

Energy Update

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FERC Approves Modified California ISO and Midwest ISO Planning Procedures Recognizing Public Policy Transmission Projects

Introduction

On December 16, 2010, the Federal Energy Regulatory Commission (the "Commission" or "FERC") issued two orders approving revised transmission planning and cost allocation proposals from the California Independent System Operator Corporation ("CAISO") and the Midwest Independent Transmission System Operator, Inc. ("MISO"), respectively. The CAISO's revised transmission planning process ("CTPP") creates a new category of "policy-driven" transmission facilities and establishes a competitive solicitation process to build these transmission facilities. MISO revised its transmission planning process ("MTPP") by designating certain transmission projects that support public policy requirements, or address reliability or economic issues affecting multiple transmission zones, as "Multi Value Projects" ("MVP") and allocating the cost of MVPs across the entire MISO region.

Revised CAISO Planning Process

In the FERC order approving CAISO's CTPP (the "CAISO Order"), the Commission approved revisions to CAISO's CTPP that establish a new category of "policy-driven" transmission facilities, which CAISO defines as necessary to achieve state and federal policy requirements and directives, such as the reduction of greenhouse gas and

increased renewable energy targets. The costs of the "policy-driven" projects will be allocated to all CAISO load-serving entities through CAISO's transmission access charge.

The CTPP consists of three phases. In Phase 1 of the CTPP, CAISO will develop planning assumptions and a study plan, as it currently does under its existing planning process. In parallel, CAISO will initiate the development of a conceptual statewide plan to identify transmission needs based on state and federal policy goals (e.g., transmission required to access renewable projects that will assist utilities in meeting the requirements of California's Renewable Portfolio Standard). In Phase 2, CAISO will conduct technical studies based on the planning assumptions and study plan developed in Phase 1 and, as alternatives to building transmission additions and upgrades, CAISO will request proposals for reliability-driven projects, location-constrained resource interconnection facilities, demand response or generation proposals. Finally, in Phase 3 of the revised CTPP, CAISO will hold an open solicitation process that provides all interested parties, including independent developers and incumbent transmission owners, with an equal opportunity to submit specific proposals to build the policy-driven and

economically-driven transmission elements identified in the final comprehensive plan from Phase 2.

The revised CTPP will reduce the cost of interconnecting renewable energy resources to the grid for developers by allocating to all the CAISO load-serving entities the costs of building transmission projects needed to support public policy requirements. Furthermore, the modifications to the CTPP should decrease the need for generation and transmission by incorporating demand response and other non-transmission alternatives.

In the CAISO Order, the Commission conditionally accepted the revisions to CAISO's tariff that implement the CTPP to become effective on December 20, 2010. The Commission also directed CAISO to make a compliance filing within 30 days of the issuance of the CAISO Order to address certain aspects of the CTPP. The CAISO Order can be found in FERC Docket Nos. ER10-1401-000 and ER10-2191-000.

Revised MISO Planning Process

In the FERC order approving MISO's revised MTPP (the "MISO Order"), the Commission approved revisions to MISO's MTPP that, among other modifications, establish a new category of transmission projects designated as MVPs for projects that MISO determines support a public policy requirement or address reliability or economic issues in multiple transmission zones. Furthermore, the revised process allocates the costs for such projects across the entire MISO footprint.

In order to qualify as an MVP, a project must meet at least one of the following criteria:

1. it must be developed through the MISO transmission expansion planning process for the purpose of enabling the transmission system to reliably and econom-

ically deliver energy in support of documented energy policy mandates or laws that have been enacted or adopted through state or federal legislation or regulatory requirements that directly or indirectly govern the minimum or maximum amount of energy that can be generated by specific types of generation;

2. it must provide multiple types of economic value across multiple pricing zones with a specified benefit-to-cost ratio; or

3. it must address at least one transmission issue associated with a projected violation of a North American Electric Reliability Corporation ("NERC") or regional entity standard and at least one economic-based transmission issue that provides economic value across multiple pricing zones.

Projects considered for MVP cost allocation must be included in the MTPP; they cannot be network upgrades constructed because of an interconnection or transmission service request only (e.g., merchant facilities). In order to incent generators to locate close to qualified MVP facilities, MISO will maintain its current interconnection cost allocation method under which generation developers are responsible for 90 or 100 percent (depending on voltage level) of the costs of network upgrades that are required to interconnect the generator to the transmission system.

In the MISO Order, the Commission conditionally accepted for filing the proposed revisions to MISO's tariff that implement the MTPP and granted a waiver of the 60-day notice period to make the MTPP effective on July 16, 2010. Furthermore, the Commission directed MISO to submit a compliance filing within 60 days of the date of the MISO Order to address certain aspects of the MTPP. The MISO Order can be found in FERC Docket No. ER10-1791-000. ■

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