

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

California Independent System Operator Corporation	Docket Nos.	ER10-2191-000 ER10-1401-000
Green Energy Express LLC 21st Century Transmission Holdings, LLC	Docket No.	EL10-76-000
Southern California Edison Company	Docket Nos.	ER10-732-000 ER10-732-001
Southern California Edison Company	Docket Nos.	EL10-1-000 EL10-1-001 EL10-1-002
Southern California Edison Company	Docket Nos.	ER10-796-000 ER10-796-001
Southern California Edison Company	Docket No.	EL10-81-000

**INITIAL POST TECHNICAL CONFERENCE COMMENTS OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

On August 24, 2010, the Commission held a technical conference to discuss issues related to the California Independent Transmission system Operator Corporation's ("ISO") revised transmission planning process tariff amendment filed in Docket No. ER10-1401. Pursuant to the Supplemental Notice of Agenda and Procedures for Staff Technical Conference issued on August 19, 2010, the ISO hereby submits its initial post technical conference comments.

In these comments, the ISO will focus on the topics on which Commission staff ("Staff") requested specific information. Although Staff requested that parties limit their comments to 25 pages, the ISO was not able to provide all the requested information within 25 pages.

I. Phase 1 of the Revised Transmission Planning Process

**A. Treatment Of California Transmission Planning Group
“Conceptual” Plan In The ISO’s Order No. 890 Planning
Process**

Staff requested that the ISO confirm that it will conduct its own analysis to identify needed transmission additions and upgrades, independent of any conceptual statewide plan produced by the California Transmission Planning Group (“CTPG”), and discuss whether it will give any preference to CTPG’s plan.

As an initial matter, it is important to make explicit why the ISO’s RTPP proposal provides for a statewide conceptual plan. This component of the RTPP reflects the central role of the new public policy driven category of transmission in the revised planning process, recognizing the fact that policy-driven transmission requirements – such as the 33 percent by 2020 RPS target in this case – frequently derive from state policy and affect all transmission planners and providers in the state. Thus, it is only prudent to take a conceptual, non-binding view of how the other planners/providers in the state intend to address the policy-driven requirements as an input into the ISO’s annual planning cycle. That said, the ISO notes that the revised tariff does not assign any role to the CTPG, let alone a decision-making role. Rather, it provides for the ISO to develop a statewide conceptual plan and authorizes development of that plan in coordination with regional planning groups. The CTPG is simply one such regional planning group. The ISO alone is ultimately responsible for determining what transmission elements are needed within its footprint and who should build and own such transmission elements. The ISO will make these determinations

by conducting its own Order No. 890-compliant planning process, undertaking its own modeling and analysis, applying its tariff criteria, and making its own planning assumptions for purposes of determining which transmission elements are needed and who should build such elements in accordance with the terms of the ISO tariff and transmission planning BPM. The ISO's planning process will be transparent and open to all stakeholders and consistent with all Order No. 890 principles.

As indicated in proposed tariff section 24.4.4, the conceptual statewide plan is merely an input into the ISO's Phase 2 transmission planning process. Indeed, it will only be one of many inputs into the planning process. Other inputs will be provided by, *inter alia*, the California Public Utilities Commission, municipal utilities, the California Energy Commission, the Renewable Energy Transmission Initiative, interconnected balancing authority areas, other regional and sub-regional planning groups with which the ISO collaborates, the ISO's interconnection queue, Western Electricity Coordinating Council data, economic planning studies, transmission developers, and other stakeholders participating in the ISO's open planning process.¹ The tariff does not assign the conceptual statewide plan – whether developed by the CTPG or through another process in future planning cycles – any greater weight than these other inputs. The ISO will vet the CTPG's assumptions, results, and recommendations along with other assumptions, results, and proposals that CTPG did not address.² The ISO will

¹ See, e.g. proposed sections 24.2, 24.3.1, 24.3.2, 24.3.3, 24.2.4, 24.4.1, 24.4.5, 24.4.6.6, 24.4.6.7, 24.8, and 24.13.1.

² The ISO notes that for the current planning cycle CTPG has posted study plans for each phase of the analyses its members have performed and will make public the underlying data

evaluate the transmission elements identified in any CTPG conceptual plan applying the same criteria and with the same rigor that it reviews all other assumptions, models, recommendations, and potential transmission elements. Section 24.4.5. The proposed tariff provisions do not provide any special exemptions from such evaluation for the CTPG-identified transmission elements. In other words, the ISO will apply the criteria specified in the tariff with equal force to all identified potential transmission elements, whether they are identified in the CTPG draft conceptual plan or come from some other source. At the end of the planning process, the ISO must justify its decisions based on its assumptions, studies, analysis, and tariff criteria, not CTPG's. The ISO will not accord any preference to CTPG's recommendations.

Under proposed Section 24.4.4, the ISO will post the conceptual statewide plan to its website and issue a market notice providing notice of the availability of such conceptual plan. In the month following publication of the conceptual statewide plan, the ISO will provide an opportunity for interested parties to submit comments on and recommend modifications to such plan, as well as submit alternative transmission elements for consideration, including potential interstate transmission lines and proposals to access resources located in areas not identified in the conceptual statewide plan (and any non-transmission elements).

supporting the conceptual statewide study report. In future planning cycles, the ISO will ensure openness in the collaborative statewide planning process by posting a draft of the conceptual statewide transmission plan, conducting at least one public conference to discuss the draft, and obtaining input from stakeholders through written comments submitted before the plan is completed. This will be in addition to whatever opportunities CTPG or other collaborative body provides to stakeholders through its own process.

In addition to other stakeholder input opportunities provided in the revised planning process, this process will ensure that all parties have input regarding the statewide conceptual plan equivalent to the CTPG.

B. Input Regarding Economic Projects or Needs.

Staff asked how parties will be able to propose economic projects or needs into the transmission planning process. The revised transmission planning process varies in this regard from the ISO's current tariff, which provides that project sponsors and other interested parties may submit, through the annual request window, both economic planning study requests and economically-driven project proposals whose submission confers a right to build on the sponsor if the ISO approves the proposal.³ As part of the revised transmission planning process, the ISO proposes to modify these opportunities and to add an extended comment period for the proposal of alternative transmission elements. For the reasons explained in the ISO's transmittal letter and answer to protests, parties will no longer submit specific economic project proposals prior to the ISO's determination for the need for such projects, nor will the submission of such proposals confer a right to build on a party whose proposal is included in the ISO's comprehensive transmission plan.⁴

Stakeholders, however, will still play a significant role in the determination of economic needs. As contemplated by Order No. 890, under the RTPP proposal stakeholders can submit economic planning study requests during Phase 1, in the process for developing the unified planning assumptions and

³ See current Section 24.23(a) and (e)

⁴ See June 4, 2010, transmittal letter at 40-44.; July 15, 2010 Answer to Protests at 26-33.

study plan.⁵ As discussed below, these study requests will inform the ISO's congestion analysis and serve to identify needs for potential economically-driven elements that may ultimately be included in the comprehensive plan and open to competitive solicitation. The development of the unified planning assumptions during Phase 1 also provides an opportunity for stakeholders to provide input into the assumptions being used in the ISO's economic studies, along with the other technical studies that will be conducted by the ISO during the planning cycle. These inputs will help to identify potential system needs that should be addressed by transmission or non-transmission solutions. In addition, parties may propose alternative elements (including interstate transmission elements), as well as non-transmission alternatives and other proposals, during the comment period that will be established after the conceptual statewide plan is posted.⁶ The details for the submittal of requests and proposals and the ISO's evaluation of economic planning study requests are explained in the ISO's transmittal letter.⁷ Thus, stakeholders will have multiple opportunities during the planning process to identify the need for economic transmission elements.

