Competitive Solicitation Process Enhancements

Draft Final Proposal

October 12, 2015

Table of Contents

1 Introduction

Since 2010 the ISO has employed a competitive solicitation process for the selection of approved project sponsors to finance, construct, own, operate and maintain transmission solutions included in the transmission plan approved by the ISO's Board of Governors each year. Since that time the ISO has conducted a series of stakeholder initiatives in an effort to periodically review and improve this process. This present initiative—Competitive Solicitation Process Enhancements—was launched in March 2014 and is ISO's most recent effort to review the competitive solicitation process and identify potential enhancements. In this paper the ISO addresses a number of issues identified by stakeholders and provides its draft final proposal on each issue.

2 Summary of issues and draft final proposals

The following table summarizes the ISO's draft final proposal for each of the nine issues identified by stakeholders through this initiative. An in-depth discussion of each issue, including stakeholder comments and ISO responses, can be found in section 5 of this paper (with specific section numbers noted).

Issue	ISO's draft final proposal	Section No.
Independent evaluator	The ISO did not change the revised straw proposal which is as follows: The ISO believes that the current process provides for thorough, independent and expert input into the selection of project sponsors and does not propose to use an independent evaluator. This proposal did not change from the initial straw proposal, and the ISO did not solicit additional comments on this issue in the revised straw proposal. The ISO addresses TransCanyon's additional input in Section 5.1.7 below. .	5.1
Financial comparison process	The ISO did not change the revised straw proposal which is as follows: The ISO believes that the current financial comparison process is aligned with the ISO's commitment to run a fair and non-discriminatory	5.2

Issue	ISO's draft final proposal	Section No.
	competitive solicitation process and does not propose further enhancements. While no changes are being proposed to the financial comparison process at this time, the ISO will amend the application in the future to eliminate any perceived disadvantage of a project financed proposal by clarifying that questions F-11 through F-16 apply to all applicants.	
Collaboration period	After reviewing the six sets of comments received on this topic, the ISO proposes to move forward with option 1 of the revised straw proposal with minor changes. The draft final proposal is as follows: Modify the collaboration period to coincide with the open application bid window and extend this bid window an additional two weeks. The ISO believes that this proposal best addresses the key stakeholder concerns of potential gaming, avoiding schedule delays, and simplifying the collaboration process. Three stakeholders supported the above proposal, two did not support it, and one had no comment on this option.	5.3
Collateral/credit requirements for approved project sponsors	The ISO did not change the revised straw proposal which is as follows: The ISO does not believe that posting of financial security should be a requirement placed on project sponsor applicants. The ISO will continue to allow a project sponsor to state in its application that it will voluntarily post financial security if selected as the approved project sponsor to support its application. This proposal did not change from the initial straw proposal, and the ISO did not solicit additional comments on this issue in the revised straw proposal. The ISO addresses TransCanyon's additional input in Section 5.4.7 below.	5.4
Evaluation of	The ISO did not change its revised straw proposal	5.5

Issue	ISO's draft final proposal	Section No.
selection criteria	which is as follows: In future competitive solicitation reports the ISO will strive to provide clearer explanations of the differences between project sponsors with respect to meeting the applicable criteria and their relevance in the decision making process, while balancing confidentiality concerns. Further, the ISO will revise the project sponsor application to solicit additional information from project sponsors intending to seek FERC rate incentives. As described in Section 5.1, the CAISO has retained two expert consulting firms to ensure that all selection factors, both cost and non-cost, are examined in an independent, fair, and comprehensive manner. While this proposal did not change from the initial straw proposal, and the ISO did not solicit additional comments on this issue in the revised straw proposal. The ISO addresses TransCanyon's additional input in Section 5.5.7 below.	
Project-specific weighting and scoring methodology	The ISO did not changed the revised straw proposal which is as follows: the ISO explained in the October 7, 2014 issue paper, this initiative does not consider issues such as weighting, scoring, and mathematical formulas for selecting project sponsors. As explained in response to the previous issue, the ISO will strive to improve the clarity and detail provided in decisional reports and will revise the project sponsor application to solicit additional information from project sponsors intending to seek FERC rate incentives.	5.6
Obligation regarding the transfer of assets	Comments received on this issue continue supporting the ISO's revised straw proposal that the approved project sponsor should have a requirement or obligation to transfer the assets to the alternative project sponsor, if desired. To further the discussion, the ISO proposes that, consistent with FERC transmission rate-making policy, the "fair compensation" shall not exceed net book value of the project. In addition, the ISO adopted the Six Cities proposal to require approved project sponsors to	5.7

Issue	ISO's draft final proposal	Section No.
	serve Participating TOs in any related FERC filings.	
Cost estimate standard	The ISO did not change the revised straw proposal which is as follows: The ISO agrees that a minimum level of detail is required when a project sponsor submits cost estimates, and proposes to update the project sponsor application to clarify the amount of cost estimate detail a project sponsor is required to provide.	5.8
Pre-qualification outside of bidding scheme	The ISO did not change the revised straw proposal which is as follows: The ISO believes that this issue was addressed during the FERC Order No. 1000 stakeholder process and continues to favor an approach that allows for flexibility.	5.9

3 Background

The ISO employs an annual transmission planning process, approved by FERC, which consists of three transmission planning phases. In phase one, the ISO identifies study assumptions and develops a study plan. During phase two, the ISO identifies the need for reliability-driven, policy-driven, and economic transmission solutions and develops the transmission solutions that meet those needs in the most cost-effective and efficient manner. These transmission solutions are set out in a transmission plan that is approved by the ISO's Board of Governors at the end of phase two. In phase three, the CAISO solicits proposals to finance, construct, own, operate and maintain regional transmission facilities subject to competitive solicitation, evaluate whether the project sponsor and proposals meet the qualifications for consideration, and take the steps necessary for selecting approved project sponsor(s) according to the CAISO tariff and business practice manual for the transmission planning process.

