all costs would be directly assigned to such Generators. In the Petition, the CAISO proposed a number of specific eligibility criteria for its new financing mechanism, three of which are relevant for the purposes of this Answer:

- To be eligible for the proposed financing treatment, a project must be evaluated and approved by the CAISO in the context of a prudent CAISO transmission planning process;
- There would be an aggregate cap on the total dollars associated with LCRIFs that could be included in TAC rates. Specifically, the total investment in LCRIFs that could be included in TRRs and the TAC cannot exceed 15 percent of the sum total of the net high-voltage transmission plant of all Participating TOs, as reflected in their TRRs and in the TAC; and
- A project must demonstrate adequate commercial interest by satisfying a two-prong test before actual construction can commence: (a) a minimum percentage of the capacity of the new LCRIF – in the range of 25 to 30 percent – must be subscribed pursuant to Large Generator Interconnection Agreements ("LGIAs"); and (b) there must be a tangible demonstration of additional interest in or support for the project – in the range of 25 to 35 percent – above and beyond the capacity covered by LGIAs.

On April 19, 2007, the Commission issued a Declaratory Order in which it granted the CAISO's Petition and accepted the design concepts proposed therein.[5] In the Declaratory Order, the Commission determined that the CAISO's "proposed rate treatment is not unduly preferential or discriminatory and includes

5 *Cal. Indep. Sys. Operator,* 119 FERC ¶ 61,061 (2007) ("Declaratory Order).

protections to customers that are just and reasonable"[6] and that the proposal "strikes a reasonable balance that addresses the barriers to development of location-constrained resources and includes appropriate ratepayer protections."[7]

In the Declaratory Order, the Commission identified certain issues that needed clarification in the CAISO's tariff filing:

- the costs, if any, that "would be allocated to wheel-through customers and their corresponding benefits;"[8]
- the required commitment levels and the rate impact cap;[9] and
- the process for identifying the area for which LCRIFs would be constructed (ERAs).[10]

The Commission also required that "any project financed through this mechanism would be subject to an independent regional transmission planning process that must define the benefits a facility provides to the grid."[11]

After an extensive stakeholder process, the CAISO filed the LCRI Amendment on October 31, 2007. The CAISO noted that the LCRI Amendment is consistent with the concepts approved by the Commission in the Declaratory Order and addresses four broad aspects of the LCRI proposal: (1) the criteria under which a project qualifies for consideration as a LCRIF; (2) the criteria the CAISO will apply, during its Transmission Planning Process, to determine whether a proposed LCRIF is needed, so as to qualify for inclusion in the

---

[6] Declaratory Order at P 62.
[7] Id. at P 3.
[8] *Id.* at P 86.
[9] The Commission declined to rule on these issues but stated that "we preliminarily accept the ranges proposed as they strike an appropriate balance between encouraging the development of location-constrained resources on one hand and protecting ratepayers on the other" and "the overall requirements should be finalized in the stakeholder process" *Id.* at P 89.
[10] *Id.* at P 90.
[11] *Id.* at P 63.

CAISO's Transmission Plan; (3) the mechanism to recover the costs of construction of an LCRIF; and (4) the allocation of the costs of a LCRIF. The CAISO explained that the process by which LCRIFs will be evaluated in the CAISO's Transmission Planning Process is part and parcel of the transmission planning process that the CAISO is currently developing to comply with the transmission planning requirements adopted in Order No. 890, which will be filed in December 2007.

The LCRI Amendment establishes the eligibility for LCRIFs and addresses the three Commission issues as follows. First, the CAISO can conditionally approve a LCRIF project if it determines that the project is needed, and the following criteria are met:

(1) The facility is to be constructed for the primary purpose of connecting to the CAISO Controlled Grid two or more LCRIGs in an ERA.

(2) The facility will be a High Voltage Transmission Facility.

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

(4) The facility meets applicable CAISO grid planning standards, including standards that are Applicable Reliability Requirements.

Second, to qualify for the proposed rate treatment, at least 90 days prior to the commencement of construction of a LCRIF, the proponent of the LCRIF must also meet the following criteria:

(1) The addition of the capital cost of the facility to the High Voltage TRR of a Participating TO will not cause the aggregate of the net investment of all LCRIFs (net of the portion of the capital costs of LCRIFs to be recovered by Participating TOs from LCRIG owners) included in the High

Voltage TRRs of all Participating TOs to exceed fifteen percent (15%) of the aggregate of the net investment of all Participating TOs in all High Voltage Transmission Facilities reflected in their High Voltage TRRs in effect at the time of the CAISO's evaluation of the facility.

(2) Existing or prospective owners of LCRIGs have demonstrated their interest in connecting LCRIGs to the facility consistent with the requirements of Section 24.1.3.2, which establishes the necessary demonstration of interest.

In addition, under the LCRI Amendment, the costs of LCRIFs are allocated to wheel-through customers in the same manner as to wheel outs and to Load connected to the CAISO Controlled Grid.[12]

The Commission issued a public notice of the LCRI Amendment and established at November 21, 2007, deadline for comments. The following entities submitted motions to intervene with no substantive comments:

- California Electricity Oversight Board
- NRG Power Marketing Inc., Cabrillo Power I LLC, El Segundo Power LLC, Long Beach Generation LLC, and Padoma Wind Power LLC (collectively the "NRG Companies")
- M-S-R Public Power Agency and the City of Santa Clara, California d/b/a Silicon Valley Power
- Transmission Agency of Northern California

The following entities submitted motions to intervene and only supportive comments:

- CPUC.
- Pacific Gas & Electric Company.

The following entities submitted motions to intervene and protests or comments with recommended modifications:

- California Department of Water Resources State Water Project ("SWP")
- California Municipal Utilities Association ("CMUA")
- California Public Utilities Commission ("CPUC")
- Golden State Water Company ("Golden State")

---

[12] Under the CAISO Tariff, the TRR determines the Wheeling Access Charge, which is paid by customers that wheel through, as well as the TAC.

