Please use this template to provide your comments on the Status Update/Issue Paper posted on October 7, 2014, in the Competitive Solicitation Process Enhancements (CSPE) initiative and as supplemented by the presentation and discussion from the stakeholder web conference held on October 14, 2014.

Submit comments to CompTrans@caiso.com

Comments are due October 28, 2014 by 5:00pm

The Status Update/Issue Paper posted on October 7, 2014 may be found at:

The presentation discussed during the October 14, 2014 stakeholder web conference may be found at:

Please provide your comments on each of the issues listed below.

*Independent evaluator*

Some stakeholders have suggested that the ISO utilize an independent evaluator in the competitive solicitation process.

The ISO is not open to consideration of an independent evaluator role that involves the ISO turning over administration of the competitive solicitation process (including the tasks of (a)
determining whether a project sponsor meets certain qualification criteria; (b) determining whether a project sponsor’s proposal meets certain qualification criteria; and (c) selecting an approved project sponsor) to the independent evaluator. However, the ISO is willing to hear from stakeholders about an independent evaluator role wherein the ISO retains the role of administering the competitive solicitation process (including tasks (a), (b) and (c)) but utilizes an independent evaluator to develop an independent opinion on all three tasks which the ISO could compare against its own determinations on the same three tasks.

The ISO invites stakeholders to comment on this issue, explain why this issue should (or should not) be examined, and submit specific proposals for its resolution through this initiative. The ISO also requests stakeholder comment regarding the cost (including who should bear the costs of an independent evaluator and how the ISO might need to modify its fee structure to recover such costs) and schedule impacts that the utilization of an independent evaluator may introduce.

Comments:

ITC Grid Development, LLC ("ITC") agrees with the ISO that an independent evaluator should not usurp the role of the ISO in administering the competitive solicitation process. ITC believes, however, that using an independent expert consultant as an evaluator will strengthen the ISO’s competitive evaluation process. ITC does not believe this independent expert consultant needs to be in addition to existing ISO consultants, but rather independence can simply be an additional requirement of the expert consultant already employed by the ISO in evaluating proposals. Such a modification to the requirements for the expert consultant would provide additional assurance that the process is open, transparent, and fair, which is necessary for there to be a robust competitive solicitation process. An independent evaluator would develop an independent opinion for the ISO to consider in its evaluation regarding, among other things, the tasks which the ISO has identified above, i.e. (a) determining whether a project sponsor meets certain qualification criteria; (b) determining whether a project sponsor’s proposal meets certain qualification criteria; and (c) selecting an approved project sponsor.

ITC is aware of three possible independent evaluator models that should be considered in this proceeding for use by the ISO. There may be other models that should be considered. ITC hopes that the ISO staff will make information available to participants in this stakeholder proceeding regarding potential models so that parties can have an informed discussion concerning potential models.

ITC is aware of what two other transmission system operators have done with respect to independent evaluation.

The Midcontinent Independent System Operator ("MISO") tariff provides for use of independent consultants (along with MISO staff) to review the bids, which is similar to what the ISO
currently does.\(^1\) In MISO, however, this review is overseen by an Executive Oversight Committee which has exclusive and final authority to select a developer. The Executive Oversight Committee consists of three representatives of the transmission provider, including an officer.\(^2\) While the Executive Oversight Committee is not independent of MISO, having such an Executive Oversight Committee promotes some of the same objectives that would be served by having an independent evaluator as part of the ISO’s process. The Executive Oversight Board at MISO, like having an independent evaluator at the ISO, provides greater assurance to market participants that applications will be reviewed by experts that consistently apply the qualification and selection criteria. Additionally, the Southwest Power Pool (“SPP”) tariff requires the use of an industry expert panel to review bids.\(^3\) This panel consists of outside experts that serve in an advisory capacity.

ITC is aware that the California Public Utilities Commission (“CPUC”) also uses independent evaluators when making procurement decisions. These evaluators participate as bystanders behind the scenes in the procurement process and are charged with writing reports in accordance with templates specified by the CPUC.\(^4\) These templates could serve as a useful resource for the ISO and stakeholders to develop a template for independent evaluator reports for the competitive solicitation process. It also would be helpful for the ISO staff to contact the CPUC staff to get information regarding the costs involved.