Since the competitive solicitation process was first introduced in 2010, the ISO has conducted a series of stakeholder processes to review and improve the phase three competitive solicitation procedures of its transmission planning process. These stakeholder processes are described in the following sub-sections. This previous work serves as the foundation for this initiative which is the latest in this series of efforts to improve the competitive solicitation process.

3.1 Revised Transmission Planning Process (2010)

In 2010, the ISO reformed its transmission planning process to explicitly consider public policy requirements as a potential driver for transmission facilities and to afford both participating transmission owners and independent transmission developers nondiscriminatory opportunities to compete to finance, own, construct, operate and maintain transmission facilities that the ISO found necessary for public policy or economic efficiency reasons. Specifically, as part of the transmission planning process revisions, the ISO proposed, and the FERC approved, a third phase of the transmission planning process during which the ISO would open a bid window for all proposed project sponsors to submit applications for each transmission facility eligible for competitive solicitation. The FERC also approved ISO proposals for project sponsor qualification criteria and, should there multiple qualified project sponsors for the same transmission facilities, criteria that the ISO would use to conduct a comparative selection evaluation of all qualified applicants to determine the approved project sponsor for each transmission facility.

3.2 FERC Order No. 1000 (2011-2013)

The opportunities for competition expanded when the ISO submitted to FERC, consistent with FERC Order No. 1000 directives, proposed tariff revisions to eliminate certain remaining ISO tariff provisions granting a federal "right of first refusal" for incumbent participating transmission owners to build and own certain transmission facilities whose costs will be allocated regionally. On April 18, 2013, the FERC approved the ISO's proposed tariff modifications.

3.3 Competitive Transmission Improvements (2013-2014)

The first time that the ISO conducted the competitive solicitation process was for transmission solutions identified in the 2012-2013 planning cycle.[1] Based on experience with the process and discussions with stakeholders, the ISO identified additional improvements to clarify the process approved by FERC and to help further level the playing field between participating transmission owners and other transmission developers. In particular, a non-participating transmission owner selected as an approved project sponsor would have no tariff mechanism by which to recover FERC-approved operational costs (such as construction work in progress ["CWIP"] and abandoned plant cost recovery) before the project is energized and turned over to ISO operational control. However, a

---

[1] The ISO identified three transmission solutions in the 2012-2013 planning cycle eligible for competition:

- Imperial Valley Policy Element, for which the selection report was issued on July 11, 2013;
- The Gates-Gregg Project, for which the selection report was issued on November 6, 2013;
- Sycamore-Penasquitos 230 kV Line Element, for which the selection report was issued on March 4, 2014.

(See http://www.caiso.com/planning/Pages/TransmissionPlanning/2012-2013TransmissionPlanningProcess.aspx) participating transmission owner selected as an approved project sponsor would be able to recover these costs through its existing transmission revenue requirement and approved transmission owner tariff. The ISO concluded that this inability to recover FERC-approved pre-operational costs could be a barrier to participation in the competitive solicitation process.

Similarly, stakeholders expressed concern that the general tariff and transmission control agreement obligations requiring participating transmission owners to turn over all transmission facilities to ISO operational control might also apply to non-participating transmission owners with existing transmission facilities who are selected in the process. Although the ISO believed that the tariff provisions in place at the time did not create such obligation for approved project sponsors, uncertainty as to how the tariff would be interpreted could prevent non-incumbent participating transmission owners from submitting proposals in the competitive solicitation process.

Thus, the ISO initiated the Competitive Transmission Improvements stakeholder initiative on September 10, 2013 to consider tariff modifications that would address these competitive solicitation topics. In addition, based on information about the time and resources needed to conduct a robust solicitation process, the ISO decided to propose an application fee and true-up mechanism with stakeholders.

Resulting from this effort, on January 30, 2014, the ISO submitted tariff revisions to the Phase 3 competitive solicitation process to clarify the process, implement improvements and respond to issues raised by stakeholders.[2] The process and policy enhancements proposed by the ISO addressed the following topics:

1. The need for a mechanism by which an approved project sponsor that is not a participating transmission owner can recover the FERC-authorized transmission revenue requirements associated with regional transmission facilities under construction prior to the time that they turn the facilities over to ISO operational control;
2. Tariff clarification that an approved project sponsor that has existing transmission assets, but is not a participating transmission owner, will be required to turn over to ISO operational control only the regional transmission facilities it was selected to build pursuant to the ISO's transmission planning process;
3. An application fee, capped at $150,000, to enable the ISO to recover the costs of evaluating project sponsor applications, determine qualified project sponsors, and select an approved project sponsor for each of the regional transmission facilities subject to competitive solicitation;

[2] http://www.caiso.com/Documents/Jan30_2014_TariffAmendment_CompetitiveTransmissionImprovements_ER14-1206-000.pdf

4. New tariff provisions in response to stakeholder requests that the ISO eliminate or clarify the tariff requirement that an approved project sponsor initiate siting approval within 120 days after selection; and
5. New tariff provisions in response to stakeholder requests that the ISO clarify the standards set forth in section 24.5.2.1 that must be met by an approved project sponsor transferee in order for the ISO to approve the assignment from an approved project sponsor.