- Imperial Irrigation District ("IID")
- Metropolitan Water District of Southern California ("Metropolitan")
- Modesto Irrigation District ("MID")
- Northern California Power Agency ("NCPA")
- Pacific Gas & Electric Company ("PG&E")
- Sacramento Municipal Utility District ("SMUD")[13]
- SCE.

III. ANSWER

A. Motions to Intervene.

The CAISO does not oppose any of the motions to intervene.

B. Response to Protests and Comments

1. 15% Cap on Rate Impact

CMUA, Metropolitan, and SWP complain about the 15% rate impact cap.[14] Each asserts that an investment cap based on the net investment of Participating TOs in High Voltage Transmission Facilities that is reflected in their High Voltage TRRs would leave consumers exposed to excessive LCRIF costs. Each cites the escalating cost of transmission investments. SWP recommends that the cap be set at $480 million (based on the current level of High Voltage Transmission Facilities reflected in the High Voltage TRRs) with an escalator based on the Handy-Whitman Index of Public Utility Construction costs.[15] CMUA claims that the CAISO has not shown a linkage between the amount of High Voltage Transmission in the system and the appropriate level of LCRIFs, but CMUA offers no alternative proposal and identifies no other options.

---

[13] SMUD simply endorses the comments of CMUA. Accordingly, the CAISO will not address its comments separately here.

[14] CMUA at 2-3, 6; Metropolitan at 5-6; SWP at 5-8.

[15] SWP at 8.

These arguments misconstrue the basic intent and rate design of the LCRI proposal. The 15% cap is not intended to arbitrarily and artificially limit the construction of LCRIFs; it is intended to address rate impacts. The issue of whether additional LCRIFs are necessary will be addressed through the determination of ERAs by state agencies; by the consideration of LCRIFs in the CAISO's comprehensive transmission planning process – in which all stakeholders will be able to participate -- and by the requirement of a demonstration of interest in the LCRIF. The CAISO submits that the proposed 15 percent aggregate cap strikes an appropriate balance between encouraging the development of location constrained resources on one hand and protecting ratepayers on the other.

Because the cap addresses rate impact, it is logical to tie it to the current transmission rates that are in effect at the time a LCRIF is evaluated. Indeed, Commission decisions regarding, *inter alia,* the appropriateness of rolled-in rates, cost shift caps and the need to mitigate rate increases have traditionally been based on current cost/rate levels and rate impacts at the time of the evaluation, not "stale" cost and rate levels. The CAISO's proposal to utilize an aggregate cap based on the then-current level of High Voltage Transmission Facilities at the time of a particular LCRIF evaluation is consistent with this approach.

An aggregate cap based on a percentage of LCRIF capital costs compared to the total net High-Voltage Transmission Facilities investment of Participating Transmission Owners ("Participating TOs") is a proxy for a cap based on the percentage increase that new LCRIFs will have on transmission

rates. An asset-based cap will be easy for the CAISO to calculate and track and will not require "guesstimates" well in advance of any Participating TO rate filing regarding the return on equity, debt costs, and O&M, among other things, associated with a particular LCRIF, which would be necessary to do a more precise rate impact determination. This approach is particularly appropriate given that this cost and rate information is not within the "control" of the CAISO because it is the Participating TOs, not the CAISO, that determine the TRRs which are ultimately reflected in the TAC. In any event, the net High-Voltage Transmission Facilities investment included in a Participating TO's TRR is the primary "driver" of the CAISO's TAC, so it is not unreasonable to utilize a cap based on transmission plant investment.

CMUA and SWP object to using a cap that would allow LCRIF investment to increase as investment in High Voltage Transmission Facilities increases. In particular, they express concern that the significant level of planned transmission investment over the next several years will allow LCRI investments to increase correspondingly and that could have an adverse and significant impact on ratepayers. As it is, transmission rates typically constitute less than 10% of retail rates.[16] A 15% cap, therefore, would limit the overall rate impact of

[16] *See, e.g.* Pacific Gas & Electric Company's Tariff for residential service. http://www.pge.com/tariffs/pdf/E-1.pdf. Evidence submitted by the CAISO in Amendment No. 27 to the CAISO tariff -- which proposed a new methodology for calculating the TAC -- indicated that the cost of transmission on the monthly bill of a typical residential end user is approximately 3.1 percent of the total cost of electricity. *See California Independent System Operator Corporation,* 91 FERC ¶ 61,205 at 61,725 (2000).

all LCRIFs to less than 2% of overall electricity rates. This hardly constitutes a significant adverse impact on ratepayers.[17]

SWP urges the Commission to adopt a rate cap based on the existing level of net High Voltage Transmission Plant investment and then apply an annual escalator to it using the *Handy-Whitman Index of Public Utility Construction Costs*. Even assuming *arguendo* that SWP's proposal is reasonable, before the Commission can approve such proposal it would have to find the CAISO's proposal to be unjust, unreasonable, or unduly discriminatory. No party has produced any evidence that it is so. As noted above, the CAISO's proposal is consistent with the Commission's traditional approach to evaluating rolled-in rates, as well as cost shift caps and rate mitigation measures (*i.e.,* looking at the impact of a new rate element on *current* rates).