Whether the ISO continues to utilize an expert consultant to assist with the selection of approved project sponsors, or the ISO requires said expert consultant to be an independent consultant, ITC believes the cost of the expert consultancy can be borne by the Competitive Solicitation Project Proposal Fee currently collected for each project submittal (CAISO Tariff Section 24.5.6), with no additional increase required.

With regard to the possible impact of having an independent evaluator on the schedule for review of applications, ITC believes that using an independent evaluator will not extend the time for review since the work of the independent evaluator can be done at the same time as the ISO

\(^1\) MISO Tariff at Attachment FF.VII.G(8).
\(^2\) See MISO FERC filing in ER15-35 on October 3, 2014, for the proposed definition of the term “Executive Oversight Committee” (Proposed definition is “A committee consisting of three or more executive staff of the Transmission Provider, including at least one officer, that is charged with overseeing all Transmission Provider staff and consultants involved in evaluating Transmission Developer Applications submitted by Qualified Transmission Developer Applicants and New Transmission Proposals submitted by New Transmission Proposal Applicants in response to a Transmission Proposal Request. The committee will have exclusive and final decision making authority over certification of Qualified Transmission Developers and selection of Selected Transmission Developers. The committee shall possess the specific technical, financial, and regulatory expertise necessary for evaluation of Transmission Developer Applications and New Transmission Proposals.”)
\(^3\) SPP Tariff Attachment Y at III.2.b. See also SPP’s webpage regarding its Industry Expert Panels at http://www.spp.org/section.asp?pageID=197.
\(^4\) The CPUC’s rationale for requiring use of independent evaluator templates is explained in CPUC D. 07-12-052, the decision which first required use of templates.
conducts its own evaluation as long as the ISO provides the information needed for simultaneous rather than sequential review.

**Financial comparison process**

One stakeholder believes that the current financial comparison process discriminates between entities wishing to balance sheet finance and entities wishing to project finance.

The ISO believes that the current process does not discriminate against entities wishing to balance sheet finance and entities wishing to project finance. To the extent stakeholders feel it does, the ISO requests they explain how. Stakeholders are also asked to explain why this issue should (or should not) be examined, and submit specific proposals for its resolution through this initiative.

**Comments:**

ITC believes it is important to ensure that there is no discrimination between entities wishing to balance sheet finance and entities wishing to project finance. Unfortunately, it is not clear that the current financial comparison process is even-handed. While the tariff does not discriminate on its face, the project sponsor application form suggests that the ISO is imposing requirements which put projects which wish to project finance at a disadvantage. For example, the current version of the Transmission Project Sponsor Proposal - Application form:

- Requires special purpose entities to provide guarantees from their parent company, which is inconsistent with allowing applicants to project finance.

- Requires that applicants who wish to use project finance answer additional questions F11 to F16, including Question F12 which requires applicants to provide information regarding what parties will provide financing for the Project well before the applicant has been selected to be the Project Sponsor.

In order to avoid the appearance of discriminating between entities wishing to balance sheet finance and entities wishing to project finance, ITC believes that the ISO should consider making changes to its process which will result in a greater focus on the overall financial qualifications of the applicant rather than the plans for financing a particular project. This could be accomplished in two ways. First, the ISO could pre-screen potential applicants to determine that they meet the necessary financial qualifications, so that how individual projects will be financed

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5 Available at http://www.caiso.com/planning/Pages/TransmissionPlanning/Default.aspx
is not a significant factor when deciding among applicants for individual projects. MISO has such a pre-screening qualification process.\(^6\)

A second way the ISO could avoid the appearance of discrimination is to adopt financial qualification criteria which are suitable for entities which wish to use project finance. For example, applicants that wish to use project finance could be required to demonstrate sufficient financial strength through one of three options: 1) submit a guaranty from its parent or affiliated organization that possesses an investment grade rating or an issuer rating of BBB- or equivalent, along with a demonstration that the transmission project does not exceed 30% of the total capitalization of the bidder or its parent guarantor; 2) submit conclusive evidence of the ability to obtain a performance bond in an amount equal to the total cost of the transmission project, including financing costs, and a 30% contingency; or 3) submit conclusive evidence of the ability to obtain a letter of credit in the same amount as #2.

**Collaboration period**

One stakeholder believes that the collaboration period provided for in tariff section 24.5.3 should be eliminated.

