

THE STATE OF CALIFORNIA
BEFORE THE
CALIFORNIA ENERGY COMMISSION

DOCKET	
08-IEP-1B	
DATE	AUG 26 2008
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In The Matter Of:)

Preparation of the)
2008 Integrated)
Energy Policy Report Update)

Docket No. 08-IEP-1B

**WORKSHOP COMMENTS
OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR**

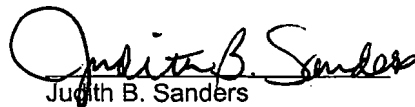
The California Independent System Operator (ISO) respectfully submits the attached paper entitled: "California ISO Response to "Experiences with Joint Transmission Project Development in the West"" for consideration by the California Energy Commission in its proceeding to update the 2008 Integrated Energy Policy Report.

The California ISO is a public benefit, not-for-profit organization responsible for operating transmission facilities owned by others that serve more than 80% of Californians. The ISO is charged by statute to reliably operate the transmission network and in doing so must meet critical system reliability and balancing requirements. In addition, the ISO's mission is to ensure the full and efficient use of these transmission assets and promote infrastructure expansion and development to achieve the greatest benefits for California and ISO ratepayers.

The ISO appreciates the opportunity to provide these comments and looks forward to continued involvement with the Commission on these and other issues.

Dated August 25, 2008

Respectfully submitted,



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California ISO
Your Link to Power

California Independent System Operator Corporation

California ISO Response to: “Experiences w/Joint Transmission Project Development in the West”

August 25, 2008

California ISO Response to “Experiences with Joint Transmission Project Development in the West”

II. Summary

In a recently published paper entitled “Experiences with Joint Transmission-Project Development in the West” (“Paper”) the Paper’s sponsors¹ contend that the California Independent System Operator (“ISO”) represents an obstacle to efficient transmission planning, joint ownership of transmission additions, and achieving California’s important renewable resource goals.

The ISO does not typically respond to papers of this nature. This Paper, however, compels us to respond because it so clearly mischaracterizes the ISO’s tariff, the ISO’s role in the cancellation of certain transmission projects, and the important steps the ISO has taken to remove barriers to renewable resource development. This response explains the ISO’s responsibilities, describes outreach to several of the sponsors of this Paper related to the issues it raises, and addresses other issues including those involving the tariff and the ISO’s role in achieving the state’s renewable resource goals.

The California ISO is a public benefit, not-for-profit organization responsible for operating transmission facilities owned by others that serve more than 80% of Californians. The ISO is charged by statute to reliably operate the transmission network and in doing so must meet critical system reliability and balancing requirements. In addition, the ISO’s mission is to ensure the full and efficient use of these transmission assets and promote infrastructure expansion and development to achieve the greatest benefits for California and ISO ratepayers.

The ISO accomplishes this mission through tariff provisions that incorporate system operations and planning goals based on transparent reliability and economic objectives, and simultaneously provides mechanisms to accommodate jointly owned projects governed by bilateral agreements between the ISO or its participating transmission owners, and other parties. The ISO tariff provides efficient and non-discriminatory access to the transmission network and rate recovery for new transmission when it is cost-effective and/or improves system reliability.

¹ The sponsors are the Imperial Irrigation District (IID), the Turlock Irrigation District (TID), the Los Angeles Department of Water and Power (LADWP), the Sacramento Municipal Utility District (SMUD), and the Western Area Power Administration (WAPA).

The ISO tariff charges for its services at cost-based rates governed by a tariff developed in a public stakeholder process that requires review and approval both by the ISO's independent board and the Federal Energy Regulatory Commission (FERC). In contrast, the sponsors of the Paper operate under a vertically integrated "build, own, operate" model that relies on private bilateral contracts, is not transparent and does not provide for full use of its transmission system.

Despite these differences, the ISO has worked through its public tariff development process to enable non-jurisdictional parties to achieve the price certainty and firm transmission rights sought by the sponsors of the Paper, as described in more detail in the sections that follow. Moreover, the ISO provides these accommodations in a manner that is consistent with the ISO's goals of transparent operations and non-discriminatory transmission, including access to unused transmission capacity twenty-four hours a day. Anything less will increase electricity costs and create unnecessary environmental impacts as the result of unneeded transmission development.

In addition, as committed by the ISO to FERC, the ISO will address these issues more fully through its currently active Order 890 stakeholder process. The goal will be to frame the relevant issues and, if appropriate, develop tariff refinements.