Even so, SWP's proposal is not appropriate. The CAISO identified several reasons in its October 31, 2007 tariff amendment filing why the use of a fixed cap with an escalator, rather than the impact on then-current rates, is inconsistent with the purpose of the LCRI proposal. In particular, the State's

---

[17] The CAISO notes that in one of its examples SWP appears to misunderstand the intent of the LCRI amendments. SWP asserts:

> LCRI facilities investments may significantly reduce the effectiveness of an initial 15% cap. For example, given a current high voltage transmission plant investment of all Participating Transmission Owners of approximately $3.2 billion, and assuming that amount remains static except for increases associated with LCRI facilities, the initial 15% cap would be $480 million. An investment in LCRI facilities of $480 million in year 1 would increase the cap to $552 million in year 2 ($480M+$480M*15%=$552M), assuming no other transmission investment. An additional investment in LCRI facilities of $72 million in year 2 would increase the cap further to $563 million in year 3 ($552+$72M*15%=$563M).[17]

It is not the intent of the CAISO to include the cost of previously approved LCRIFs in calculating the investment cap. To the extent the Commission finds it necessary, the CAISO can provide additional clarifying tariff language in a compliance filing.

renewable portfolio standard ("RPS") is are based on current load levels such that as load increases, RPS requirements will correspondingly increase (as will the need for additional LCRIF capacity). The *Index* does not recognize that. It also fails to recognize that the existing system was built without regard to the new RPS requirements. These factors demonstrate that it is inappropriate to establish a cap based on "stale" costs, rates, loads, and system operations and then merely escalate that cap annually based on some index.

SWP's proposed use of the *Handy-Whitman Index* does not make reliance on a fixed cap with an escalator any more appropriate. SWP notes that the Commission has used this index for purposes of increasing the cost limits for gas pipeline projects that qualify for construction under the blanket certificate regulations. SWP's reliance on the Commission's use of the *Handy-Whitman Index*. in the context of gas pipeline blanket certificate construction as a basis for establishing a cap on LCRIF costs is misplaced. The blanket certificate program was implemented in 1982 to allow a generic class of minor projects to be constructed without case-specific review, based on the expectation that there would not be significant adverse impacts on existing ratepayers, services and the environment.[18] The blanket certificate program established cost limits on individual projects that could be constructed automatically or under prior notice procedures, and the Commission has allowed those cost levels to be adjusted annually to account for inflation/construction cost increases (using the GDP implicit price deflator and/or the *Handy-Whitman Index*). However, the annual

---

[18] *Revisions to the Blanket Certificate Regulations and Clarification Regarding Rates,* 115 FERC ¶ 61,338 at PP at 58 and 60 (2006).

escalator was not intended to change the basic premise of the program*, i.e.*, that only minor projects without significant impacts can be constructed without case specific review, but rather recognizes that the costs of constructing the same type of project may increase from year to year. Stated differently, it allows a pipeline "roughly" to build the same type of facility under the blanket certificate program in 2007 that it could have built in 1982, after taking into account inflation/construction cost increases. That is not the intent of the CAISO's proposed rate cap. Unlike the blanket certificate program, the CAISO is proposing an aggregate cap not an individual project cap. Further, the intent of the CAISO's aggregate rate cap is not to limit the size/scope of individual LCRIF's that can be built (as is the case with the blanket certificate caps) but to mitigate overall rate impacts.[19] Under these circumstances, a cap based on costs levels in effect at the start of the program, and then escalated annually by some index, is not necessary; nor is it appropriate.

Finally, SWP expresses concern that the CAISO's explanation of the cap in the transmittal letter "simply correlated load growth with a corresponding need for remote resources without regard to California's significant commitment to demand response and energy efficiency."[20] SWP ignores the fact that just meeting the 20% RPS requirement by 2010 will require the development of more that 7,000 MW of additional resources (*see* Petition at 24) and the transmission

---

[19] SWP also ignores the fact that under the blanket certificate program there is no limit on the number of projects that can be constructed under the program and no limit on total costs.

[20] *Id.*

necessary to attach them to the grid.[21] Further, because of California's commitment to a renewable portfolio of 33% by 2020, however, there will be an enormous need for location constrained resources (and LCRIFs) despite demand response and energy efficiency. In any event, it is inappropriate to establish an artificially low cap that could thwart the State's efforts to meet RPS requirements.

2. Required Indication of Interest

Two parties -- CMUA and IID – claim that the proposed requirement that 25 percent of the capacity of a LCRIF be subscribed by generation that has executed LGIAs or SGIAs is too low. CMUA suggests that moving the number to 35 percent would not be inappropriate,[22] and IID supports a subscription level in the 40-50 percent range.[23] IID also appears to suggest that demonstration of an overall interest level of 60 percent is too low.

In the Petition for a Declaratory Order the CAISO proposed an initial showing of interest of 50% to 70% – 25% to 35% comprising projects that have signed LGIAs and 25% to 35% of additional interest. The Commission preliminarily accepted this range as "strik[ing] an appropriate balance between encouraging the development of location-constrained resources on the one hand and protecting ratepayers on the other."[24] The CAISO's proposal of 60%

---

[21] Given the State's 20 percent RPS requirement, a strong argument could be made that the cap level should be set at 20 percent; however, the CAISO has proposed only a 15 percent cap in order to further mitigate rate impacts. The Commission should not adopt any further artificial limits on the level of the cap.

[22] CMUA at 2.

[23] IID at 18-23.

[24] Declaratory Order a P 89.

(comprised of 25% projects that have signed LGIAs or SGIAs and 35% additional interest) is the midpoint of that range.

Neither CMUA nor IID present any evidence to suggest that the Commission's preliminary determination was inaccurate.

With respect to the requisite level of executed LGIAs and SGIAs, both CMUA and IID ignore the fact that location constrained resources in a region typically are developed over a period of many years[25] and setting the initial subscription level too high could constitute a barrier to the development of LCRIFs. Because location constrained resources are developed over long periods of time, it could be very difficult to obtain a large percentage of executed LGIAs and SGIAs during the initial stages of development in a region. Thus, setting the initial subscription levels too high could constitute a further barrier to the development of the location constrained resources and LCRIFs. The CAISO also notes that its proposal provides additional protections that address the concerns raised by IID and CMUA, namely (1) the requirement that the CPUC and CEC designate the areas to be served by LCRIFs and (2) any LCRIF must be approved through the CAISO's transmission planning process.