On March 31, 2014, the FERC accepted the ISO's filing, effective April 1, 2014, subject to a subsequent compliance filing.[3] This revised tariff language was first applied to the 2013-2014 transmission planning process competitive solicitation, which is currently underway.[4]

4 Stakeholder process

The ISO began this present initiative—Competitive Solicitation Process Enhancements—with a stakeholder meeting on March 6, 2014 to discuss "lessons learned" from the 2012-2013 transmission planning process competitive solicitations. The ISO's intention was to use the March 6 stakeholder meeting to mark the start of an effort with stakeholders to identify potential enhancements that could improve the efficiency and effectiveness of the competitive solicitation process. The ISO differentiated between (1) potential enhancements that it could apply to Phase 3 of the 2013-2014 transmission planning process without the need for tariff modifications and (2) issues that have potential policy implications and require more comprehensive stakeholder consultation and potential tariff modification. The ISO also discussed its intention to work with stakeholders to develop a pro forma approved project sponsor agreement (APSA) for the 2013-2014 TPP competitive solicitation. The ISO invited stakeholders to submit written comments following the March 6 meeting.[5]

---

[3] http://www.caiso.com/Documents/Mar31_2014OrderConditionallyAcceptingCompetitiveTransmissionImprovementsAmendmentER14-1206.pdf

[4] The ISO identified six transmission solutions in the 2013-2014 planning cycle eligible for competition:

- Delaney to Colorado River 500 kV transmission line project;
- Estrella substation;
- Miguel 500 kV 375 MVAr reactive power support;
- Spring substation in the Morgan Hill area;
- Suncrest 230 kV 300 MVAr dynamic reactive power support;
- Wheeler Ridge Junction substation project.

(See http://www.caiso.com/planning/Pages/TransmissionPlanning/2013-2014TransmissionPlanningProcess.aspx)

[5] The ISO received seven sets of written stakeholder comments. These can be found at: http://www.caiso.com/Pages/documentsbygroup.aspx?GroupID=DDAAB9D2-9D5F-44BD-9FEB-71F41F9DCEE3

Immediately following the March 6 “lessons learned” stakeholder meeting, the ISO took several actions. First, after reviewing and evaluating the written stakeholder comments, the ISO made several process improvements prior to the 2013-2014 competitive solicitation. These improvements are discussed in more detail in an October 7, 2014, status update and issue paper posted in this initiative.[6] Second, the ISO posted a draft *pro forma* APSA and sought stakeholder comment on March 21, 2014.[7] The ISO received eight sets of comments[8] and held a web conference to discuss the proposal on May 5, 2014. The ISO posted a revised *pro forma* APSA on May 7, 2014[9] and held an additional teleconference to discuss the draft on May 19, 2014. On September 10, the ISO submitted the proposed *pro forma* APSA, to be added as Appendix X to the ISO tariff, to FERC for approval.[10]

With these two activities complete, this stakeholder initiative turned to other issues raised in the March 13, 2014 stakeholder comments that may have potential policy implications and require further consultation with stakeholders. On October 7, 2014, the ISO posted a status update and issue paper in this initiative intended to (1) provide stakeholders with a status update on the issues that have been addressed in this initiative and (2) solicit comments on the other issues raised by stakeholders in their March 13 comments. In addition to describing these issues in the October 7 paper, the ISO also discussed these with stakeholders during a web conference on October 14, 2014. The ISO invited stakeholders to provide their input on these issues by submitting written comments by October 28, 2014. The ISO indicated that it would evaluate and consider this additional feedback before determining subsequent steps in this initiative, and following review and evaluation of the comments received the ISO would develop its recommendations on those issues that will be further examined through this initiative and its recommendations on next steps. The ISO further clarified that although it was asking stakeholders to comment on the remaining issues, this should not be viewed as a commitment by the ISO to make any specific changes to address these issues.

---

[6] http://www.caiso.com/Documents/IssuePaper-CompetitiveSolicitationProcessEnhancements-100714.pdf

[7] http://www.caiso.com/Documents/ProFormaApprovedProjectSponsorAgreement.doc

[8] http://www.caiso.com/Pages/documentsbygroup.aspx?GroupID=0F4E6DFA-A141-47B9-9E77-908C036ABB30

[9] http://www.caiso.com/Pages/documentsbygroup.aspx?GroupID=F475622B-FD2D-4AEA-9AED-12ED333B6E74

[10] http://www.caiso.com/Documents/Sep10_2014_ProForma_APSA_ER14-2824.pdf. On November 7, 2014, FERC issued an order conditionally accepting the *pro forma* APSA effective November 10, 2014, subject to a compliance filing.