The ISO will conduct the high priority economic planning studies, as well as other economic studies (as needed), once the reliability-driven projects, location constrained interconnection ("LCRI") facilities, merchant projects and policy-driven elements have been identified. These studies will determine whether additional transmission upgrades or additions will be needed to address

⁵ Section 24.3.3(d).

⁶ Section 24.4.4.

⁷ *Id.* at 26-27.

congestion issues.⁸ Any economically-driven elements that the ISO identifies as needed will be subject to the open solicitation process in which all interested project sponsors, existing transmission owners and independent transmission developers alike, will be able to participate.

II. Phase 2 of the Revised Transmission Planning Process

A. Categories of Transmission Projects and Elements

At the technical conference there was significant discussion regarding the various categories of transmission under the ISO tariff, the criteria applicable to each type of transmission, and the process by which the ISO will determine the need for each under the RTPP. In particular, Staff asked about the attributes of each category and how they are studied. The following explains the categories of transmission and the process of categorization, and also addresses Staff questions about the inter-relationship between the categories. The ISO's technical conference presentation which has been placed into the record in this proceeding also contains a matrix describing the key attributes of each of the categories of transmission.

The actual preparation of the comprehensive transmission plan begins with the baseline included in the Unified Planning Assumptions. Under proposed section 24.3.1, this baseline includes, among other things, WECC base cases, all

⁸ Section 24.4.6.7. For the 2010/2011 planning cycle, the ISO will use the results of its economic studies to evaluate the 2008-2009 request window economic project proposals. Should any of these projects be needed, the project will be included in the comprehensive plan and the project sponsor may finance, build and own the project. Section 24.4.6.8. It should be noted that for the 2010/2011 cycle, parties will not have an opportunity to submit economic planning study requests. During that cycle, the ISO will conduct a congestion analysis of the draft comprehensive plan for the purposes of evaluating the 2008-2009 request window submissions.

previously approved projects, and all network upgrades included in Large Generator Interconnection Agreements.

1. Identification of Transmission Projects

Taking into account the Unified Planning Assumptions, the technical studies specified in the study plan, reliability projects proposed by participating transmission owners, the statewide conceptual plan, and the comments and proposals received during the request window (proposed section 24.4.5), the next major step in the process is for the ISO to determine the need for transmission upgrades or additions for the following three categories of transmission: (1) reliability projects (proposed section 24.4.6.2); (2) projects required to maintain the feasibility of long-term Congestion Revenue Rights (“CRRs”) (proposed section 24.4.6.4); and (3) LCRI facilities (proposed section 24.4.6.3). The ISO also incorporates merchant projects that meet the tariff criteria for such projects (proposed section 24.4.6.1). The revised transmission planning process does not change the tariff provisions or the process for identifying these categories of transmission; although, these tariff provisions have been renumbered.

a. Reliability Driven Projects

As defined in proposed section 24.4.6.2, reliability driven network upgrades and additions will be included in the transmission plan if they are needed to meet Applicable Reliability and ISO Planning Standards.⁹ Under tariff

⁹ Under the ISO Tariff, Applicable Reliability Criteria are defined as “[t]he Reliability Standards and reliability criteria established by NERC and WECC and Local Reliability Criteria, as amended from time to time, including any requirements of the NRC.” CAISO Planning Standards are defined as “Reliability Criteria that (1) address specifics not covered in the NERC

provisions that have been in effect since the ISO commenced operations and that were not changed by the instant tariff amendment filing, reliability driven projects are built and owned by the participating transmission owner with a PTO Service Territory in which the needed reliability upgrade or addition is located.

The ISO performs a system reliability assessment to comply with applicable NERC, WECC, and ISO reliability requirements. The focus of the reliability assessment is to identify the specific facilities that potentially may not meet reliability performance requirements during the planning horizon being studied. The parameters used to determine whether a facility meets a specific performance requirement include thermal loading of transmission facilities, per unit bus voltage magnitude and voltage deviations, and system dynamic responses. The reliability assessment focuses on the facilities that comprise the three participating transmission owners' bulk system areas and eight local areas on the PG&E system. The reliability assessment for the eight local areas focuses primarily on their response to impacts from the grid under normal system conditions and following categories B, C, and D outages of power system equipment of voltage levels of 60 KV through 230 kV. For example, as described in the ISO's 2010 Transmission Plan (pages 6, 9-10), the ISO's reliability assessment will identify existing facilities that do not meet reliability performance requirements during the planning horizons being studied and identify mitigation solutions for each such identified facility. The needed mitigation solutions will be identified, built and owned in accordance with section 24.4.6.2.

and WECC planning standards, (2) provide interpretations of the NERC and WECC planning standards specific to the CAISO Controlled Grid, and (3) identify whether specific criteria should be applied that are more stringent than the NERC and WECC planning standards.”

As the ISO indicated at the technical conference, reliability driven projects are limited to projects intended to mitigate specifically identified reliability issues on existing participating transmission owner facilities. Under the tariff, the scope of reliability driven projects cannot be expanded to cover public policy needs or projects to provide economic benefits. Reliability projects are limited solely to projects that meet identified reliability needs in a cost-effective manner. If an upgrade solves a reliability problem and also provides additional non-reliability-driven benefits such as accessing renewables or mitigating congestion costs, the ISO anticipates that additional project cost would have to be incurred to realize such additional benefits, and the project would no longer fit the narrow definition of a reliability project.