IID notes that the Midwest ISO has issued a whitepaper that states that in order to proceed with a project, there must be a commitment from generators representing more than 50% of the capacity of the project. IID does not state what type of commitment is required. In any event, the specific requirements being considered by MISO should not dictate what gets implemented in

---

[25] *See Petition, Attachment D* which shows resource development in some regions spanning more than 10 years.

California. Regional differences must be respected, as should the different package of protections that might be proposed by an independent transmission system operator. One such difference is California's RPS requirement of 20% by 2010, and a goal of 33% by 2020. Other differences include the CAISO's proposed 15 percent aggregate cap and the fact that the CPUC and CEC will make independent determinations of the Energy Resource Areas that can be served by LCRIFs Another possible difference could be ; the historic pattern and timing of renewable resource development in California compared to the development pattern of such resources in the Midwest. The CAISO also notes that it is proposing a total demonstration of interest showing of 60 percent, which is greater than the 50 percent total interest showing being suggested by MISO.

IID also states that typically when developers are responsible for 100% of the costs of gen-tie facilities, they are cautious not to build a line that is larger than they need and that it would be unheard of for a developer to finance facilities that will accommodate more than 75 percent of their output. This argument misses the entire reason behind an LCRIF policy and fails to recognize the differences between traditional fossil fuel resource development and the pattern of development of LCRIGs – differences that led to the CAISO's determination that a policy was needed that treats LCRIFs differently from traditional gen-ties and to Commission prior recognition of the differences in its approval of such policy. A fossil fuel project typically involves a single plant coming on line at a single point in time, so a developer would not build a line that is larger than necessary to handle the output of its unit. In contrast renewable

resource development typically involves a number of projects being developed by a large number of developers and coming on-line over a period of many years.[26] The LCRI Amendment is intended to accommodate in an efficient and operationally sound manner multiple resources being developed by multiple parties coming on-line over a period of many years. Setting the demonstration of interest requirement too high would frustrate the very purpose of the policy. The CAISO's proposal provides a rational, optimal and cost effective approach to the development of transmission necessary to connect location constrained resources.

CMUA and IID also attempt to disparage the requirement of additional interest, but neither present any supportable reason why it should be disregarded. CMUA states that firm power sales for renewable resources have a very poor performance history,[27] but provides no evidence to that effect. IID states that a five year power contract is too short, asking what would happen if it is not resubscribed after five years.[28] The answer, of course, is nothing. Once the Generator is interconnected, it is obligated to pay its portion of the LCRIF as long as it is in business. CMUA states that the Interconnection Queue is mostly a mirage, and that a relatively small deposit for study costs is simply not enough to persuade a large developer to actually live up to commitments.[29] CMUA forgets that the LCRI mechanism is intended to assist small projects that would have difficulty financing an interconnection from an ERA. CMUA offers no

---

[26] *See Petition, Attachment D* which shows resource development in some regions spanning more than 10 years.

[27] CMUA at 9.

[28] IID at 21.

[29] CMUA at 9.

reason why developers of such projects would readily sacrifice $160,000 just to ensure the development of an LCRIF that they are not highly likely to use. IID challenges the CAISO's statement that the deposit is non-refundable, quoting tariff language regarding refunds.[30] IID neglects to note that the only basis for a refund is if the LCRIF is not approved or is withdrawn by the proponent. It is *not* refundable to a developer that abandons its project. IID also argues that the deposit amount would be smaller for generators under the SGIA. While this is true, the project under an SGIA is also smaller, so proportionally the deposit would be equivalent.

In the Declaratory Order, the Commission declined to rule finally on the required demonstration of interest so that the CAISO could consider the question through the stakeholder process. The CAISO undertook that process, considered the arguments, and has proposed levels that reflect the predominant position in the stakeholder process and is in the middle of the range preliminarily approved by the Commission. As the CAISO noted in its transmittal letter, because renewable resources are developed in increments over a period of time, requiring a greater level of initial LGIA subscriptions would interfere with the purpose of the LCRIF initiative. CMUA and IID have presented no persuasive arguments that the required demonstration of interest in the LCRI amendments would lead to excessive or stranded costs.

3. Wheel-Throughs

IID and MID object to the CAISO's proposal to allocate costs of LCRIs that are included in the TAC to Wheel-Through customers. Both assert that the

---

[30] IID at 22.

allocation is contrary to cost-causation principles because Wheel-Through customers obtain no benefit from LCRIFs.

In the transmittal letter, the CAISO explained the various benefits that LCRIFs provide: (1) LCRIFs provide additional resource interconnections to help relieve congestion; (2) the CAISO operates an integrated transmission system (which will include LCRIFs under the CAISO's Operational Control) that is used to serve all customers, including wheel-through customers; and (3) LCRIFs will improve system flexibility and reliability by adding new resource interconnections within the CAISO control area, thereby benefiting all transmission customers, including wheel-through customers.

Fundamentally, a critical benefit provided by the LCRI Amendment is to provide Loads with increased access to location-constrained resources. Wheel-Through customers have the same new opportunities for access to location-constrained resources due to an LCRIF as do Loads directly connected to the CAISO Controlled Grid. Because Wheel-through customers are similarly situated to TAC customers in this respect, there is no reason to treat them differently and use a different TRR for determining their rates.[31]

---

[31] The only difference between a Wheel-through customer and a TAC customer is the location of the load: the TAC customer's load is on the ISO Controlled Grid, whereas the Wheel-through customer's load is not. However, both benefit from the LCRI proposal in exactly the same way -- through increased access to location-constrained resources and other LCRIGs that would not be developed but for the LCRI proposal, through integration of LCRIFs into the CAISO grid, and from the efficiencies and operational/reliability benefits that LCRIFs will provide. As such, both should pay the costs associated with unsubscribed LCRIF capacity. The CAISO notes that a Wheel-through customer will have exactly the same opportunity as a TAC customer to contract with an LCRIG. When an LCRIG enters service, the LCRIG owner starts paying its share of the LCRIF costs; so, the purchaser of its energy, whether a TAC customer or a Wheel-through customer will not pay any more for the LCRIF to obtain delivery of the energy it purchases from the LCRIG. In this respect, TAC customers and Wheel-through customers are essentially receiving an “option”.