The ISO does not recommend its elimination and views the collaboration step as a key component of the competitive solicitation process, but is open to hear other perspectives on this. The ISO invites stakeholders to comment on this issue, explain why this issue should (or should not) be examined, and submit specific proposals for its resolution through this initiative.

**Comments:**

ITC agrees with the ISO that the collaboration step should remain a part of the competitive solicitation process.

**Collateral/credit requirements for approved project sponsors**

One stakeholder believes that the ISO tariff should be revised to require a project sponsor to demonstrate its ability to meet a financial security requirement (e.g., by requiring a project sponsor to post financial security).

The ISO’s evaluation of project sponsors under section 24.5.3.1 includes a complete examination of the project sponsor’s financial resources, including its ability “to assume liability for major losses resulting from failure of any part of the facilities associated with the transmission solution.” The selection criteria under section 24.5.4 include “the current and expected capabilities of the project sponsor and its team to finance, license, and construct the

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facility and operate and maintain it for the life of the solution.” The ISO believes there is no reason to require a project sponsor that has undergone this extensive evaluation and met these criteria to undertake the additional burden of posting financial security. The ISO has not imposed such a burden on the current participating transmission owners when it assigned them to construct transmission projects and the ISO believes that approved project sponsors should receive similar treatment. Although the ISO does not believe that the lack of a financial security requirement is a problem that warrants examination in this initiative, the ISO is seeking stakeholder input on that question. The ISO invites stakeholders to comment on this issue, explain why this issue should (or should not) be examined, and submit specific proposals for its resolution through this initiative.

Comments:

ITC agrees with the ISO that there is no need to impose collateral or credit requirements. As indicated in response to the second question above, it is important for the ISO to focus on the financial qualifications of applicants. If the ISO does so, there will be no need to impose collateral or credit requirements.

**Evaluation of selection criteria**

One stakeholder believes that the current selection process has no connection between the ISO’s evaluation of selection criteria and a tangible ratepayer benefit to ratepayers.

ISO Tariff section 24.5.4 sets forth the standard that the ISO applies in its comparative process to select an approved project sponsor, and the ISO must consider all of the components of that standard. Differences between project sponsors in terms of meeting the various selection criteria are not uniform: they may be great; they may be small. By using terms such as slightly better or substantially better, the ISO is attempting to capture the relative difference between the sponsors for purposes of meeting the comparative process standard. The ISO does not believe that it is practical or appropriate to quantify all differences between project sponsors. However, the ISO invites stakeholders to comment on this issue, explain why this issue should (or should not) be examined, and submit specific proposals for its resolution through this initiative. In particular, the ISO asks whether stakeholders have any recommended approaches for addressing this issue that would be effective, workable, and meaningful in the context of the FERC-approved flexible approach that the ISO employs.

Comments:

ITC believes that there is a link between the ISO’s evaluation of selection criteria and tangible ratepayer benefit. For example, the process takes into account “cost containment capabilities and cost cap, if any.” ISO Tariff Section 24.5.2.1(o).
With respect to the application of the competitive solicitation process to select an approved project sponsor set out in ISO Tariff Section 24.5.4. ITC understands the ISO’s desire for flexibility. ITC notes, however, that since flexibility can be abused, the ISO should provide for an independent evaluator to enable stakeholders to have confidence that the ISO is exercising its flexibility appropriately. This is adequately provided by the use of an independent expert consultant as described in our response to the first question, above.

**Project-specific weighting and scoring methodology**

Some stakeholders believe that clarification is needed on key selection criteria and how they are weighed against each other and believe that without a scoring process applicants are unable to know which criteria will be given more or less weight.