b. Projects to maintain the feasibility of Long-Term CRRs

Under section 24.4.6.4, projects to maintain the feasibility of Long-Term CRRs are network transmission upgrades or additions needed to maintain the feasibility of previously-released long-term financial transmission rights offered by the ISO to comply with Order No. 671. These types of transmission projects are built and owned by the participating transmission owner with a PTO Service Territory in which the needed upgrade or addition is located. The ISO did not change these existing tariff provisions in its revised transmission planning process tariff amendment. Section 24.4.6.4 projects are limited to transmission upgrades or additions needed to maintain the feasibility of previously-released Long-Term CRRs. Under the existing tariff provisions, the scope of these projects cannot be expanded to cover public policy needs or projects to provide economic benefits. If an upgrade is necessary to maintain the feasibility of

long-term CRRs and also provides additional benefits such as accessing renewables or mitigating congestion costs, the ISO anticipates that additional project cost would have to be incurred to realize such additional benefits, and the project would no longer fit the narrow definition of this category, *i.e.*, the most cost-effective means of maintaining the feasibility of long-term CRRs.

c. LCRI Facilities

LCRI facilities are a specific category of radial, generation tie line facilities intended to connect multiple location-constrained generating units to a point of interconnection on the existing ISO transmission system (*i.e.*, the CAISO Controlled Grid).¹⁰ Under proposed section 24.4.6.3.1,¹¹ any party can propose an LCRI facility through the request window, in which case the ISO will evaluate the need for the LCRI facility at this initial stage of the transmission planning process. As discussed *infra*, LCRI facilities cannot be either public policy or economically-driven transmission upgrades or additions.

One question that arose at the technical conference regarding LCRI facilities concerned the basis for the ISO's conclusion that only existing participating transmission owners can build and recover the costs of LCRI facilities.¹² This conclusion is based on the interaction of a number of provisions of the ISO Tariff and the Transmission Control Agreement, not on a single tariff provision, as well as on Commission orders.

¹⁰ Proposed Tariff Section 24.4.6.3.2.

¹¹ The proposed sections regarding LCRI facilities are identical to those in the existing tariff except for renumbering.

¹² Any entity that becomes a participating transmission owner is eligible to build an LCRI facility and is eligible to recover the costs of the unsubscribed portion of the LCRI facility in the transmission access charge. This opportunity is not limited to only participating transmission owners with a PTO Service Territory.

Under existing section 26.6 of the ISO Tariff, the costs of the unsubscribed portion of an LCRI facility are recovered through a participating transmission owner's transmission revenue requirement. Under sections 2.2 and 4.1 of the ISO's Commission-approved Transmission Control Agreement, a transmission owner can become a participating transmission owner only by turning over to the ISO's operational control "transmission lines and associated facilities forming part of the transmission network that it owns or to which it has Entitlements." Under section 4.1.1 of the Transmission Control Agreement, "radial lines and associated facilities interconnecting generation do not constitute part of a participating transmission owner's transmission network."¹³ Thus, a party cannot become a participating owner by owning and turning over to the ISO's operational control solely radial lines. That is, the ISO Tariff permits all existing participating transmission owners, who by definition have turned network facilities over to ISO control, to then place LCRI transmission facilities under the ISO's operational control temporarily but, under the Transmission Control Agreement, no entity can become a participating transmission owner by seeking to place only LCRI lines under the ISO's operational control.

Further, under section 2.2.5 of the Transmission Control Agreement, a party cannot become a participating transmission owner until the ISO has accepted its participating transmission owner application and the Commission has approved its Transmission Owner Tariff. In other words, "potential"

¹³ The only exception is generation interconnection facilities "which may be identified from time-to-time interconnecting ISO Controlled Grid Critical Protective Systems or Generators contracted to provide Black Start or voltage Support," a category that does not include LCRI facilities.

participating transmission owners are not participating transmission owners under the ISO Tariff and Transmission Control Agreement. Inasmuch as transmission owner or developer that wishes to build an LCRI facility cannot become a participating transmission owner solely on the basis of construction of an LCRI facility, it cannot have a transmission revenue requirement in which to recover the costs of the facility. Hence, only an existing participating transmission owner can build and recover the costs of an LCRI facility under the ISO Tariff.¹⁴ The ISO has not proposed to change the relevant provisions of the ISO Tariff or the Transmission Control Agreement.

In approving the LCRI mechanism, the Commission was fully aware that only participating transmission owners could build and recover the costs of LCRI facilities. In its order on the ISO's petition seeking a declaratory order on the LCRI proposal, the Commission observed, "The proposed financing mechanism would initially roll-in the costs of these interconnection facilities through the transmission revenue requirement . . . of a [participating transmission owner] that constructs the facility."¹⁵ It later ruled in response to one commenter:

The [commenter is] concerned that the limitation of the proposed rate treatment only to [participating transmission owners] within the [ISO] control area could lead to inefficient siting of renewable

¹⁴ Other LCRI tariff provisions clearly contemplate that LCRI facilities are built and owned by existing Participating transmission owners (and not by entities that are not yet participating transmission owners). For example, Section 24.1.3.1(b)(1) of the existing ISO Tariff provides, as one of the requirements for an LCRI, that the addition of the capital cost of the LCRI facility to the High Voltage transmission revenue requirement of a participating transmission owner will not cause the aggregate investment in all LCRI facilities to exceed a specified cap. Section 24.1.3.1(c) provides that each participating transmission owner shall report annually to the ISO the amount of its net investment in LCRI facilities and high voltage transmission facilities so that the ISO can determine whether the cap on LCRI costs has been met. These provisions would not be limited to participating transmission owners if non-participating transmission owners could build and own LCRI facilities.

¹⁵ *Cal. Indep. Sys. Operator Corp.*, 119 FERC ¶ 61,061 at P 5 (2007).

resource projects or even discourage the development of some projects. The Commission's acceptance of the [ISO's] proposed financing mechanism should not be seen as precluding any other entity from requesting similar treatment in the future. In this case, we have determined the [ISO's] proposal to be just and reasonable for the reasons discussed in detail in the body of this order.¹⁶

In subsequent orders approving the ISO's LCRI tariff language, the Commission again recognized that LCRI facilities were to be built by "sponsoring" participating transmission owners.¹⁷

d. Merchant Transmission

Independent of the aforementioned categories of transmission, merchant transmission developers may submit merchant transmission projects to the ISO. Section 24.4.6.1 sets forth the criteria for merchant transmission projects. The project sponsor must bear all costs associated with a merchant project; merchant project costs are not recoverable through the ISO's Transmission Access Charge. Further, merchant projects must mitigate all operational concerns identified by the ISO and ensure the continuing feasibility of allocated long-term CRRs over the length of their terms. The ISO will approve merchant projects before approving public policy or economically driven transmission elements.

e. Review And Modification Of LGIP Reliability And Delivery Network Upgrades

The next category to enter into the comprehensive plan is the set of network upgrades identified in the current LGIP phase 2 cluster study. The LGIP phase 2 cluster study identifies LGIP network upgrades needed for reliable

¹⁶ *Id.* at ¶ 58.

