



Memorandum

To: ISO Board of Governors

From: Keith Casey, Vice President, Market and Infrastructure Development

Date: December 10, 2015

Re: **Decision on competitive solicitation process enhancements**

This memorandum requires Board action.

EXECUTIVE SUMMARY

The ISO is pursuing three enhancements to the competitive solicitation process for eligible transmission upgrades:

1. Modify the collaboration period to coincide with opening of the application bid window, extend the bid window an additional two weeks, and eliminate the opportunity for collaboration after the close of the bid window.
2. Establish an obligation for an approved project sponsor to transfer assets to the alternative project sponsor, if desired, at cost or at net book value if the approved project sponsor has depreciated them.
3. Require project sponsors to provide copies of initial, project-related FERC filings to the ISO, existing participating transmission owners and other approved project sponsors.

Management recommends the following motion:

Moved, that the ISO Board of Governors approves the proposed competitive solicitation process enhancements, as described in the memorandum dated December 10, 2015; and

Moved, that the ISO Board of Governors authorizes Management to make all necessary and appropriate filings with the Federal Energy Regulatory Commission to implement the proposed tariff change.

DISCUSSION AND ANALYSIS

Over the last two years, the ISO and stakeholders have worked together to improve the competitive solicitation process for eligible transmission upgrades. The ISO and stakeholders have discussed a number of topics throughout this stakeholder process, many of which have resulted in improvements that do not require tariff modifications. For example, to provide greater guidance to project sponsors, the ISO has agreed to include additional details in future project functional specifications and revise the competitive solicitation project sponsor application to provide greater clarity. In response to stakeholder input, the ISO will be soliciting additional information from project sponsors to enhance the comparative analysis. Further, the ISO has committed to improve the clarity and detail provided in project sponsor selection reports. In particular, the ISO will seek to better explain the differences between applicants and the relevance of those differences to the ISO's decision.

Management is seeking Board approval of the following three topics, discussed in the stakeholder process, that require a tariff change:

Collaboration period

The tariff currently provides for a collaboration period following the validation phase of the competitive solicitation process. Specifically, the ISO opens a bid window for project sponsors to submit a proposal for transmission facilities eligible for competitive solicitation. After the bid window closes, the ISO validates whether the applications submitted by project sponsors are complete and contain sufficient information, and then posts the names of validated project sponsors. Next, the ISO provides validated project sponsors with the opportunity to collaborate with other validated project sponsors and submit a joint proposal. The collaboration phase of the process can take up to thirteen weeks to complete, which includes re-validation of any joint proposals. Following the collaboration phase, the ISO then completes the qualification and comparative analysis phases of the approved project sponsor selection process.

Certain stakeholders have stated that the current collaboration process unduly extends the competitive solicitation review period and needlessly delays project sponsor selection and, ultimately, completion of the project. Stakeholders also voiced concerns that the existing collaboration framework can afford an unfair advantage to collaborating parties by allowing them to revise their proposals to take advantage of market changes that have occurred or new information that has become available since the bid window closed, or simply to submit a stronger bid than they originally submitted. Whereas only collaborating parties are allowed to submit a joint proposal and revise their bids during the collaboration window, the remaining validated project sponsors are not allowed to refresh their bids. Management agrees with these concerns.

Accordingly, Management proposes to modify the application bid window to allow potential bidders interested in collaborating to notify the ISO of their interest within two weeks after the solicitation bid window opens. The ISO will post the list of potential

bidders interested in collaborating and their contact information on the ISO website. Collaborating parties would submit their joint application by the end of the solicitation bid window along with all other bidders. To accommodate additional time for collaboration, the ISO will extend the current bid window period by an additional two weeks.

This proposal provides schedule certainty because all collaboration will occur up front during the open solicitation bid window, and it removes the possibility of up to a thirteen week delay in the process. The proposal eliminates any concerns about providing an unfair advantage to collaborating parties because all proposals will be due at the same time, and there will be no opportunity for only certain sponsors to refresh their bids. The proposal also ensures that sponsors must submit their best bids up front. An additional benefit will be the reduced cost incurred to validate initial individual proposals, and again to validate subsequent collaborative proposals.