The ISO received nine sets of written comments from stakeholders on or around the October 28 due date.[11] Stakeholders suggested two new issues in these comments, bringing the number of issues to nine. Based on a review of the written comments and on further consideration by the ISO, the ISO developed and issued a straw proposal paper on each of the nine issues on June 9, 2015. The ISO discussed the straw proposal paper with stakeholders during a web conference on June 16 and invited stakeholders to submit written comments by close of business June 30. Based on a review of the written comments and on further consideration by the ISO, the ISO developed a revised straw proposal on some of the nine issues and presented those revisions in the revised straw proposal paper issued on September 1. The ISO discussed the revised straw proposal paper with stakeholders during a web conference on September 8 and invited stakeholders to submit written comments by close of business September 15. Based on a review of the written comments and further consideration by the ISO, the ISO developed this draft final proposal. The ISO plans to discuss this draft final proposal with stakeholders during a web conference scheduled for October 19, 2015. Stakeholders are invited to submit written comments on the draft final proposal by close of business on October 26, 2015. No further rounds of stakeholder engagement are planned for this initiative. The ISO is targeting the December meeting of the ISO Board of Governors to seek approval for proposals that need tariff amendments.

Stakeholder process schedule		
Step	**Date**	**Activity**
Issue identification / collection	March 6, 2014	Stakeholder meeting
	March 13, 2014	Stakeholder comments due
Status Update / Issue Paper	October 7, 2014	Post Status Update/Issue Paper
	October 14, 2014	Stakeholder web conference
	October 28, 2014	Stakeholder comments due
Straw Proposal	June 9, 2015	Post Straw Proposal
	June 16, 2015	Stakeholder web conference
	June 30, 2015	Stakeholder comments due
Revised Straw Proposal (as needed)	September 1, 2015	Post Revised Straw Proposal
	September 8, 2015	Stakeholder web conference
	September 15, 2015	Stakeholder comments due

[11] http://www.caiso.com/Pages/documentsbygroup.aspx?GroupID=675D2081-D619-4257-B9CC-E455B87CDB99

Stakeholder process schedule		
Step	**Date**	**Activity**
Draft Final Proposal	October 12, 2015	Post Draft Final Proposal
	October 19, 2015	Stakeholder web conference
	October 26, 2015	Stakeholder comments due
Board approval (as needed)	December	ISO Board of Governors meeting

5 Topics raised by stakeholders

Following the March 6 "lessons learned" stakeholder meeting that launched the present initiative, the ISO invited stakeholders to submit written comments by March 13, 2014. Written comments were submitted by California Public Utilities Commission (CPUC) staff, LS Power, Pacific Gas and Electric (PG&E), Southern California Edison (SCE), ITC Grid Development, and Trans Bay Cable (TBC). The ISO responded to these issues in the October 7 paper. In reviewing and evaluating these comments the ISO sorted them into two categories: (1) potential enhancements that it could apply to phase three of the 2013-2014 transmission planning process and (2) issues that have potential policy implications and require more comprehensive stakeholder consultation. In response to those issues in category (1), the ISO made specific process improvements that it applied to the 2013-2014 competitive solicitation process and discussed these in section 5.1 of the October 7 paper. The ISO considers its responses to these issues complete and are not be repeated here. For those issues determined to be in category (2), the ISO provided an initial ISO response to these in section 5.2 of the October 7 paper and discussed them further with stakeholders during a stakeholder web conference on October 14. Following the October 14 stakeholder call, the ISO invited stakeholders to submit comments on these issues, explain why each issue should (or should not) be examined further, and submit specific proposals for its resolution through this initiative. The ISO clarified that although it is asking stakeholders to comment on these issues, stakeholders should not view this as a commitment by the ISO to make any specific changes to address these issues. The ISO further clarified that following review and evaluation of the comments received, the ISO will develop its recommendations on those issues that will be further examined through this stakeholder initiative and its recommendations on next steps. The ISO received nine sets of written comments from stakeholders on the issue paper on or around the October 28 due date, and the ISO received eight sets of written comments from stakeholders on the straw proposal on or around the June 30 due date. The ISO subsequently received six sets of stakeholder comments on the revised straw proposal on or around the September 15 due date. The ISO's draft final proposal or recommended next steps on each of these issues are presented in the following sub-sections.

5.1 Independent evaluator

5.1.1 March 13 stakeholder comments

Trans Bay – Trans Bay recommended that the ISO use an independent evaluator with knowledge of transmission development and construction. Trans Bay believes that an independent evaluator could ensure that all applications receive the same treatment and further increase the open and transparent nature of the selection process.

5.1.2 October 7 ISO response

In its response in the October 7 paper, the ISO expressed that it was unclear from Trans Bay's comments how extensive a role it envisions for an independent evaluator in the selection process. In particular, it was unclear whether Trans Bay Cable was suggesting (1) that the ISO turn over administration of the competitive solicitation process to an independent evaluator (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) or (2) that the ISO retain the role of administering the competitive solicitation process (including tasks (a), (b) and (c)) but utilize 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 was clear that the ISO is not open to consideration of option (1) and would consider that an abdication of its responsibilities and authority granted by FERC. Even if the ISO were to employ an independent evaluator, the ISO would remain the decision maker regarding the selection of an approved project sponsor. That said, the ISO was willing to hear from stakeholders about option (2). Specifically, the ISO asked stakeholders to comment on whether there is a need for an independent evaluator and why option (2) should (or should not) be examined further in this initiative. The ISO identified a number of issues for consideration. What would be the difference between an independent evaluator and the consultant the ISO retains today to assist it in the selection process? If the ISO were to employ an independent evaluator, that would materially increase the costs of the competitive solicitation and could impact the competitive solicitation schedule. The ISO requested stakeholder comment regarding the cost (including who should bear the costs of any independent evaluator and how the ISO might need to modify its fee structure to recover such costs) and schedule impacts that option (2) may introduce.