Regrettably, the ISO's efforts to address these issues collaboratively are mischaracterized in the Paper, which also fails to acknowledge how the ISO tariff provides the price certainty and firm transmission rights the Paper's sponsors seek. In the sections that follow, this document describes:

- ISO outreach to key parties with concerns about the ISO's tariff.
- Principles guiding the ISO's operational and transmission planning responsibilities.
- Tariff provisions governing bilateral agreements between ISO participating transmission owners and other parties such as the sponsors of the Paper.
- Issues with the "hybrid model" described in the Paper.
- The ISO's leadership in removing barriers to renewable resource development.

II. The ISO has sought collaboration with several sponsors of the Paper.

Before addressing the tariff issues raised in the Paper, the ISO is compelled to clear the record with regard to allegations that the ISO caused the cancellation of two recently considered transmission projects and is generally unwilling to consider jointly-owned projects.

In the case of Green Path Southwest, IID, San Diego Gas and Electric Company, and Citizen Energy negotiated a memorandum of understanding that would have increased access to IID's important geothermal resource area. In those negotiations IID argued for full control of the transmission although they would fund only 5% of the cost, with the remaining 95% of the costs collected from ISO ratepayers. In addition, IID sought a new provision allowing them to increase their ownership share in the future without any additional up front financial commitment. The negotiations resulted in extensive provisions to secure IID's interest and investment over the lifetime of the proposed project. Ultimately, the agreement was ratified by IID, SDG&E and Citizens Energy. We should note that the IID was represented in these negotiations by Mr. Charles Hosken who combined hard line positions with professional and effective engagement.

In the spring of 2007, the newly elected IID Board of Directors reopened the issues that had been settled in the earlier memorandum of understanding. The IID Board introduced new and previously settled issues that were unacceptable to the ISO as well as other parties in the discussions. Parties including IID and the ISO again met several times to discuss outstanding issues. ISO participants included senior ISO management, including the CEO. IID participants included the general manager and two members of the IID Board of Governors. IID board members made clear in these discussions that their priorities were driven by acquiring water and serving the irrigation and pumping needs of their customers. Their primary concern on issues like interconnections was retaining local control as opposed to achieving the most economic transmission upgrades.

Nevertheless, IID and SDG&E executed a memorandum of understanding that provided for access to the geothermal generation in the District's service territory. Subsequently, IID cancelled their participation in the project. At no time did IID claim that the ISO was the cause. Perhaps most importantly, IID submitted information under oath in a California Public Utilities Commission proceeding which did not mention the ISO and said that routing issues were the reason for the withdrawal from the project.

The ISO's efforts with the Los Angeles Department of Water and Power (LADWP) were also extensive and frustrating. The Department has a lot to gain from being part of the larger State grid as a way to minimize the need for new transmission, increase their access to renewable generation at lower cost to their

ratepayers, and reduce their CO2 footprint. The CEO of the ISO approached LADWP management on several occasions to open discussions regarding these issues. In those discussions, the ISO asked LADWP to discuss their Green Path North project and other alternatives with regard to how they benefit LA and the rest of the state. LADWP, however, asked the ISO not to discuss these issues because it involved political and environmental matters that LA did not want to expose.

Not long after these discussions, a Department spokesman told the media that problems for their project were caused by the ISO tariff. When called by the ISO and asked to explain, the Department's General Manager acknowledged that the ISO tariff was not the problem and assured the ISO that the Department's media spokesperson was mistaken. However, the Department did not correct the record and has now made the same assertions in the Paper.

The ISO also reached out to the Sacramento Municipal Utility District (SMUD). The ISO initiated contact with SMUD that led to a meeting involving the ISO CEO, the entire ISO executive team, the SMUD General Manager and SMUD's executive team. A key objective was to discuss better ways to plan for transmission upgrades to address California's renewable resource and greenhouse gas objectives and to identify other initiatives that could benefit both organizations. The ISO and SMUD agreed to discuss ways to improve planning and identify possible joint efforts. The Vice President of Planning and Infrastructure Development of the ISO subsequently sought to have substantive discussion with SMUD management on these matters. Three separate meetings were scheduled only to be cancelled by SMUD.

The ISO has reached out to these entities on many occasions, as shown in the examples described here. Moreover, the ISO remains ready to continue these discussions. They must be motivated, however, by an interest in reaching results that are in the interest of all parties. The ISO is amenable to these discussions but has no control over other parties' willingness to engage with the ISO.

III. The ISO is guided by clear principles reflected in its tariff and in carrying out its day-to-day operations and transmission responsibilities.