Obligation regarding transfer of assets

Under certain well-defined circumstances, the tariff and the approved project sponsor agreement allow the ISO to terminate the approved project sponsor agreement and require the approved project sponsor to work with the ISO and alternative project sponsor to transfer project responsibilities. An approved project sponsor may also terminate the approved project sponsor agreement. Stakeholders suggested that the approved project sponsor should also have a specific requirement or obligation to transfer project-related assets to an alternative project sponsor, if the alternative project sponsor so desires. The concern is that the approved project sponsor that cannot complete the project could have an asset, such as land or equipment, which the alternative project sponsor could use to successfully complete the project in a timely manner. Absent a specific requirement to transfer the assets at cost, the original approved project sponsor could require an excessive fee for the asset and essentially hold the ISO and the alternative project sponsor “hostage,” particularly if the ISO needs to complete the project by a certain date to meet an imminent reliability need. To address this issue, Management proposes that when an approved project sponsor agreement is terminated, if an alternative project sponsor desires a project-related asset, the approved project sponsor shall negotiate in good faith with the alternative project sponsor to transfer any such project asset. The approved project sponsor that is transferring the asset to an alternative project sponsor should do so at cost or, if the original approved project sponsor has depreciated the asset, at net book value. This is consistent with the general rate treatment of rate-based assets. The proposed requirement does not preclude any abandoned plant recovery as allowed by FERC.

Notice of FERC filings

Stakeholders suggested that project sponsors should have a requirement to notify the ISO, participating transmission owners, and approved project sponsors about any related FERC filings associated with the competitively bid project. Without this notice, it has been difficult to track all of the relevant FERC filings made by project sponsors. Management therefore proposes that project sponsors shall be required to provide, in a

timely manner, a copy of all initial filings it submits in a FERC docket related to the project to the ISO, participating transmission owners, and approved project sponsors.

POSITIONS OF THE PARTIES

The ISO conducted several rounds of stakeholder interaction on these topics, including an issue paper, a straw proposal, a revised straw proposal, and a draft final proposal. Stakeholders were able to provide comments at each phase of the process.

Collaboration period

After considering initial stakeholder comments, the ISO requested in the revised straw proposal input on three alternative options for collaboration: (1) move the collaboration to coincide with the solicitation bid window; (2) retain the existing collaboration process, but allow all project sponsors to refresh their bids if there is successful collaboration among bidders; and (3) if there are only two validated project sponsors and they are collaborating, require that any joint proposal result in an equal or lower cost for ISO ratepayers.

Based on comments received on the revised straw proposal, a majority of stakeholders supported option 1, and so the ISO adopted this option in its draft final proposal. SCE did not oppose option 1 and understands the reasoning behind it, but indicated a preference to retain a separate collaboration period from a commercial perspective. NEET West did not provide comments on the draft final proposal, however NEET West opposed option 1 in its comments on the revised straw proposal. NEET West argued for retaining the current collaboration period which has resulted in successful collaborations on previous projects. NEET West also argued that the current collaboration period does not unduly delay project sponsor selection or add unnecessary time to the overall process.

As discussed above, the existing collaboration approach can add up to 13 weeks to the selection process. Further, NEET West's arguments did not address the potential undue advantage that can result from the existing approach or the additional work effort and resources expended for project sponsors to prepare and the ISO to evaluate additional bids.

Obligation regarding transfer of assets

Initially, transmission developers objected to a requirement to transfer project-related assets to an alternative project sponsor. Other stakeholders supported this proposal from the beginning and suggested minor changes and clarifications throughout the stakeholder process. Stakeholders supporting the final proposal included Six Cities, PG&E, SCE, and NEET West. TransCanyon provided comments early in the process that a transfer of assets should be a negotiation between the two parties at market based rates and the ISO should not impose a particular outcome. TransCanyon did not provide comments on the draft final proposal. LS Power subsequently provided comments opposing the proposal and suggesting that, at a minimum, the alternative project sponsor should be required to purchase 100 percent of the project at full book value. The ISO's proposal ensures the reasonable transfer of assets needed to

complete the project in a timely, cost-effective manner and provides for cost recovery of assets consistent with FERC ratemaking principles. The ISO also clarified that this proposal does not preclude any abandoned plant recovery as allowed by FERC.

Notice of FERC filings

This proposal was suggested later in the stakeholder process; however, all stakeholders that provided comments on this issue supported the final proposal.

CONCLUSION

Management recommends that the Board approve the three changes proposed in this memorandum. These changes are supported by a majority of stakeholders and were refined through the stakeholder process to address specific comments and concerns. The proposed modifications will improve both the ISO's ability to administer the competitive solicitation process and the applicant project sponsors' experience.