¹⁷ *California Independent System Operator Corporation*, 121 FERC ¶61,286 at PP 9,10 (2007), *order on reh'g*, 127 FERC ¶61.178 at PP at 3,34 (2008).

generator interconnection and deliverability of the output of the interconnecting generators comprising the cluster (existing section 7.1 of App. Y) and that will be specified in Large Generator Interconnection Agreements (“LGIAs”). It also identifies the generator’s responsibility for the cost of network upgrades (existing section 7.3 of App. Y). Under the LGIP provisions of the ISO tariff and the Commission’s *pro forma* LGIP tariff provisions, the participating transmission owner to whose existing transmission facilities the generator(s) will interconnect is obligated to construct these facilities that meet all the requirements of the LGIP Phase 2 process.¹⁸ The LGIP network upgrades so identified that will appear in LGIAs are then assumed by the ISO for purposes of the current comprehensive transmission plan.

The RTPP proposal does not modify these LGIP provisions, although it does allow the ISO planners to consider whether any LGIP network upgrades of significant size should be expanded or enhanced in any way in anticipation of additional generators that will utilize the expanded capacity in the future. Specifically, under proposed section 24.4.6.5, starting in the 2011/12 planning cycle, LGIP network upgrades above the following size and cost thresholds will be subject to further assessment in the transmission planning process: (1) transmission lines greater than 200 kV with a capital cost greater than \$100 million; (2) new 500 kV substations with a capital cost greater than \$100 million; and (3) transmission lines with a capital cost greater than \$200 million. After

¹⁸ Motion to Intervene and Protest of California Independent System Operator Corporation at 5-10. Docket No. EL10-76 (July 23, 2010); Answer to Comments, Motion for Leave to Answer and Answer to Protests of the California Independent System Operator Corporation at 64-70, Docket No. ER10-1401 (July 15, 2010).

evaluation, the ISO will determine for each such network upgrade whether the project should remain unchanged or should be modified in some respect to address additional needs identified through the transmission planning process. If the network upgrade is to be modified, the ISO will also determine if the modification creates the need for additional transmission elements. Network upgrades that are not modified are not included in the transmission plan, but are processed solely under the LGIP. Any modification to a facility identified in the Phase 2 LGIP study process, and any additional facility that the ISO finds is needed during its review, must be separately justified based on the criteria specified in the tariff. Consistent with the principle of comprehensive planning that underlies the RTPP proposal, the ISO's assessment of whether any enhancement to a Network Upgrade identified in an LGIP Phase 2 study is needed will be undertaken simultaneously with its consideration of the need for policy-driven elements, not sequentially.

If the network upgrade identified in the Phase 2 LGIP study is enhanced, the enhanced network upgrade will be included in the transmission plan, and the appropriate participating transmission owner with responsibility to build the network upgrade under the LGIP will build the modified upgrade. It is necessary and appropriate for this particular responsibility to remain with the PTO because (1) the enhanced facility is necessary to connect the generators that have gone through their LGIP Phase 2 studies and will "encompass" the facility actually identified in the Phase 2 LGIP study, *i.e.*, it fundamentally serves an LGIP generator interconnection function, (2) the original network facility (without

modification or expansion) is (or would have been) reflected in the executed LGIA to which the participating owner is a signatory, and (3) construction by the PTO better respects the requirements of the affected interconnection customers, i.e., the timelines, milestones, and expectations contemplated in the LGIP as well as the roles and responsibilities of the parties. For example, expanding or modifying a network upgrade identified in the LGIP phase 2 study by adding a transformer, constructing a double circuit rather than a single circuit line, or expanding the capacity of a line to a higher voltage are modifications that would be built by the PTO. The generator's cost, however, will be limited to the costs specified in the phase 2 cluster study.

Additional network upgrades derived from the RTPP's assessment of LGIP upgrades will also be included in the comprehensive transmission plan if the ISO determines that an additional transmission element(s) is necessary as a result of a modification to the facility identified in the LGIP Phase 2 studies. Construction and ownership responsibility for the additional transmission element will depend upon the nature of the need for the element. If it is a policy-driven or economically driven need, construction and ownership responsibility will be determined in the same manner as for policy-driven and economically driven projects, *i.e.*, through an open solicitation.

2. Additional Transmission Elements

After the ISO incorporates the categories of transmission projects discussed above into the transmission plan – which includes any LGIP network upgrades that do not meet the criteria for reassessment in the TPP and any

merchant transmission projects that satisfy the necessary criteria – the ISO examines the need for additional transmission elements. Transmission elements are transmission additions or upgrades for which there is no approved project sponsor at this stage of the planning process and which will be open for competitive solicitation once included in the final comprehensive plan. These may be policy-driven elements or economically driven elements. As noted earlier, the ISO performs such examination in conjunction with assessing possible enhancements to LGIP network upgrades identified in the LGIP phase 2 cluster study that meet at least one of the criteria for reassessment in the TPP. Thus the elements described here may constitute or be driven by an enhancement of a network upgrade identified in a phase 2 LGIP cluster study. Each of these categories is discussed below. The first additional category of transmission to be considered is the public-policy category of transmission facilities.

a. Policy-Driven Elements

Under section 24.4.6.6, the ISO proposes to create a new category of transmission network upgrades and additions to “meet state or federal policy requirements or directives as specified in the Study Plan,” *i.e.*, policy-driven transmission projects. Proposed section 24.4.6.6 lists ten criteria that the ISO may consider, among other criteria, to determine whether a transmission upgrade or addition is needed to effectively and efficiently meet applicable state or federal policies. As described in greater detail *infra*, the ISO will apply a “least regrets” approach in identifying needed public policy transmission elements so as to minimize the risk of stranded investment. It is possible that a needed public

policy element could provide some incidental reliability benefits, but that does not make the project a reliability project. Reliability projects are limited to projects that meet reliability needs as determined through the defined procedure for determining those needs in the transmission planning process.

(1) Least Regrets

Staff asked how the ISO will apply the tariff criteria to determine “least regrets” policy-driven lines. In developing an annual comprehensive plan for the ISO footprint, the ISO must balance its needs evaluation against the risk of stranded investment. While the policy goal of 33 percent RPS by 2020 is not in question in this type of evaluation, there are alternative types of renewable resources at different locations, both internal and external to the ISO balancing area, that could serve to meet that goal, and hence, there are alternative potential transmission requirements. A “least regrets” analysis will help the ISO to ensure that transmission needed to achieve public policy goals will be developed in a manner that balances, based on current information, the competing objectives of timeliness (to ensure implementation by 2020) and yet not overbuilding transmission. Proposed tariff Section 24.4.6.6 contains the criteria that the ISO will use to evaluate policy-driven elements and provides that the ISO will use such criteria:

...to determine the need for, and identify such policy-driven transmission upgrade or addition elements that efficiently and effectively meet applicable policies *under alternative resource location and integration assumptions and scenarios, while mitigating the risk of stranded investment,*...