5.1.3 October 28 stakeholder comments

CPUC staff – CPUC staff believe that use of an independent evaluator should be considered for projects having an estimated cost of $50 million or greater.

ITC Grid Development, LLC ("ITC") – 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.[12] 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.[13] While the Executive Oversight Committee is not independent of MISO, having such an Executive Oversight Committee promotes

---

[12] MISO Tariff at Attachment FF.VII.G(8).

[13] *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.")

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.[14] 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.[15] 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 (ISO 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 conducts its own evaluation as long as the ISO provides the information needed for simultaneous rather than sequential review.

Pacific Gas and Electric Company ("PG&E") – PG&E believes that the current structure of the ISO administering the competitive solicitation process and retaining a consultant to augment the comparative analysis effort is in the best interest of customers. The inclusion of an additional independent evaluator would be duplicative and have the potential to incur additional costs and / or delays with few benefits to the overall selection process. PG&E recommends this issue as presented be removed from further process improvement discussion.

Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (collectively, the "Six Cities") – The Six Cities are skeptical of the benefits to the selection process that would be achieved by layering on an additional level of review to be conducted by an independent evaluator. It appears that this new step would add complexity

---

[14] 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

[15] 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.

to the process and could be administratively cumbersome. Reconciling conflicting determinations as between the ISO and the independent evaluator may be costly and time-consuming. Additionally, suggesting that a separate, independent review be conducted either in lieu of or in addition to the existing evaluation process implies that the process as conducted currently somehow lacks objectivity. The Six Cities are unaware that there is a need for a greater degree of independence in performing the bid evaluation. While the competitive solicitation process may benefit from additional transparency, there may be ways to achieve more transparency without an added level of review. However, to the extent that proponents of this approach provide additional justification and if the independent review process can be accommodated from an administrative standpoint, the Six Cities are not inherently opposed to including such a review as part of the evaluation process. The cost of this review should be paid for entirely by participants in the competitive solicitation process.

Southern California Edison ("SCE") – Trans Bay Cable suggested that the ISO utilize an independent evaluator in the competitive solicitation process. SCE does not support this proposal. The ISO is itself an independent entity. The ISO already retains a consultant to assist in the competitive selection process. As such, a requirement that the ISO retain an additional contractor is not necessary and will only lead to increased costs and delayed decision making. SCE therefore opposes this requirement and does not see the need for including it within the stakeholder process.

Trans Bay Cable LLC ("Trans Bay") – In its March 13 Comments, Trans Bay recommended that the ISO use an independent evaluator with knowledge of transmission development and construction, as well as with expertise in running a request for proposals (RFP) process and applying the key criteria set forth in the process in a consistent and fair manner. Trans Bay believes that using an independent evaluator would improve the process for a number of reasons, and notes that the use of an independent evaluator is now common in the utility procurement process, as well as in other large-scale project selections.

First, Trans Bay does not believe that the use of an independent evaluator would be an abdication of the ISO's role, in the same way that the use of a qualified consultant is not an abdication of its responsibility. Rather, an independent evaluator could be used by the ISO to fulfill its responsibility to conduct a fair and truly competitive evaluation process. Trans Bay is not suggesting that ISO Staff and management have no role in the process and the decision making, but that the independent evaluator work with Staff to ensure that the process is fair and transparent.

Trans Bay further recommends that the independent evaluator be accountable to the ISO Board and ISO ratepayers. Trans Bay believes that the use of an independent evaluator will assist the ISO in running a fair and independent solicitation process, and will assist in assuring stakeholders that the process is fair, open, and transparent. The use of an independent evaluator would add greater accountability to the process to confirm that the same analytical rigor was employed across the board, consistent with the ISO tariff, and to ensure that all applications received the same, fair treatment.

The ISO requested a discussion of how the role of an independent evaluator may be different from that of a consultant. Under the current regime, the ISO's consultant does not perform many of the tasks that an independent evaluator typically performs, or at least it is not readily apparent precisely what tasks are being performed. In fact, stakeholders have little idea how the process is run, other than what it gleans from access to the final Selection Report. It may be, however, that an independent evaluator can perform some of the tasks currently performed by the consultants, which could potentially reduce overlap and costs. At this time, Trans Bay is not aware of the functions performed by the consultant versus ISO Staff, so the precise roles would have to be determined at a later time.

