

ISO Response to Solar Express letter dated August 18, 2011

The ISO wishes to acknowledge the letter sent by Solar Express Transmission LLC and is pleased to respond to the questions it posed in relation to the MOU between Valley Electric Association (“VEA”) and the ISO.

- 1) Solar Express - One of the questions raised during the stakeholder call was with respect to a reported right of way filing made by VEA for a new 500 kV transmission line. We are in the process of filing a FOIA request to confirm this, but reports suggest that VEA has filed a right of way application with the BLM for a new transmission line that's purpose is nearly identical to Solar Express (e.g. a 500 kV connection to Eldorado, utilizing the same rights of way, connecting new generation to the CAISO with at least one new substation in a nearly identical location). The CAISO states that negotiations with VEA began "early in 2011" and the reports are that VEA made its right of way filing shortly after, in March 2011 (some fifteen months after the comparable filing for the Solar Express line).

Given the coincidence between the start of negotiations with the CAISO and VEA's right of way filing, can the CAISO clarify whether this new transmission line is the subject of any agreement with VEA and, if so, why neither the MOU nor CAISO's Webinar presentation nor the market notice make any mention of this proposed new investment?

Response - Neither VEA's 500 kV right of way filing with the BLM nor any potential new transmission line utilizing that right of way is the specific subject of any agreement with the ISO. VEA submitted a revised SF-299 right-of-way application to the BLM on April 28, 2011. Until VEA completes its cluster study process later this year, in which the ISO will collaborate, it is unknown if the line will ultimately be needed for the interconnection customers in VEA's queue. The ultimate timing of the development for any new transmission facilities would be dependent on the build-out of the interconnection projects.

- 2) Solar Express - Can the CAISO clarify what regulatory treatment is intended for this new transmission line? Is it:
 - a) intended to be designated as a network upgrade, de-facto approved as part of the CAISO planning processes and entitled to recovery under the TAC?; OR
 - b) deemed to be a radial line, required to serve new generation that has filed an interconnection and transmission service request and, if so, will the costs be allocated to the customer load serving entities served by that generator? OR
 - c) to be evaluated in a future CAISO transmission planning process and compared to alternative solutions, including Solar Express, such that if Solar Express is deemed a better solution, Solar Express is eligible for recovery under the TAC?

** Response - VEA's 500 kV right of way filing with the BLM contemplates a line that is not specifically discussed in the MOU and is not part of the ISO's transmission planning process. The facilities required to support generator interconnections with VEA's system will be studied as part of VEA's cluster study later this year. The question of whether any facilities identified as a result of that study would be network facilities or gen-ties cannot be answered until this cluster study is completed. If a 500 kV line is needed for VEA interconnection customer deliverability on the ISO controlled grid and it is designed as a network facility, the costs refunded to interconnection customers may be eligible for inclusion in VEA's TRR for recovery through the

ISO TAC when VEA becomes a PTO. If the cluster study determines the need for a radial gen-tie, it is anticipated that the interconnection customers would be responsible for the cost of the project. Any future evaluation of alternative solutions will be predicated on the outcome of the cluster study.

- 3) Solar Express - Does the CAISO intend to grant Valley Electric Association what would be, in effect, a retrospective Right of First Refusal (ROFR) to build this new line (regardless of the fact that Solar Express filed its right-of-way and was included in regional transmission planning processes first) and, if so, on what basis is such a decision justified?

Response - The MOU stipulates that VEA will determine what upgrades are needed to interconnect the generation projects that are in its queue, including network upgrades to make the projects deliverable to the current ISO controlled grid. Based on the timing of the results of the cluster study and the fact that VEA is not yet an ISO participating transmission owner, the ISO is not in a position to comment on the appropriate characterization of any potential upgrades on VEA's system.

- 4) Solar Express - Has VEA's proposed new transmission line been submitted to any of the applicable regional transmission planning processes (SWAT, TEPPC, CAISO) and if so, when were the submittals made and where can copies of relevant documents be found? If VEA's proposed line has not yet been submitted in any of the relevant forums, by what process will it be compared with competing alternatives?