This “least regrets” analysis was described in the ISO’s transmittal letter and also in the answer to comments.¹⁹ In addition, more analytical detail has been added to the current draft of a revised Business Practice Manual (“BPM”) for Transmission Planning (that would be applicable if the revised transmission planning process is approved).²⁰

To implement the tariff language regarding these policy-driven elements, the ISO intends to develop, using input from the CPUC and other publicly-available data, selected renewable portfolio scenarios that will each achieve the 33 percent RPS target. These scenarios will be based on reasoned assumptions regarding the location, type and installed capacity and energy production of renewable generation, as well as the integration needs created by each scenario. The ISO will then identify the resources within each scenario that are considered to be most likely to develop -- based on commercial interest, progress in permitting, as well as environmental impact considerations and other factors -- to determine a composite generation scenario comprised of the high probability generation resources. The ISO will then identify the transmission additions and upgrades needed to support this composite generation scenario, and these will constitute the initial set of policy-driven transmission elements that will achieve the 33 percent RPS target. As mentioned earlier, this initial set of policy-driven transmission elements could include enhancements to LGIP-identified network

¹⁹ See June 4, 2010, transmittal letter, at 50-53; answer to protests, 44-45.

²⁰ The stakeholder process to revise the BPM was deferred when the effective date of the tariff amendments implementing the revised transmission planning process was suspended. However, the second revised draft of the BPM is posted on the ISO website at <http://www.caiso.com/27dc/27dced525ff20.pdf> See Section 4.8.

upgrades or additional network facilities whose needs are driven by such enhancements.

The ISO will augment this analysis by examining one or more sensitivity scenarios that, although considered less likely, represent feasible potential variations in future generation development. The ISO will identify the transmission needs associated with each of these sensitivity portfolios, and will then review the initial set of policy-driven transmission elements mentioned above to determine which ones should be considered Category 1 based on their value in supporting one or more of the sensitivity scenarios as well as the initial high-probability generation scenario. The ISO will then designate the remaining transmission elements from the initial policy-driven set as Category 2, and may also identify some additional Category 2 elements that would be needed under one or more of the sensitivity generation scenarios. The Category 2 policy-driven elements will be reconsidered in the next annual planning cycle based on updated generation development information.

The composite or “core” set of renewable resources used to determine the Category 1 transmission elements will be identified, *inter alia*, from the ISO interconnection queue or the CPUC’s “discounted core” set of generators with which regulated load-serving entities have entered into bilateral contracts. The sensitivity scenarios would reflect how additional renewable resources potentially could be added if different criteria were emphasized (*e.g.*, in-state vs. out-of-state resources; further development of higher ranked environmental impact locations as opposed to lower ranked locations; further development of particular locations

based on less certain indicators of commercial interest). The scenario results will thus be sensitive to these alternative assumptions; hence, the ISO would label any additional transmission needs driven by them as Category 2.

In conjunction with posting the draft comprehensive transmission plan the ISO will share with stakeholders the complete scenarios examined, with an explanation as to the underlying assumptions for each one and the rationale for proposing particular transmission elements in Category 1 and Category 2.

The “least regrets” analysis, as described above, will identify policy-driven elements that will be needed over a long-term planning horizon, but without necessarily seeking to advance all needed transmission in the initial year of comprehensive analysis (*i.e.*, 2010). As discussed *infra*, this look into the future of renewable development, beyond generation in the LGIP phase 2 studies, will, consistent with Section 24.4.6.6, enable policy-driven elements ultimately to supplant major LGIP network upgrades..

(2) Relationship between Policy-Driven Elements and LCRI Facilities

Staff and a number of conference participants asked for clarification regarding the difference between LCRI facilities and policy driven elements and whether an LCRI facility could be used to avoid the need for a policy driven plan element. The short answer is that these two categories of facilities do not overlap. LCRI facilities are radial gen-ties, while policy-driven elements are network facilities. LCRI facilities are intended solely to interconnect Location Constrained Generators to the transmission system. They are not intended, and are electrically distinct from network upgrades needed, to deliver energy to load

once that energy reaches the point where the radial gen-tie interconnects with the grid. The latter is the explicit purpose of transmission facilities needed to meet 33 percent RPS under the public policy category of transmission.

The criteria for qualification as a LCRI facility are set forth in renumbered section 24.4.6.3.2. Under subsection (a)(1), the facility must have as its primary purpose *the interconnection* of LCRI generators. Importantly, subsection (a)(3) provides:

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 transmission owner's transmission revenue requirement] other than as an [LCRI facility].

In contrast, policy-driven elements are intended to be looped, network facilities. To the extent that the public policy objective is achievement of 33 percent RPS (as is it would be initially), policy-driven elements will facilitate the delivery of energy from renewable resources by expanding the looped network to ensure that renewable resources can be delivered to load. It is possible, of course, that an LCRI facility (or a portion thereof) could at some point become a network facility if it is looped by a subsequent transmission addition or if load served through the ISO market interconnects. Existing section 26.6.1 (which is unaffected by the ISO's RTPP filing) provides that, under such circumstances, once the relevant transmission addition or load becomes operational the interconnected generators would no longer bear their portion of the going forward costs of the facility. Because the unamortized costs of the former LCRI facility are already included in the participating transmission owner's transmission

revenue requirement under section 26.6 of the ISO Tariff,²¹ they will thereafter be recovered solely through the transmission access charge, in the same manner as other network facilities.

The difference between LCRI facilities and policy-driven elements is somewhat analogous to the difference between an Interconnection Customer's Interconnection Facilities (gen-ties) under the LGIP, which are typically built by generators and not included in transmission rates, versus LGIP Reliability and Delivery network upgrades (network facilities) which are built by participating transmission owners and included in transmission rates. An Interconnection Customer's Interconnection Facilities are facilities located between the generating facility and the Point of Interconnection with the participating transmission owner's transmission system. On the other hand, LGIP Network Upgrades are additions or upgrades at or beyond the Point of interconnection. LCRI facilities are comparable to the former, whereas policy-driven elements are comparable to the latter. LCRI facilities are intended to interconnect generation to the existing grid, not deliver the generator's output to load.

Moreover, the LGIP process cannot substitute for either the LCRI or the policy-driven category of facilities because (1) the LCRI provisions provide a funding mechanism not available for LGIP interconnection facilities (existing section 26.6), and (2) the policy-driven elements accommodate broader, more forward-looking, transmission enhancements than can LGIP network upgrades

²¹ The payments by generators interconnected to the LCRI facilities are credited by participating transmission owners against their transmission revenue requirement.

(see, e.g., proposed section 24.4.6.6(f), (h)), which only take into account the specific pending interconnection customers (existing section 7.2 of App. Y).