An independent evaluator would perform some or all of the following functions, used in the utility procurement review group (PRG) process, as adapted from PG&E’s website (for example purposes only):

a. Advise on the consistency of solicitation activities within the ISO’s transmission planning process, including, but not limited to, relevant FERC-approved tariff provisions;
b. Assist in the further development, design and review of Request for Proposals;
c. Promptly submitting any recommendations consistent with the objective of ensuring a competitive, open, and transparent process, and to ensure the overall scope of the solicitation process is not unnecessarily broad or too narrow;
d. Provide recommendations concerning the precise definitions of the project scope and price and non-price evaluation criteria, so that all aspects of the solicitation and product to be provided (i.e., the project) are clearly understood and all bidders may effectively respond to solicitations;
e. Review the comprehensive quantitative and qualitative bid evaluation criteria and methodologies and assess whether these are applied to all bids in a fair and non-discriminatory manner;
f. Report on the outcome of the solicitation;
g. Monitor the solicitation and subsequent contracting process and promptly submit recommendations to the ISO Board to ensure that no bidder has an information advantage and that all bidders receive access to relevant communication in a non-discriminatory manner;
h. Provide final written assessment whether the process was fair, open and transparent and whether any bidder received material information that gave them a competitive advantage; and
i. Perform other duties as may be further needed, as determined by the ISO.

Trans Bay also encourages the ISO to hire an independent evaluator with technical knowledge of transmission, so that it can focus on evaluating, for example, (1) the feasibility and cost of siting the project sponsor's proposed routes, (2) project design, and (3) the reasonableness of cost estimates. Based on the prior solicitations, Trans Bay is concerned that the ISO has simply accepted the project sponsor's proposed routes, without evaluating whether a proposed route is likely to cause ratepayers to incur substantial additional mitigation and litigation costs. Although the decision to permit the project route is ultimately the responsibility of the CPUC, the ISO – either alone or in concert with the CPUC – must perform some evaluation of route feasibility, or the results of its solicitation will be suspect. For example, in the Gates-Gregg solicitation, Trans Bay proposed a route that was longer, but would avoid attempting to site a line in heavily populated areas. Trans Bay's experts advised that the route proposed by the incumbent – even taking into account the incumbent's rights-of-way – would likely be more costly[16] and time-consuming than the alternate route; yet, the ISO did not address this issue.

Finally, Trans Bay does not believe that the use of an independent evaluator would add appreciably to the overall cost of conducting a competitive solicitation; nor would it necessarily affect the solicitation schedule, particularly if the independent evaluator were to perform some or all of the tasks of the consultants. The costs should be borne the same way other solicitation costs are borne. More importantly, however, the additional cost to hire an independent evaluator for a several hundred million dollar transmission project is minimal, relative to the size of the project, and more than worth it if (a) the independent evaluator provides assurance that stakeholders have confidence in the process, thus ensuring true competition; and (b) the independent evaluator ensures that the lowest-cost, best fit project sponsor is chosen through a fair and transparent process. Trans Bay recommends that the ISO seek information from the CPUC regarding the cost of the independent evaluator in the utility procurement review (PRG) process.

TransCanyon LLC ("TransCanyon") and MidAmerican Transmission – As stated in the Issue Paper, the ISO already incorporates the advice of an independent consultant as part of its selection process. There has been no evidence shown to date that there are significant benefits to be derived from the use of an independent evaluator, such that those benefits would outweigh the associated costs. TransCanyon therefore believes that as a general matter, it is not necessary to address this issue at this time. Any additional process and costs should only be undertaken if there is a clear showing that there is a specific claim or need that is not addressed with the existing process. To date, no such claim or substantive reason has been provided.

---

[16] *See infra*., Evaluation of Selection Criteria Section (citing to evidence that PG&E/MATs cost proposal is more than Trans Bay's proposed costs).

5.1.4 Straw proposal

The ISO is committed to run a fair and non-discriminatory competitive solicitation process and to select the project sponsor best able to finance, construct, own, operate, and maintain the regional transmission facilities subject to competitive solicitation. Comments received on this topic were mixed with more opposing than in favor of adding any additional layer of review. To respond to comments in favor of adding an additional layer of independent review or to change the existing construct of the current expert consultants, the ISO provides in this straw proposal more details on the expert consultants currently engaged in this process (without releasing their actual identities which is kept confidential to maintain the integrity of the process) and how the ISO coordinates and works with these consultants.

The ISO utilizes internal staff with industry expertise as well as engaging two well respected industry consulting firms to support the solicitation effort.

One firm primarily supports the ISO in the qualification and comparative analysis associated with the financial strength, design, construction, operations, environmental, permitting, and maintenance capabilities of the project sponsor as well as the proposed project meeting the requirements outlined in the functional specifications. This firm is an international firm with over 600 employees and has expertise in all phases of transmission facility development with extensive experience in California and the western United States. Currently this firm utilizes sixteen individuals to support the ISO's process with specific industry expertise in each of the areas of finance, design, construction, operations, environmental, permitting, and maintenance of transmission facilities. This firm has committed to remain unbiased and not participate with any project sponsor in the ISO's competitive solicitation process.

The other firm that the ISO utilizes in the comparative analysis is an international consulting firm that provides economic and financial expertise. This firm provides financial analysis, particularly cost of service analysis, to support the ISO's comparative analysis of proposed projects. This firm utilizes up to twelve individuals to support the ISO's process with expertise in FERC and state level filings, transmission cost benchmarking, economic evaluation of complex competitive transmission proposals in multi stakeholder environments, and transmission investment strategy. This firm has also committed to remain unbiased and not participate with any project sponsor in the ISO's competitive solicitation process.