IID asserts that the LCRIFs may actually harm Wheel-Through customers because radial facilities inject additional energy into the transmission system and decrease available capacity.[32] The connection of new, location-constrained resources, however, is not driven by the LCRI initiative; rather it is driven by California RPS. New facilities will need to be constructed regardless of the LCRI and the energy from the facilities must be transmitted on the CAISO Controlled Grid. As the CAISO discussed in its Petition, one option for accessing these resources would be for individual generators to build a multitude of low capacity tie lines from Energy Resources Areas to various points of their choosing on the grid. Clearly this would not be an efficient or cost-effective approach to transmission development and could aggravate congestion. The end result of that approach would be increased costs for consumers, as well as an inefficiently designed additions to the transmission system which benefit no one, including Wheel-through customers. The other alternative is the instant LCRI policy which will allow for the development of a coordinated line(s) that can accommodate all of the resources in a Energy Resource Area. This is a more rational and optimal approach that will be fleshed out through the transmission planning process and which will ensure that the LCRIF is integrated with the current and future planned CAISO grid in the most efficient and effective manner possible, thereby enabling the CAISO to approve a line that maximizes operational and reliability benefits and minimizes congestion impacts. The alternative approach does not provide these benefits. All customers, including Wheel-Throughs, will benefit from this

[32] IID at 16.

centralized approach to the development transmission to access of Energy Resource Areas.

The CAISO also notes that resources must be "running" in order to be counted for RPS purposes. Accordingly, any necessary network upgrades will be made to ensure that these resources are transmissible on the grid and not DECed. This will address concerns about increased congestion.

Also,, as the CAISO noted in the transmittal letter, absent LCRIFs and the development of location constrained resources in the State, Load Serving Entities needing to comply with RPS standards will be forced to look out-of-state for such resources. That would result in increased congestion on the interties, thereby resulting in increased congestion costs for Wheel-Through customers.

MID contends that the conclusion that LCRIFs will reduce congestion assumes the existence of obstacles to the construction and financing of LCRIGs and that the CAISO has provided no evidence to that effect.[33] The Commission, however, explicitly found the existence of such obstacles based on the evidence that the CAISO presented in the Petition for a Declaratory Order.[34] MID's argument is an impermissible collateral attack on the Commission's previous finding.

MID "fears" that there may be "limited projects that are rolled into [the Wheeling Access Charge], which are not subscribed by any one generator." It asserts that such projects would have only a locally focused benefit, with little benefit to the grid as a whole and only incidental benefit to Wheel-Through

---

[33] MID at 8.
[34] Declaratory Order at P 64.

customers.[35] MID forgets that under proposed Section 24.1.3.1, the LCRIF must interconnect “two or more Location Constrained Resource Interconnection Generators in an Energy Resource Area, and at least one of the Location Constrained Resource Interconnection Generators is to be owned by an entity(ies) that is not an Affiliate of the owner(s) of another Location Constrained Resource Interconnection Generator in that Energy Resource Area.” Moreover, the transmission planning process will ensure that LCRIFs that are approved are needed. As set forth in the tariff, that determination of need will include a consideration of costs and benefits of the facility, the amount of additional capacity that the LCRIF will provide and whether the facility will provide additional economic and reliability benefits. MID’s concerns about projects which may not be subscribed by any one generator are therefore misplaced.

MID takes a parochial view of the CAISO transmission grid. MID ignores the fact that the CAISO is moving to a single grid-wide high voltage transmission rate over a 10-year period (and is more than half way there). MID also ignores the fact that *all* newly constructed high voltage facilities are included in the grid-wide high voltage charge. The fact is that the CAISO operates an integrated transmission grid to serve to all customers, including Wheel-Throughs, in the most economic and efficient manner. LCRIFs, which must be high-voltage facilities, will be a part of that integrated grid and will be under the CAISO’s Operational Control.

MID also contends that the integrated nature of the CAISO Controlled Grid does not mean that costs should be allocated to Wheel-Through customers. It

---

[35] MID at 9.

cites Opinion No. 492,[36] in which the Commission rejected the allocation of system Must-Offer costs to Wheel-Through Customers.[37] In a similar vein, IID argues that the allocation of the costs of LCRIFs through the TAC should not be "further socialized" to Wheel-Through customers.[38]

As an initial matter, the CAISO notes that in Opinion No. 492, the Commission was concerned that the CAISO proposed to allocate Must-Offer costs to Wheel-Throughs to in-state control areas but not out-of-state control areas. In this context, the Commission concluded that there was an insufficient showing to justify the charging in-state, but not out-of-state, Wheel-Throughs.[39] The LCRI Amendment does not distinguish between in-state and out-of-state Wheel-Throughs.

More importantly, the costs of LCRIFs are fundamentally different from the Must-Offer charges. Must-Offer charges are the generation-related costs associated with a Commission imposed obligation. They are paid to Generators and imposed on Load in addition to TAC charges. On the other hand, LCRIF costs are part of the costs of the integrated CAISO Grid infrastructure itself. Indeed, as indicated in the Petition, the actual energy that Wheel-Through customers receive may in fact come from LCRIGs connected to LCRIFs. Further, Wheel-Through customers are using the same transmission facilities as TAC customers. A Wheel-Through should no more be exempt from its share of

---

[36] Opinion No. 492, *Cal. Indep. Sys. Operator,*117 FERC ¶61,348 at P 90 (2006).

[37] MID at 8-9.

[38] IID at 15.