The ISO tariff is the product of ten years of evolution involving agreements with transmission owners, consensus-building around complex stakeholder issues, open and transparent planning, and rigorous oversight by regulators who must make findings that the tariff is just and reasonable. These efforts focus on achieving what is in the best interest of the state – reliable and efficient service – and are open to all stakeholders regardless of whether they participate in the ISO's markets or not.

Indeed, over the years, the ISO has adopted tariff provisions that accommodate the physical ownership rights and business needs of entities like the Paper's sponsors who jointly own transmission with entities that are part of the ISO, as described further in subsection "IV" below. Here is a brief discussion of key principles guiding the ISO's effort to meet its critical public service obligations.

Costs borne by ISO ratepayers must provide commensurate benefits.

The ISO conducts a transmission planning process under rules promulgated by FERC that are specifically designed to maintain reliability and prevent discrimination in access to transmission systems owned by both public and private vertically integrated utilities. This planning process must meet stringent criteria regarding, among other things, comparability, coordination, openness, transparency, and regional coordination. As such, all interested parties, including public and private utilities, generation owners and developers, state and local agencies, environmental organizations and interested individuals are welcomed into the process. The ISO is ready to work with all participants, regardless of their business model, to ensure that the planning process considers the full range of transmission and resource options. The consideration includes conducting reliability and cost/benefit analyses and advancing those projects providing documented benefits to ISO ratepayers.

Over the last ten years, the ISO has approved approximately \$8 billion in transmission upgrades, half of which are under construction or in-service and provide ratepayers with reliability and cost efficiency benefits. These include projects like the Jefferson-Martin 230 kV transmission line and TransBay Cable Project, both serving San Francisco; the Tehachapi Wind Area Transmission Project to deliver wind generation to southern California; and many smaller system upgrades to lower the cost of delivering power to California consumers. These include projects owned and proposed by investor-owned utilities as well as a project jointly proposed by a municipality and a private developer.

Existing transmission should be fully utilized before new transmission expands the environmental footprint.

Transmission corridors are extremely difficult to establish and should be used for the benefit of all Californians. The ISO transmission service model ensures that all transmission customers have open access to transmission capacity, while preserving the rights of non-ISO participating owners or existing contract rights holder to the transmission capacity that they own or have purchased. Importantly, the ISO model provides that when transmission capacity is not being used, the ISO will make it accessible to other parties on an as-available basis. In contrast, sponsors of the Paper insist on "physical" transmission rights. In other words, their

ownership share should be treated like a pipeline that they control. It is unclear how owners of these "physical" rights will ensure that their tariffs minimize underutilization of their transmission and avoid creation of phantom congestion that forces more expensive operations on other system users.

Continued Cooperation Across the West Is Critical.

California imports approximately 20% of the electrical energy consumed in the state. These transactions are conducted over the transmission facilities of neighboring utilities and the ISO, consistent with numerous executed operating agreements that provide benefits to all parties. California obtains the electricity it needs to maintain system reliability, and our neighbors profit from selling to our local utilities and direct access customers. These mutually beneficial arrangements provide for specific rights across the interstate interties, which we adhere to now and will in the future.

IV. The ISO tariff specifically provides for bilateral agreements between owners of transmission under the ISO's control and other parties, including publicly owned utilities.

The ISO tariff specifically provides that contracts negotiated between joint owners supersede the ISO tariff.² These ownership rights also protect joint owners against transmission congestion and imbalance energy charges, and also entitle them to reduced charges for the ISO's overhead expenses. Finally, the ISO preserved the "firm" nature of the transmission service that such entities would receive under a traditional bilateral transmission contract by limiting, as a practical matter, curtailment of their energy deliveries only during emergencies that threaten system reliability.

The Paper contains descriptions of the ISO's "Joint Transmission Model Principles" that reflect a fundamental misunderstanding of the ISO's tariff. For example, the sponsors of the Paper claim that "two or more bilateral transmission

²In particular, the CAISO engaged in extensive stakeholder discussion over several years to establish the detailed Tariff provisions that ensure that Transmission Ownership Rights and Existing Transmission Contracts are unequivocally honored. As a result of these consultations, the CAISO's Market Redesign and Technology Upgrade (MRTU) Tariff grants scheduling priority to holders of transmission rights, allows changes to schedules and exemptions from transmission access and congestion charges, in accordance with the rights of these holders. Such transmission schedules are always given priority over market bids. Under the ISO's new market design, the ISO will continue to ensure that schedules are honored consistent with their contractual rights.

agreements would not 'override' the ISO tariff. However, the transmission ownership rights provisions of the tariff specifically provide that the ISO tariff will not be applied to the result of bilateral negotiations between participating transmission owners and an entity that is not part of the ISO.