The ISO coordinates and works closely with both consultants, making sure they have all the information they need and is provided by the project sponsors through the application, validation and qualification processes. The ISO requires both consulting firms to provide a report or matrix detailing their independent comparative analysis and the ISO compares these analyses with the ISO internal analyses. The ISO staff and the consultants meet to discuss and resolve any discrepancies between the consultants and the ISO staff analysis.

If there is ever the situation where the discrepancies are not resolved at the staff level, the ISO executive team will be so informed so that it can be taken into account during the executive approval of the approved project sponsor.

The ISO believes that the current process provides for thorough independent and expert input into the selection of approved project sponsors. Again, the ISO is committed to run a fair and non-discriminatory competitive solicitation process and the ISO does not support adding an additional layer of oversight and the added expense and schedule impacts this oversight would entail.

5.1.5 Straw Proposal Stakeholder Comments June 30, 2015

Stakeholder	**Position**	**Additional Comments**
Brookfield	Supports straw Proposal	Provided CAISO has engaged suitably qualified and experienced independent consultants with adequate resources, an additional layer of independent review would not necessarily bring any value at this time.
Citizens Energy	No comment	
LS Power	Supports straw Proposal	Suggests more information regarding the firms [consultants] and their roles would be helpful for stakeholders.
PG&E	Supports straw Proposal	PG&E continues to believe the current structure employed by the ISO does not require an additional layer of review.
SCE	Supports straw Proposal	SCE supports the CAISO's proposal
Six Cities	Supports straw Proposal	The Six Cities generally concur with the ISO's conclusion that no changes to existing procedures appear to be necessary.
Trans Bay Cable	Does not support straw proposal	Supports an independent evaluator and would like ISO to address: (1) the tasks that an independent evaluator performs and why those tasks are not necessary based on the concerns raised by stakeholders and (2) explain how the ISO could avoid overlap and minimize cost by ensuring that the independent evaluator not be used in addition to, but instead of, other outside consultants.
TransCanyon	Supports straw proposal	The current process allows the CAISO to engage third-party independent experts as needed and maintains decision authority

		with the CAISO.

5.1.6 Revised Straw Proposal

Six of eight comments received support the straw proposal to not add another layer of oversight by adding an independent evaluator to the process. One stakeholder had no comment and only one stakeholder did not support the straw proposal. The CAISO will not make any changes to the straw proposal.

In section 5.1.4 of the straw proposal, the ISO provided a general description of the tasks performed by the expert consultants as well as the autonomy that the ISO affords its consultants in their evaluation and comparison of project sponsors. The expert consultants assist the CAISO in the selection process and provide valuable and important advice, expertise, analysis, and studies to inform the ISO in the decision making process. Losing the expertise of two noted consulting firms so the ISO could instead retain an independent evaluator would not benefit the selection process or the ISO's assessment of the project sponsor's applications.

5.1.7 Draft final Proposal

The ISO has not made any changes since the initial straw proposal. The ISO believes that the current competitive solicitation process provides for thorough independent and expert input into the selection of approved project sponsors. The ISO is committed to run a fair and non-discriminatory competitive solicitation process and does not support adding an additional layer of oversight and the added expense and schedule impacts such oversight would entail.

TransCanyon provided additional comments on the revised straw proposal. First, although not advocating for an additional layer of independent review, TransCanyon recommends that the ISO disclose the firms it uses in the selection process so stakeholders have more information and transparency into the experience, qualifications, and capabilities of the ISO's consultants. TransCanyon states that the recent selection report on the Delaney to Colorado River transmission line raises questions as to the validity of some of the conclusions reached, such as in the areas of permitting and engineering. TransCanyon further states that applicants will be able to better tailor their proposals with an advance, transparent understanding of the firms being used. Second, TransCanyon recommends the ISO provide more information on how it will use the independent consultant(s) in the selection process at the time the ISO issues the functional specification for a particular project, as well as how the ISO incorporates the input of consultants into its internal decision-making process.

The ISO does not agree with TransCanyon on these points. In previous iterations of its straw proposal, the ISO has explained its use of expert consultants and the role they play in the process. The ISO ultimately makes the final decision in selecting an approved project sponsor, and if any applicant has concerns, the ISO is willing to meet and discuss these with the applicant. The ISO would be very concerned with a project sponsor tailoring their application based on the firms being used in the evaluation; the application should be tailored to the specific project being solicited, not who is reviewing the application. The ISO also believes that maintaining the anonymity of its consulting firms is important for purposes of ensuring the integrity of the process. Finally, the ISO has been transparent in the number and qualifications of the firms being used in this process as detailed in Section 5.1.4 above. That being said, the ISO would be willing in future competitive solicitation improvement initiatives to discuss with stakeholders ways to increase transparency into the ISO's competitive solicitation process short of adding another layer of independent oversight or releasing the identity of its consulting firms.

5.2 Financial comparison process

5.2.1 March 13 stakeholder comments

LS Power – LS Power believes that the current financial comparison process discriminates between entities wishing to balance sheet finance over entities wishing to project finance and that there is no reason to do this. LS Power also believes that the current financial comparison process does not explain what the relative financial strength of various entities means to ratepayers. LS Power believes that once financially qualified, the only difference between sponsors should be their ability to benefit ratepayers.