Due to the very specific criteria on what facilities can qualify as LCRI facilities, LCRI facilities will represent a significantly more limited investment opportunity than policy-driven elements, and will constitute significantly smaller projects. Moreover, as explained during the technical conference, renumbered section 24.4.6.3.2(b) of the ISO Tariff limits the total permissible investment in LCRI facilities. It requires that the capital costs of LCRI facilities being recovered through the ISO's transmission access charge not exceed 15 percent of the total amount of high-voltage capital costs being recovered through the transmission access charge. By way of example, the one LCRI facility approved, conditionally, to date, is a radial, 9.6 mile, 230 kV facility connecting to an approved 500 kV network facility. If constructed, it will interconnect up to 1150 MW of generation in the Tehachapi renewable resource area. It has a planning level cost estimate of \$46.1 million. In its LCRI tariff amendment filing in Docket No. ER08-140, the ISO noted that the total net high voltage transmission investment of the participating transmission owners at that time was \$3,199,765,286. Applying the 15 percent cap to that number would result in an aggregate cap for **all** LCRI facilities of \$479,964,793. The costs of the Tehachapi LCRI facility would reduce the available "cap space."²²

²² The capital costs of an LCRI project such as the one recently approved stand in stark contrast to major network transmission facilities approved through the ISO's transmission planning process. For example, SDG&E's Sunrise Powerlink project, a 150 mile 500 kV network transmission line and associated facilities that provides economic benefits, is estimated to cost \$1.8 billion. LGIP network upgrades that are required for renewable generation in the LGIP transition cluster, such as SCE's Pisgah-Lugo upgrades (a 67 mile, 500 kV line, new substation and associated facilities) are estimated to have capital costs of over \$740 million. See *Southern*

The cost of individual LCRI gen-tie facilities are a fraction of the expected cost network upgrades needed to meet policy needs, and the total cost of **all** such LCRI facilities do not even equal the cost of a single large network upgrade. Moreover, the costs of an LCRI facility will only remain in the TAC temporarily until the expected generation comes on line to bear the costs of the line directly. The LCRI program was developed solely as a funding mechanism to assist location constrained generators;²³ it was not intended as a long-term investment opportunity for transmission owners to recover the capital costs of gen-tie lines, as well as a regulated return, permanently through the ISO's transmission access charge.

Some participants in the technical conference felt that the distinction between LCRI facilities and policy driven elements was blurred because the proposed commercial interest criterion for policy driven elements was similar to a comparable qualification criterion the Commission approved for LCRI facilities. This similarity of criteria is not due to any overlap or technical similarities between the categories of facilities. Rather, the consideration of demonstrated commercial interest for both categories reflects the need, common to both categories, to limit the risk to transmission ratepayers of stranded investment. In each case, the criteria are designed with the purpose of the category in mind. For example, because LCRI facilities are prompted by the need to interconnect specific resources, with the prospect of additional future interconnections as the

California Edison Company ER 10-81-000, Petition for Declaratory Order, 3. In addition, most of the economic projects submitted through the 2008 and 2009 request windows have estimated costs of over \$200 million, according to their project sponsors.

²³ *California Independent System Operator Corporation*, 119 FERC ¶61.061 at P 4

expected source of funding to reimburse ratepayers for the initial outlay, the demonstration of commercial interest on the part of generation in the location to be served by an LCRI facility is an absolute requirement under renumbered section 24.4.6.3.4. Similarly, in considering Category 1 policy-driven projects, the risk to ratepayers is mitigated by substantive evidence that future generation resources will utilize the added transmission capacity to support achievement of the 33 percent RPS target. Commercial interest in resources in a given location is, however, only one consideration with regard to policy-driven projects under proposed section 24.4.6.6, and it is only one of a number of considerations.

Because of the distinction between the two categories, LRCI facilities cannot substitute for policy-driven elements. An existing or planned policy-element could, however, obviate the need for an LCRI facility. Any such policy element would be subject to the ISO's proposed open solicitation procedures. If a policy-driven element (*e.g.*, a new looped network facility) is constructed in an area with the potential for the development of location-constrained generators, generation developers in that area may be able to interconnect at lower cost and use the standard LGIP, without the need for the special funding mechanism of the LCRI facilities for a longer radial gen-tie. For example, consider a renewable resource area 20 miles from one 500 kV line and 75 miles from another 500 kV line. The only economically feasible means of interconnecting generators in that area may be an LCRI facility. Also assume that there are other renewable resource areas nearby. If a policy driven element were built connecting the network lines and running through the renewable resource areas, it might be

economically feasible to connect with the new network facility with a shorter generate and without the need for the LCRI financing mechanism.

b. Relationship of LGIP process and policy-driven elements

Staff requested an explanation of the interaction between the LGIP process and policy-driven projects. That is best shown by an example. Consider a 230 kV line running from point A to point C with an intermediate substation at point B. There is a renewable resource area X reasonably close to the A-B segment and another renewable resource area Y farther away. There is a pending request to interconnect a generator G at substation B which is being evaluated in the current phase 2 cluster study. The phase 2 cluster study determines that the interconnection of G will require upgrading the substation at B and upgrading the A-B segment to 345 kV, which will require the interconnection customer to up-front fund these upgrades at a cost of Z dollars.²⁴ Under the current LGIP process and the current planning process, that is the extent of the review of the network upgrade.

Under the revised transmission planning process, the ISO may determine that the potential for development in resource area X justifies upgrading the A-B segment to 500 kV, with additional substation upgrades. The 500 kV upgrade will be included in the transmission plan, but will also be included in generator G's LGIA because the original 345 kV and substation upgrades identified in the phase 2 cluster study were required under the LGIP rules to meet the interconnection needs of generator G. As a result, this enhancement to the LGIP-

²⁴ Under the ISO's existing interconnection rules, the interconnection customer is fully repaid for this up-front funding, plus interest, at ratepayer expense through the ISO's transmission access charge within five years of starting commercial operation.

identified upgrades would be built by the participating transmission owner that owns the A-B segment and the substation at B. Even though the costs for the A-B segment are now greater, the original interconnection customer will only be responsible for Z dollars (the customer's share of the cost of the upgrade of the A-B segment to 345 kV).

The ISO may also determine that with the upgrade of the A-B segment and substation, the potential for development in area Y justifies the cost of a new 230 kV line that would be accessible for delivering the output of generators in area Y, running from point B to point D, which is on a different network line. That new 230 kV line (and any further substation upgrades) will be included in the transmission plan. The new 230 kV line will be included in the transmission plan as a policy driven transmission element, for which the ISO will solicit proposals to construct and own.