The issues related to applying weights to the selection criteria and selecting an approved project sponsor through the use of scoring methodologies or mathematical formulas was previously debated at and decided by the FERC in connection with the ISO’s Order No. 1000 compliance filing and revised transmission planning process tariff amendment proceedings. FERC found that the ISO’s approach provided a reasonable framework for selecting project sponsors, while giving the ISO the necessary flexibility in conducting its analysis, and applying the criteria, while not granting undue discretion. The ISO does not intend to revisit the existing framework and approach in this initiative. Accordingly, this initiative will not consider issues such as weighting, scoring, and mathematical formulas for selecting project sponsors. As the ISO discussed in the RTPP and Order No. 1000 proceedings, the ISO believes that weighting and formulaic methodologies could be problematic and result in inappropriate project sponsor selections. Also, it potentially could embed a level of arbitrariness into the process. The ISO’s process also allows all project sponsors to demonstrate any specific benefits, efficiencies, or advantages their proposal provides. Specific proposals may result in additional benefits, or hurdles or additional costs that the ISO must consider, but the ISO will not know the extent of those until the proposals are submitted. Pre-established weights cannot effectively predict this and hence might not adequately capture the benefit or detriment. Further, the ISO’s current framework allows for a comprehensive, holistic review of all factors and elements of project sponsors’ proposals that may not be effectively captured in a weighting or formulaic approach. However, the ISO will explore with stakeholders other recommendations to enhance the efficiency, transparency, and effectiveness of the competitive solicitation process and to provide more guidance to project sponsors. The ISO invites stakeholders to submit specific proposals for achieving these objectives through this initiative.

**Comments:**

ITC understands that the ISO does not want to relitigate whether it should have a scoring methodology to apply to select projects in order to preserve the flexibility that the ISO believes it
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needs. ITC would prefer for the ISO to have a scoring methodology set out in its tariff, as SPP has done.\(^7\) ITC believes that use of such a scoring methodology is desirable since it gives applicants guidance regarding what to focus on in developing applications and, once the applications are received, facilitates objective comparison of competing applicants. In light of the ISO’s position regarding scoring methodologies, however, ITC has considered whether there are other ways the ISO can improve its process in a way which preserves the ISO’s flexibility while better meeting the needs of stakeholders.

In general, ITC believes that the ISO process can be improved by providing more transparency regarding what the ISO is looking for in applications and why the ISO makes the decisions it makes. ITC offers two recommendations below which ITC believes will adequately preserve the ISO’s flexibility while providing greater transparency to stakeholders.

First, in order to provide more guidance to applicants as they prepare their applications, ITC suggests one small addition to the ISO’s existing process. The ISO already provides a list of the key selection criteria when a solicitation begins. ITC recommends that in addition to announcing the key selection criteria, the ISO should rank these key selection criteria in the order of importance for project selection.

Second, ITC recommends that for each project the ISO develop a project-specific numerical scoring methodology for internal use until the methodology is made public as part of the Project Sponsor Selection Report. This approach preserves the ISO’s flexibility in making decisions among applicants while providing greater assurance to applicants that their applications will be reviewed objectively. It also ensures that future applicants will get better guidance regarding what the ISO expects of applicants.

**Obligation regarding the transfer of assets**

On September 10, 2014 the ISO submitted the *pro forma* approved project sponsor agreement (APSA) to FERC for approval (Docket Number ER14-2824). In that proceeding one stakeholder contends that the *pro forma* APSA should require a project sponsor that abandons a needed project to transfer assets associated with the project to the alternative project sponsor at the sole discretion of the new approved project sponsor. This stakeholder believes that otherwise the failed project sponsor would have the ability to compromise the timely and cost-effective transfer of responsibility. On October 15, the ISO submitted its answer to comments and protests in the FERC proceeding and proposed to add this issue to this stakeholder initiative. Accordingly, the ISO invites stakeholders to comment on this issue here. In particular the ISO

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\(^7\) Under SPP’s methodology, applicants can earn up to 1000 base points and an additional 100 incentive points for innovative ideas. Applicants can earn base points in five categories: (1) engineering design (200 points); (2) construction project management; (200 points); (3) operations, maintenance, and safety (250 points); (4) cost to consumer (225 points); and (5) financial viability and creditworthiness (125 points). SPP’s methodology is set out in the SPP Tariff, Attachment Y at III.2.f.
asks stakeholders to comment on the following two questions: (1) what should the obligation be to transfer assets? and (2) if there is an obligation to transfer assets, what should the compensation be for the assets transfer?

Comments:

ITC responds to the ISO’s two questions above as follows:

(1) There should be no obligation to transfer assets, but there should be an obligation to negotiate regarding the transfer of assets needed to complete the project.

(2) The compensation paid for assets that are transferred should be their net book value.

Other issues
The ISO invites stakeholders to comment on any other issues relevant to this competitive solicitation process enhancements initiative and not already raised in the issues listed above.

Comments:
None at this time.