[39] Opinion No. 492 at P 90 ("Absent such a showing, it is unreasonable to assess such charges while allowing wheel-through transactions that go to control areas outside of California to enjoy the same grid reliability benefits as those within California at no cost.")

cost of LCRIFs than it should be exempt from its share of the cost of southern California high voltage facilities because it enters and leaves the CAISO Controlled Grid in northern California. In fact, the very structure of the TAC would make it difficult to exempt Wheel-Throughs. Today, the Access Charge and the Wheeling Access Charge are the same. Both are based on the same TRR. If Wheel-Throughs were exempted, the CAISO would need three charges: the Access Charge and Wheeling-Out Access Charge, which would be the same, and a Wheeling Through Access Charge. Customers Wheeling-Out would pay a different Charge than customers Wheeling Through, even though they used the same facilities to reach the same intertie leaving the CAISO Controlled Grid. Customers Wheeling-in would pay a different Charge than customers Wheeling-Through, even though they used the same facilities after entering the CAISO Controlled Grid. Participating TOs would have to seek approval of two different TRRs – one for Wheel-Throughs and one for all other transmission. There is no reason for the Commission to make this distinction. There is no reason for the Commission to fashion a separate Access Charge for Wheel-Throughs.

4. Energy Resource Areas

In the LCRI Amendment, the CAISO proposed that ERAs be designated by the CPUC and the CEC. Until those bodies develop the process for designating ERAs, and for ERAs outside of California, the CAISO proposed that the CAISO Board of Governors be allowed to designate an area as an ERA if all

other eligibility criteria are met. IID objects to the limited authority of the CAISO Governing Board.[40]

The CAISO agrees that it is generally preferable that a state agency determine ERAs. The CAISO expects that the CPUC and the CEC will complete their process for designating ERAs expeditiously. However, the CAISO also believes that California's schedule for implementing the RPS dictates that the LCRI process must be implemented as soon as possible. The CPUC, CEC and all interested stakeholders will be able to participate in that process and provide input regarding the appropriateness of any LCRIF proposals. Any LCRIFs would still need to satisfy the criteria specified in the tariff. Further, the demonstration of interest requirement and the requirement that a project be evaluated under an open and transparent transmission planning process that meets the requirements of Order No. 890 will ensure that there will be adequate LCRIGs in the area to justify the designation of an LCRIF. The demonstration of interest requirement will ensure that the market has determined that the area has the potential for the development of a significant quantity of LCRIGs. The transparency, study process, and stakeholder involvement aspects of the transmission planning process will ensure that all stakeholders, including IID, have the opportunity to investigate and challenge the construction of an LCRIF in a CAISO Board-designated ERA. These tariff requirements provide the necessary safeguards during the interim and for out-of-state ERAs.

5. Definition of Location Constrained Facility

---

[40] IID at 13-14.

The LCRI Amendment defines Location Constrained Generator as "A Generating Unit that (a) uses a primary fuel source or source of energy that is in a fixed location and cannot practicably be transported from that location; and (b) is located in an Energy Resource Area. . . ." IID contends that the tariff should also require that a location constrained resource be remote from transmission facilities. Otherwise, according to IID, the process could lead to the development of excessive, duplicative, and inefficient generation ties.[41]

The remoteness of a facility is a factor that is not easily quantifiable or translatable into specific tariff criteria and is best considered in the CPUC's and CEC's process for designating ERAs. Simply adding the word "remote" to the tariff as IID proposes will only add unnecessary ambiguity and vagueness. Further, any more exact definition could unduly hamper the CPUC's and CEC's efforts to designate ERAs and the State's efforts to meet RPS goals. The fact that a potential ERA may be close to some non-CAISO transmission facilities may -- or may not -- be a reason not to designate the area as an ERA or to build an LCRIF to an area. It really depends on the specific circumstances of each and every case, and that area-specific, fact-intensive evaluation is beyond the scope of the instant LCRI Amendment. In some instances, development of an LCRIF may be more economically or technically efficient that the expansion of existing facilities. State agencies will certainly take these factors into consideration when designating ERAs. Moreover, the transmission planning process under Order No. 890 requires regional and sub-regional planning and the consideration of alternatives. This process will involve all stakeholders. The

[41] IID at 10-11,

process should provide more than adequate protection against duplication and inefficiency. Further, the need to meet tough RPS requirements, as well as the aggregate rate cap, will also provide protection against duplication and inefficiency in construction of LCRIFs. The RPS standards will be difficult to meet and there will be a limited amount of dollars available for the LCRIFs that are needed to help meet the RPS requirements. There is no room for duplication or inefficiency under those circumstances.

6. Transmission Planning

IID has numerous comments regarding the need to address regional and sub-regional planning and compliance with Order No. 890 transmission planning principles.[42] These comments are premature. As the CAISO explained in its transmittal letter, the CAISO will be filing tariff amendment implementing a new, comprehensive, integrated transmission planning process as part of its Order No. 890 compliance. The treatment of proposed LCRIFs in that process should not, and cannot, be isolated from development and consideration of planning for other transmission upgrades and additions. Indeed, the consideration of non-LCRIF alternatives that IID desires can only take place as part of the overall transmission planning cycle. IID can protest or comment on the treatment and evaluation of LCRIFs when the CAISO files the transmission planning amendments on December 21, 2007. Any effort to write specific planning details into the LCRI Amendment can only interfere with integrity of the overall transmission planning process. The CAISO also notes that, in response to IID's

[42] IID at 6-9, 12.

concerns, it included tariff language in the instant LCRI Amendment regarding stranded costs and coordination with other transmission providers.