Response - Plans for VEA's 500 kV transmission line have not yet been submitted to any of the applicable transmission planning processes. As set forth in the MOU, it is anticipated that VEA and the ISO will collaborate on joint transmission planning activities, including any network upgrades to be considered by VEA during its cluster study. One of the outcomes of this cluster study process will be a determination of whether a new 500 kV project is needed, and if so, whether it will be designed as a network facility or designed as a gen-tie. Because interconnection customers are responsible for costs associated with gen-tie interconnections and the cost of such facilities are not eligible for cost recovery, the ISO would not be responsible for making a determination between potentially competing gen-tie proposals.

- 5) Solar Express - Given that Solar Express was developed solely for the purpose of providing generators located in the three counties with an opportunity to compete for PPA's with LSE's inside the CAISO footprint, in a manner that was wholly consistent with the CAISO and planning rules as then existed, what transition arrangements will be put in place such that Solar Express has a window of opportunity to complete its intended business plan?

Response - To the ISO's knowledge, Solar Express has not submitted an application with Southern California Edison to interconnect at Eldorado. The ISO will follow its processes in response to any application.

- 6) Solar Express - Notwithstanding the response to the above questions, what is the intended position with any future generator applications? Given that VEA has no comparable RPS obligation; no utility scale embedded generation; has a total load of approximately 120 MW, supplied primarily by imports from the WAPA system, under long term contracts at advantageous wholesale rates, could any future new lines ever be justified as genuine network

assets, given that new generation is clearly not intended for VEA's native load?

Response - Generator interconnection applications to VEA's system received after August 1, 2011 will participate in a VEA cluster study to be conducted in 2012. In anticipation of VEA becoming an ISO PTO, the MOU stipulates that such interconnection requests to VEA's system would also need to submit an application into the ISO's cluster 5 study process.

Any future transmission development proposals or generator interconnection requests will need to participate in the ISO's transmission planning and/or interconnection processes. Once VEA becomes a participating transmission owner in the ISO, the ISO's transmission planning process will include consideration of any needed transmission additions or upgrades to VEA's facilities in accordance with provisions of the ISO tariff.

- 7) Solar Express - Can the CAISO clarify what due diligence it has conducted with respect to VEA's generator interconnection queue before agreeing to merge it with the CAISO queue? In particular, has the CAISO determined a) whether any of these requests have lapsed, and b) whether any requests were for transmission service to delivery points other than a CAISO node? If so, how many requests (and MW's) were lapsed, and how many requests (and MW's) were for service to delivery points other than CAISO nodes?

Response - The ISO believes that it has conducted sufficient due diligence with respect to the principles set forth in the MOU, including the proposal to merge the interconnection queues. The ISO has confirmed that none of the projects labeled as "active" in VEA's queue have lapsed. Indeed, one of the intended outcomes of the VEA cluster study is to determine whether any of the generators in VEA's queue want service to delivery points other than ISO nodes.

- 8) Solar Express - Will the VEA cluster study mentioned during the stakeholder call be conducted in accordance with VEA's OATT, or will it be conducted in accordance with the CAISO tariff. If in accordance with VEA's OATT, where can a copy of VEA's OATT be found?

Response - VEA's cluster study will be conducted in accordance with VEA's OATT, and as noted above, in coordination with the ISO. VEA's OATT is posted on their web site at: [http://www.vea.coop/programs/renewable/Valley%20Electric%20Open%20Access%20Tariff_Effective%20June%202011%202009%20\(With%20New%20LGIP%20%20SGIP%205-10\).pdf](http://www.vea.coop/programs/renewable/Valley%20Electric%20Open%20Access%20Tariff_Effective%20June%202011%202009%20(With%20New%20LGIP%20%20SGIP%205-10).pdf)

** The question of cost recovery for network upgrades funded by interconnection customers is the subject of an on-going ISO stakeholder initiative. The ISO has proposed that to the extent the interconnection request of an interconnection customer's project cannot be met through transmission additions and upgrades approved in the ISO's annual comprehensive transmission plan, and requires additional network upgrades, the interconnection customer will be required to fund a share – or potentially all – of the additional network upgrade costs and will not be reimbursed by ratepayers. As part of this initiative the ISO is considering a proposal to apply the new cost allocation provisions, if approved by FERC, to interconnection customers participating in Cluster 4. Please refer to the Integration of Transmission Planning and Generation Interconnection Procedures stakeholder process:

http://www.caiso.com/informed/Pages/StakeholderProcesses/TransmissionPlanning_GenerationInterconnectionIntegration.aspx