V. The "hybrid model" proposed in the Paper does not clearly identify problems the model is trying to resolve.

The sponsors of the Paper strongly argue that "solutions need to be found" to the "deadlock on joint transmission projects" and propose a "hybrid model" solution which purports to reconcile "the CAISO tariff and a contract-based arrangement." These are solutions in search of a problem. As discussed above, the CAISO has developed specific tariff provisions that accommodate contractual arrangements between those that have become participating transmission owners and non-jurisdictional transmission owners in an effort to mimic the business needs associated with physical ownership rights.

Even if the CAISO tariff did present specific obstacles to joint transmission development, the "hybrid model" does not provide solutions³. The mechanisms for overcoming these issues include as a first priority understanding them through studies and analysis as part of the ISO's open and transparent transmission planning process. This work would include, as advocated by the sponsors of the Paper, the calculation of ratepayer benefits taking into account all existing planned transmission projects. At that point, differences of view will be well understood and can be addressed through negotiation of specific contractual arrangements.

In addition, as committed by the ISO to FERC, the ISO will address joint ownership issues more fully in its currently active Order 890 stakeholder process. The goal will be to frame the relevant issues and, if appropriate, develop tariff refinements.

VI. THE ISO IS A NATIONAL LEADER IN REMOVING OBSTACLES TO RENEWABLE RESOURCE DEVELOPMENT.

The ISO will continue to conduct its open transmission planning process and facilitate development of the infrastructure needed to enable California to achieve its renewable resource development and greenhouse gas reduction goals. Rather than standing in the way of these goals, as asserted by the sponsors of the Paper, the ISO's studies and tariff are recognized nationally as a model for

³ *Experiences with Joint Development in the West*, 14

aligning reliable operations with these objectives. Important examples include the following.

1) Special Renewable Tariff Provisions

- Location Constrained Resource Interconnection Facilities

In April 2007, FERC approved a landmark ISO policy proposal to provide special financing for transmission needed to access remote renewable resource areas. The ISO followed this approval with specific tariff provisions which are now in effect. Included in such tariff provisions is specific language requiring the CAISO to avoid duplication of facilities and to coordinate with neighboring control areas if the new transmission facility is in a region that also connects to their system. There is no basis to conclude, as the Paper's sponsors have done, that any conceptual transmission proposal developed by the CAISO would result in inefficiencies, stranded assets, or greater environmental impacts.

- Participating Intermittent Resource Program

In 2002, the ISO implemented an innovative program to make it easier for wind generators to conduct business with the ISO. The organization is currently developing tariff changes to provide the same benefits to solar energy facilities.

2) Transmission Needed To Meet California Renewable Energy Goals

Earlier this year, the ISO published high level engineering studies identifying possible transmission additions needed to achieve a 20% to 33% renewable portfolio standard. The report concluded that approximately six new 500 kV lines may be necessary to deliver renewable resources from where they are produced to California consumers. The report also documented that the completion of transmission line projects currently under construction or in the permitting process (the Tehachapi and Sunrise projects) provided sufficient transmission capacity to enable the State to meet its current 20% renewable portfolio standard.

3) Renewable Energy Transmission Initiative (RETI)

The ISO is working closely with California state agencies, municipal and investor-owned utilities, renewable energy developers, the environmental community, and other stakeholders to develop a plan for the transmission infrastructure needed to meet the State's renewable resource goals. This effort is ongoing and will be closely coordinated with the ISO's transmission planning process.

4) Interconnection Queue Reform

The ISO oversees the interconnection process for interconnecting with the ISO-controlled grid. FERC rules compel that the ISO provide open, non-discriminatory access to its grid to generators under well defined procedures. However, this process recently has become extremely cumbersome because of the accelerating development of renewable resource projects. The ISO worked collaboratively with California state agencies, utilities, generators, and others to develop a proposal that accelerates studies for those projects that are most viable and integrates future studies with the transmission planning process.

5) Renewable Integration Report

In 2007, the California ISO published studies documenting that the California electric system could successfully integrate renewable resources sufficient to meet a 20% renewable portfolio standard. Since then, the organization has developed a work plan for ensuring success and is moving steadily forward with the effort.

In closing, the California ISO reiterates its willingness to consider any and all transmission projects proposed to serve ISO ratepayers through its planning process, which is open to all interested parties. The goal is to identify the most promising projects and analyze their economic and reliability benefits, regardless of ownership.