7. Potential Subsidies and Non-Renewable Resources

Citing the report of the CAISO's Market Surveillance Committee ("MSC"), which was attached to the Petition for a Declaratory Order, SWP expresses concern about the potential for subsidies interfering with the sound investment of limited dollars in the RPS, in contradiction to the purpose of the LCRI initiative.[43] The MSC identified potential subsidies to LCRIGs, attributable to economies of scale, if high-capacity interconnection facilities are built to remote locations in anticipation of significant renewable capacity entry that fails to materialize, resulting in stranded costs.[44] The MSC, however, also provided the remedy:

> To guard against an outcome that results in large stranded costs and subsidizes remote renewable generation projects, the ISO must ensure that the locations served by these new interconnection facilities are the regions where renewable suppliers are truly likely to enter. The ISO proposal relies on the [CEC]'s designation of the locations with significant renewable energy potential in determining where to construct these interconnection facilities and how large to make them. The ISO should also work with the [CPUC] to determine where the forward contracts signed by the major California load-serving entities to fulfill their RPS obligations are actually being sourced. The ISO's transmission planning process should use all reliable information on where renewable resources will locate before making these investment decisions. The potential subsides to renewable generation resources and higher prices to California consumers that could result from constructing too many or too large of interconnection facilities for renewable generation to remote areas in California implies that the ISO must thoroughly vet any interconnection facility that receives this alternative treatment through its stakeholder process and validate through a more formal

---

43 SWP at 4.

44 Market Surveillance Report at 4, available at http://elibrary.ferc.gov/idmws/common/opennat.asp?fileID=11238253.

> process that there is sufficient generation commitment in the proposed area to warrant the transmission investment.[45]

This is precisely what the LCRI Amendment, in combination with the Order No. 890 transmission planning process that is being finalized, accomplishes.

SWP states that its concern is heightened because the LCRIF funding proposal is not explicitly limited to renewable energy resources, but would apply to any LCRIG. It contends that such a result also has the potential, through inflated and socialized costs, to frustrate the ability of demand to respond to accurate price signals. SWP ignores the fact that the Commission has mandated that the CAISO's proposal be made available to all location constrained resources (including non-renewable resources), subject to meeting the proposal's eligibility criteria.[46] This is necessary to avoid undue discrimination.

8. Settlement Proceedings

CMUA asks the Commission to appoint a Settlement Judge and institute settlement proceedings.[47] The CAISO's LCRI policy has been under development since the first half of 2006. It was vetted through an extensive stakeholder process prior to the filing of a Petition for a Declaratory Order, comments and protests on the Petition, the Commission's resolution of issues in the Declaratory Order, and another extensive stakeholder process leading up to the filing of the LCRI Amendment. Parties have been provided with numerous whitepapers and comment opportunities, and there have been numerous stakeholder meetings. At this stage, the issues that remain unresolved are not

---

[45] *Id.* at 5.
[46] Declaratory Order at P 74, n. 76.
[47] CMUA at 2-3.

likely to be amenable to a settlement process, which can only serve to further delay the implementation of the LCRI policy. The Commission should reject CMUA's request.

9. Commission Policy and Jurisdiction

Golden State asserts that assessing it LCRIF costs through the TAC is both contrary to Commission policy and beyond the Commission's statutory authority. Its contentions are baseless.

Golden State contends that the LCRIFs are not network facilities and, therefore, cannot be rolled-in under the Commission's transmission pricing policy for non-network generation interconnection facilities.[48] Golden State misstates the Commission's current policy, which includes the Declaratory Order. The entire purpose of the CAISO's Petition for a Declaratory Order was to request that Commission revise it previous policy with regard to gen-ties in connection with LCRIs. The Commission granted that request in the Declaratory Order. The Commission is free to change its policies if it provides a reasoned explanation,[49] and the Declaratory Order provided an extensive explanation.[50] Golden State's remedy would have been to seek rehearing and file a petition for review. It did neither. This argument is a collateral attack on the rulings in the Declaratory Order.

---

[48] Golden State at 6-9.

[49] *See, e.g., East Columbia Irr. Dist. v. FERC,* 946 F.2d 1550, 1560 (D.C. Cir. 1991).

[50] The CAISO's Petition included an extensive discussion of the benefits provided by LCRIFs and why the CAISO's proposed rate treatment was just and reasonable. Petition at 38-46. The CAISO incorporated the Petition and all attachments by reference in its LCRI Amendment filing.

Golden State also contends that the Commission may not allocate it LCRIF costs because the capacity included in the TAC is not used and useful.[51] The Commission had never held, however, that in order for a transmission or generation facility to be used and useful the full amount of the capacity must be needed to satisfy demand at the time it is built. Indeed, any such policy would be irrational and would result in highly inefficient, and more costly, infrastructure development practices that would require the constant, and sequential, upgrading or building of facilities, essentially "throwing the concept of planning down the sink." . For example, if a utility anticipated load growth of 100 MW in an area for each of the next five years, and needed to build a new transmission line to meet that demand, it would be far more prudent and efficient to construct a facility capable of meeting 500 MW of load, than to build five separate lines annually over the next five years capable of accommodating 100 MW each. The Commission has recognized this principle and stated in the similar context of generation expansion, "[E]fficiency and economy of operations requires the addition of new generating capacity in large blocks, and, therefore, the Commission focused on the company's planning, rather than the amount of new plant available during any one period, as the relevant inquiry on the question of prudent expenditure on additional plant capacity."[52] As each LCRIF will have been evaluated under the CAISO's transmission planning process, including a determination that it is needed under current section 24.1 (which will be revised

[51] Golden State at 7-8. Golden State contends that nothing in the CAISO proposal demonstrates that all CAISO transmission customers will benefit from the LCRIF so as to justify including the costs in the TAC. *Id.* at t10. Declaratory Order at PP 77-86. Golden State's argument is again a collateral attack on the Declaratory Order.

[52] *See, e.g., Southern Cal. Edison Co.* 2 FERC ¶ 61,018 at 61,031 (1978).

in the transmission planning amendment, but not substantively affected), it must be used and useful before it is approved.