Because of the planning horizon, policy-driven elements may reduce the need for future LGIP network upgrades. Shortly after the ISO filed its proposal, the Commission made this same observation in its proposed Notice of Rulemaking Transmission Planning and Cost Allocation by Transmission Owning and Operating Public Utilities:

Another benefit of this proposed requirement to consider public policy requirements established by state or federal laws or regulations within the transmission planning process is that adherence with this proposed requirement may eventually increase the proportion of transmission network investment that is constructed pursuant to proactive transmission planning processes, thereby reducing the proportion of network upgrades that would otherwise be triggered by individual generator interconnection requests, which can be time consuming and inefficient. If more of the transmission network were expanded under the type of regional

transmission planning process described above, then the network upgrades triggered by interconnection requests should be less significant in size and cost than they have been in the past. . . .²⁵

For example, under the previously described transmission configuration, the ISO may have decided in a given planning cycle that the potential for development in the X and Y areas justified the upgrade of the A-B segment and the new B-D segment prior to any interconnection request that had yet been evaluated in a phase 2 cluster study. In that case, the ISO would include the upgrades and new segment in the transmission plan as policy-driven elements. Under such circumstances, when subsequent interconnection requests are then studied in the phase 2 cluster study, that study will not identify the need for any additional network upgrades to be funded by the interconnection customer. Indeed, the ISO anticipates that, once the tariff provisions implementing the proposed policy driven elements are permitted to go into effect, policy driven elements (and the resulting projects) could have a substantial impact on reducing the LGIP-driven network upgrades that will be identified as needed in future cluster studies.

c. Economically Driven Elements

Under proposed section 24.4.6.7, once the ISO identifies projects needed to maintain reliability, LCRI facility projects, qualified merchant projects and public policy transmission elements, the ISO will conduct High Priority Economic Planning Studies and any other studies to determine whether any additional transmission upgrades, additions, or modifications to identified transmission projects or elements are necessary to address (1) congestion identified in the

²⁵ 75 Fed. Reg. 37,884 at P 68 (June 30, 2010).

Congestion Data Summary published for the applicable transmission planning process cycle and the magnitude, duration, and frequency of that congestion. (2) Local Capacity Area Resource requirements, (3) congestion projected to increase over the planning horizon used in the transmission planning process and the magnitude of that congestion, or (4) integration of new generation resources or loads on an aggregated or regional basis. In determining whether any additional transmission elements are needed, the ISO will consider the degree to which the benefits of any solution outweigh the anticipated costs. Benefits may include a calculation of any reduction in production costs, congestion costs, transmission losses, and capacity or other electric supply costs resulting from improved access to more cost-efficient resources. Economic transmission elements that the ISO identifies as needed will be subject to the competitive solicitation process.

A transmission element cannot qualify as an economically driven element unless the economic benefits of the element exceed the costs. In other words, the mere fact that a transmission element provides economic benefits does not establish a need for the element or make it an economically driven element; rather, the economic benefits of a transmission element must exceed the costs to be eligible for approval as an economic transmission element. As the ISO indicated at the technical conference, the potential exists for some overlap between public policy projects and economic projects, but that should not matter because the need for both types of plan elements is identified in the same stage of the planning process and the specific projects to satisfy both types of plan

elements are subject to the open solicitation process. Also, under the ISO's proposed approach, once the ISO determines that a project is needed for public policy reasons, the element is treated as a public policy element. If the ISO determines that a modification to that element is needed for economically-driven reasons, such modification must be justified based on the criteria applicable to economically driven projects. Although there may be some overlap between policy-driven elements and economically driven elements, there will never be any overlap between these two categories of plan elements and reliability projects. As indicated above, reliability projects are limited to projects that meet reliability needs; they cannot be expanded to cover economic or public policy elements.

III. Phase 3 of the Proposed Transmission Planning Process

A. Consideration of 2008 and 2009 Request Window Projects

The revised transmission planning process provides that if a policy-driven or economic transmission element approved in the 2010/2011 transmission planning process coincides with a project submitted in the 2008 or 2009 request window, the project sponsor if qualified will be approved to construct and own the project. During the technical conference, one party contended that the ISO should ascribe a chronological preference to projects submitted in the 2008 request window so that these projects would be given preference over comparable projects submitted in 2009. In essence, the party requests that the ISO establish a transmission project "queue" based on the submission date of the project in either 2008 or 2009.

This proposal has no basis in the current ISO tariff or BPM. In determining whether a proposed project is needed, the ISO will consider alternatives and may determine that a specific alternative presents a better choice. With respect to economically-driven projects, current tariff Section 24.1.1(b) specifically states that the ISO shall “consider the comparative costs and benefits of viable alternatives” to the proposed project. These viable alternatives could be projects submitted in a subsequent request window. Also, under the existing economic project provisions of the tariff, the ISO is able to propose alternative economic transmission projects during the planning process. Under the current tariff the applicable participating transmission owner with a PTO Service Territory has a right of first refusal to build and own an economic project identified by the ISO in the planning process. Project proponents have no reasonable expectations that the ISO would prioritize request window projects based on the order in which they were submitted, because the tariff and BPM are completely devoid of any reference to such a prioritization.

The proposal also makes no sense in the context of the proposed revised transmission planning process. The ISO's filed proposal would eliminate any right to build associated with a party's submission of a transmission project or idea; the proposed special treatment of the 2008 and 2009 request window projects in this respect was included in the ISO's proposal explicitly to recognize that these proposals were submitted under the provisions of the current tariff which did allow for such a right to build approved proposals. Therefore any basis

for the requested priority for 2008 over 2009 proposals would need to be found in the current tariff or BPM provisions, which as just noted, does not exist .

Also at the technical conference, one party urged the ISO to analyze the 2008 and 2009 request window projects as soon as possible and stated that the projects submitted through the 2008 request window should, according to the BPM, have been approved in the 2010 transmission plan. Desert Southwest Power made a similar assertion at page four of its comments in this proceeding. In its answer to those comments, the ISO explained that treatment of 2008 and 2009 request window projects is not within the scope of this proceeding.²⁶ The ISO also explained that the ISO's handling of the 2008 and 2009 projects has been completely consistent with the ISO Tariff.²⁷ Moreover, following the technical conference the ISO did re-examine the current BPM to see if any statements there would have created an expectation that the 2008 request window projects should have been approved in the 2010 transmission plan and could find no such statements.

B. Project Sponsor Selection

1. Binding Cost Caps

At the technical conference, Commission Staff raised the question whether, if two project sponsors agreed to binding cost caps on a needed transmission element , and every other comparative factor between the two project sponsors and their proposals was equal, the ISO would select the project

²⁶ Answer to Protests at 52.

²⁷ *Id.* At 53, 54.

sponsor that had agreed to the lowest binding cost cap. The ISO affirms that under these specified circumstances, the ISO would select the project sponsor that agreed to the lowest binding cost cap

The ISO again stresses, however, that any cost comparison must be based on a binding agreement to cap costs and not on mere cost estimates. As the ISO discussed in the ISO's transmittal letter,²⁸ cost estimates are not reliable, can be manipulated or "low-balled" to enable a project sponsor to be the lowest cost "bidder," and are not otherwise enforceable or binding. That is why it is imperative that if a project sponsor believes it can build a project at lower cost than a competitor, it should back up that belief by agreeing to some form of binding cost cap. The project sponsor selection criterion specified in proposed Section 24.5.2.4 (j) provides potential project sponsors with that opportunity. The ISO must stress, however, as noted previously, that costs are not the only factor that must be considered in the selection process. Staff also asked how the ISO would enforce any binding agreement regarding a cost cap or cost containment. Because the ISO is not a regulatory body and does not oversee the rates of transmission service providers, the ISO will need to rely on the Commission to enforce any agreed-to cost cap or cost containment measure in the course of a project sponsor's Section 205 Transmission Revenue Requirement proceeding.

Another question raised at the technical conference was whether, if the selected project sponsor defaults and another project sponsor is selected by the ISO, any agreed-to cost cap would transfer. The ISO does not believe that it has

²⁸ See June 4, 2010, transmittal letter at 66 n.74.

the authority to require a newly selected project sponsor to involuntarily accept the cost cap to which the previously selected project sponsor agreed.

However, the ISO's proposal provides three effective options for dealing with the situation where a selected project sponsor defaults. First, under proposed Section 24.6, the defaulting project sponsor might desire to transfer its right to build the project to another qualified sponsor. Under the proposed tariff language, the ISO must approve any such transfer.²⁹ This ensures that ratepayers are adequately protected. In that regard, one of the factors the ISO would consider in deciding whether to agree to any such assignment (in lieu of conducting a new open solicitation), in addition to the new project sponsor's qualifications consistent with Sections 24.5.2.1 and 24.5.2.4, is whether the new sponsor was willing to voluntarily agree to the binding cost cap to which the defaulting project sponsor had agreed. If the ISO does not agree to the transfer (or if the approved project sponsor does not propose to transfer the right to build the facility to a qualified new project sponsor), then, under Section 24.6, the ISO may conduct a second competitive solicitation. Such solicitation would be open to all interested parties including existing participating transmission owners and non-incumbent transmission developers alike. The final option available to the ISO is to direct the Participating Transmission Owner with a PTO Service Territory in which either terminus of the transmission facility will be located to build the transmission element pursuant to the obligation to build tariff provisions under Section 24.6.

²⁹ Once the project is completed and turned over to the ISO's operational control, the Transmission Control Agreement will govern the terms and conditions of facility transfers.

2. Backstop Obligation to Build and Defaulting Project Sponsors

Staff also asked about protection of existing participating transmission owners from excessive burdens due to this backstop obligation to build. The ISO's proposal seeks to mitigate such concerns by providing the ISO with the option to conduct a new competitive solicitation before it directs the applicable participating transmission owner to build the needed public policy or economic transmission element. On the other hand, under the existing tariff, there is no competitive solicitation process as proposed under the ISO's filing, so the applicable participating transmission owner(s) would automatically be required to build the project under the obligation to build tariff provisions.

It is necessary for the ISO to retain the obligation of participating transmission owners with service territories to serve as the default entity to build transmission elements identified in the Comprehensive Transmission Plan for which there is no other Approved Project Sponsor. Not only is this obligation to build already reflected in Section 24.2.4.2 of the existing ISO tariff, but it is appropriate that the parties that have the responsibility to build certain facilities, such as reliability-driven projects, retain a reciprocal obligation to build all needed transmission facilities if there is no other qualified entity willing to do so to ensure the integrity and economic efficiency of the transmission system and to meet applicable policy requirements. Absent this backstop mechanism, needed transmission elements may be unacceptably delayed or even go unbuilt. The participating transmission owners with service territories are the franchised electric service providers in their service territory, they have the obligation provide the transmission facilities needed to serve load, they are the providers of

last resort, and they are entities with which the ISO has a contractual relationship. Where no one else steps up to build needed transmission, the ISO must have the ability to require these participating transmission owners to build such facilities. Nevertheless, as indicated above, the ISO has taken certain steps to attempt to mitigate this burden.

Commission Staff also raised the issue of imposing the obligation to build on all entities that become participating transmission owners, not just the participating transmission owners with a PTO Service Territory. This issue has also been raised in the transmission planning NOPR in Docket No. RM10-23 (at footnote No. 101). Such a concept raises a number of difficult implementation issues and was not vetted during the lengthy stakeholder process that preceded the ISO's filing of its revised transmission planning process. Accordingly, the ISO believes this specific matter is best resolved in the context of the NOPR and not in this tariff amendment proceeding. The ISO believes that the ability of a defaulting sponsor to transfer its rights (subject to the ISO's approval) and the ISO's ability to conduct a second open solicitation prior to relying on the obligation to build should appropriately mitigate any concerns in the interim. Indeed, in Footnote No. 101 of the NOPR, the Commission recognizes that before relying on an obligation to build mechanism, one option is for the regional planner to conduct an open solicitation to build the needed transmission element. The ISO's proposal herein is consistent with this recommendation.

At the technical conference, Commission Staff raised the issue of requiring approved project sponsors to execute a Letter of Credit in order to

protect ratepayers and existing participating transmission owners in the event the approved project sponsor defaults on a project which it has been awarded. The ISO would not object to the Commission imposing such a Letter of Credit, or some other bond/guaranty obligation on approved project sponsors under these circumstances.

3. Expert Consultant

Another issue pertaining to the project sponsor selection process that was discussed at the technical conference was the ISO's indication that it was considering retaining an expert consultant. This expert consultant would assist the ISO in its assessment project sponsors' qualifications, evaluation of proposals to build and own needed transmission elements submitted by potential project sponsors, and its selection of approved project sponsors when more than one proposal is received to build the same transmission element. The ISO hereby advises the Commission that it will retain an expert consultant to assist it in these efforts. In addition, pursuant to the transmission planning BPM that the ISO will implement in connection with the revised transmission planning process, ISO will post a detailed report regarding its selection of approved project sponsors for each of the needed economic and public policy transmission elements that were the subject of the open solicitation.³⁰ That report will set forth in a transparent manner the basis for the ISO's decisions.

³⁰ This requirement is currently contained in Section 5.6.4 of the draft BPM for the revised transmission planning process. This BPM is currently under development. *See* <http://www.caiso.com/27dc/27dced525ff20.pdf>

IV. CONCLUSION

The ISO requests that the Commission approve its proposed revised transmission planning process consistent with the clarifications provided herein and the discussion in the June 4, 2010 Transmittal Letter and the July 15, 2010 Answer to Protests.

Respectfully submitted,

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Dated: September 8, 2010

CERTIFICATE OF SERVICE

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

Dated at Folsom, California this 8th day of September, 2010.

Anna Pascuzzo

Anna Pascuzzo