Finally, Golden State contends that the FPA only empowers the Commission to regulate the rates, terms, and conditions of "the transmission of electric energy in interstate commerce and the sale of electric energy at wholesale in interstate commerce …." and does not authorize the Commission to approve a public utility proposal to collect charges to finance infrastructure development.[53] The CAISO TAC – its *transmission rate* – is precisely what the Commission is regulating here. What the Commission is authorizing is the recovery of the costs of Commission jurisdictional facilities,[54] as is the case with all transmission rates.

10. Recommended Tariff Modifications

Both SCE and IID provide recommended modifications of the LCRI Amendment. SCE's recommendations are helpful clarifications or corrections that the CAISO considers appropriate.

Some of IID's proposed modifications reflect its objections to the LCRI Amendment, which the CAISO believes are unjustified as discussed above. Others are either superfluous or objectionable. In particular –

- The proposed modification of Section 24.1 identifies the need for cost-effectiveness that is already addressed in Section 24.1.3.4 and would inappropriately highlight one factor over others in the CAISO's evaluation over others.
- The proposed modification of Section 24.1.3(b)(2) is superfluous.

---

[53] Golden State at 12.

[54] Interconnection facilities are "facilities for . . . transmission or sale of electric energy [in interstate commerce" under the jurisdiction of the Commission. *See, e.g., National Ass'n of Regulatory Utility Com'rs v. FERC*, 475 F.3d 1277, 1279 (D.C. Cir. 2007).

- Proposed new Section 24.1.3(b)(6) duplicates existing Section 24.1.3(b)(4).

- Proposed new Section 24.1.3(b)(7) is a matter that is appropriately addressed in the transmission planning process. Project proponents should not be burdened with producing additional assessments that will be covered by CAISO evaluations and studies.

- Proposed new Sections 24.1.3(b) (8) and (9) do not identify an information requirement, which is the purpose of Section 24.1.3. In any event these are matters that are more appropriately addressed in a transmission planning or siting process.

- The matter addressed by proposed new Section 24.1.3(c) is not an information requirement, which is the purpose of Section 24.1.3. In addition, the matter is properly a part of, and considered in connection with, the CAISO's transmission planning process. As noted above, because that process will address planning for LCRIFs, the proposed requirement that the project be so considered is superfluous. Further, the CAISO transmission planning decisions should not be subject to veto by a sub-regional planning group. The requirement that the least-cost solution be adopted fails to account for the other part of the equation, *i.e,* the benefits of a particular project. Stated differently, the least cost solution may not be the best solution or the most cost beneficial.. Finally, the proposed language would prohibit the CAISO from choosing a more expensive alternative in order to minimize environmental harm.

- The proposed modification to Section 24.1.3.1(a) is inappropriate. CAISO planning decisions should not be subject to veto by a sub-regional planning group that does not have jurisdiction over the CAISO or its Participating TOs

- The proposed modification to Section 24.1.3.1(a)(1) is unnecessary.

- For the reasons discussed above, the proposed changes to Section 24.1.3.2 are inappropriate.

- The proposed modification of Section 24.1.3.3 is largely superfluous, except the requirement that the CAISO coordinate with other entities as specified in their transmission planning process and business practice manual, which is inappropriate. The CAISO should only be bound by its tariff, as other entities are bound by

theirs. The CAISO should not be required to plan according to the tariff of other transmission providers.

- The addition of "consideration of" to Section 24.1.3.4(c) is unnecessary and potentially confusing, inasmuch as the current language specifies what the CAISO must consider.

- The proposed additions to current Section 24.1.3.4(c)(3) are superfluous.

- Proposed new Section 24.1.3.4(c)(5) and the proposed modification of the definition of LCRIG attempt effectuate the IID's proposed remoteness requirement. The CAISO has discussed above why such modifications are inappropriate. The use of the term 'remote" is also extremely vague in the tariff context.

- The proposed addition to current Section 24.1.3.4(c)(6) is superfluous.

- Proposed new Sections 24.1.3.4(c)(7) and (8) are matters properly addressed in the transmission planning process. *See also,* the CAISO's comments on the proposed modifications to Section 24.1.3 (c).

- Proposed new Section 24.1.3.4(c)(9) is duplicative of Section 24.1.3.3 and of the transmission planning process.

- Proposed Section 24.1.3.4(10) merely repeats as an example the fundamental consideration the CAISO must make under Section 24.1.3.4(c).

- The proposed modification of the definition of ERA to require that it be directly or indirectly connected to the CAISO Controlled Grid makes no sense. Facilities are connected to the grid not areas. The requirement that a CAISO Board-approved ERA be recommended first by the Renewable Energy Transmission Initiative ("RETI") is unworkable, because, among other things, there is no showing that the Renewable Energy Transmission Initiative is prepared to make such recommendations. Further, there has not been any showing why the CAISO Board should be able to act only upon the recommendation of the RETI.

The Commission can only modify the CAISO's proposal to the extent it determines it to be unjust, unreasonable, or unduly discriminatory. IID's proposed modifications are not required in order to render the LCRI Amendment

just and reasonable or to eliminate discrimination, and in some cases would interfere with the administration of the process. For these reasons, the Commission should reject IID's proposed modifications.

IV. CONCLUSION

For the reasons discussed above, the Commission should approve the LCRI Amendment, subject only to the revisions recommended by SCE.

Respectfully submitted,

_/s/ Anthony J. Ivancovich__
Anthony J. Ivancovich
Counsel for the California Independent System
Operator Corporation

Nancy Saracino, General Counsel
The California Independent System
Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630
Tel: (916) 351-4400
Fax: (916) 351-4436

Dated: December 6, 2007

Certificate of Service

I hereby certify that I have this day served a copy of this document upon all parties listed on the official service list compiled by the Secretary in the above-captioned proceeding, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated this 6th day of December, 2007 at Folsom, California.

/s/ Melissa Hicks
Melissa Hicks