5.2.2 October 7 ISO response

The ISO believes that the current process does not discriminate between entities wishing to balance sheet finance and entities wishing to project finance. To the extent stakeholders feel it does, the ISO requested they explain how. The ISO asked stakeholders to express their views on the issues raised, explain why they should (or should not) be examined in this initiative and submit specific proposals to resolve this issue through this initiative. Stakeholders should also comment on how the ISO should consider a situation where multiple parties may be financially able to construct, own, operate, and maintain a transmission facility, but certain sponsors present a greater risk in doing so compared to other sponsors.

5.2.3 October 28 stakeholder comments

CPUC staff – CPUC staff is interested in reviewing comments on potential discrimination in the selection process regarding balance sheet versus project financing, and may wish to comment on this issue in a subsequent comment round. CPUC staff reemphasizes its previous March 13, 2014 comment that regarding financial resources and other selection criteria, once a bidder has demonstrated sufficient strength such that risk of failure or other substandard performance is extremely low, then additional strength (e.g., "slightly better than") should count for very little in the selection process. Avoiding selection or even appearance of selection based on such non-meaningful "beauty contest" differences is an important rationale for using an independent evaluator for large projects.

ITC – 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.[17]

- 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 is not a significant factor when deciding among applicants for individual projects. MISO has such a pre-screening qualification process.[18]

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

---

[17] Available at http://www.caiso.com/planning/Pages/TransmissionPlanning/Default.aspx

[18] *See* MISO Business Practice Manual 27 on *Transmission Developer Qualification & Selection.* Available at https://www.misoenergy.org/Library/BusinessPracticesManuals/Pages/BusinessPracticesManuals.aspx.

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.

PG&E – PG&E believes that the revisions implemented by the ISO in the 2013-2014 Project Sponsor Proposal Application have improved the clarity of the financial review process. Based on the ISO's published Project Sponsor Selection Reports for the Gates-Gregg 230 kV Transmission Project and the Sycamore-Penasquitos 230 kV Transmission Project, PG&E believes the current financial comparison process does not discriminate between project financing and balance sheet financing. PG&E does not believe that further process improvement discussion is necessary for this topic.

Six Cities – Based on the information included in the Status Update/Issue Paper, the Six Cities do not have any basis at this time upon which to support or oppose changes to the competitive solicitation process resulting from a need to address purported discrimination among project sponsors that use different modes of financing. In the Status Update/Issue Paper, the ISO seeks comment on "how the ISO should handle a situation where multiple parties may be financially able to construct, own, operate, and maintain a transmission facility, but certain project sponsors present a greater risk in doing so compared to other sponsors." (*See* Status Update/Issue Paper at 11.) All other financial qualifications being equal, the ISO should select the sponsor that is capable of fulfilling its role as a project sponsor while presenting minimal risks to ratepayers. A high-risk sponsor, even if financially qualified, may have a greater likelihood of abandoning a transmission project and seeking recovery of all or a portion of its abandoned plant costs, thus shifting risk onto ratepayers. In addition, financing that involves higher risk is more likely to be costly. The ISO should seek to minimize both risks of abandonment and capital costs by factoring any identifiable risks into its project sponsor assessment. Conducting accurate risk assessments to protect ratepayers does not constitute discriminatory activity.

SCE – Special purpose entities that rely on project financing may be heavily leveraged and have limitations on capital available to face various unexpected expenses and costs that can develop during the project construction. As a result, such developers face a higher risk of failing to timely complete their projects or complete them at all. For example, as projects costs mount or unforeseen expenditures occur, projects with limited ability to access capital may not be able to finish the project or may delay the project, as they strive to obtain funds, to the point of potential reliability impacts. As such, ratepayers could have substantial exposure to additional costs. In contrast, with a balance-sheet-financed entity, the ISO and its ratepayers face less risk. Such projects are less likely to be foreclosed upon by the lender because they are underfinanced and are less likely to be delayed because financing may be unavailable to meet immediate project needs. Simply put, a special purpose entity with little or no equity is a riskier entity than an entity with an investment-grade credit rating and a robust balance sheet. The ISO must consider these different risk profiles – this is not undue discrimination – it is sound business judgment. The ISO process should consider the relative financial strength of entities who are bidding for project development rights. As such, for example, the ISO could always consider, when appropriate, having the flexibility to require additional security for higher risk entities with lower credit worthiness.

Trans Bay – Trans Bay has serious concerns about the ISO's financial comparison methodology. These concerns were set forth in Trans Bay's March 13 Comments. One important example of the methodological flaws has become more apparent since the filing of the Gates to Gregg FERC incentives filing made by the transmission company formed by PG&E and MidAmerican. In the Gates to Gregg Selection Report, the ISO focused on the financial capability of PG&E and MidAmerican (MAT), the parent companies of the transmission company they formed to construct the project. Because the parent companies had larger balance sheets, considerable experience in "utility" financing, and a higher net worth they were judged to be better than other applicants in this regard.

In the Gates to Gregg application, PG&E/MAT provided all of the financial information for their parent companies, including credit ratings and tangible net worth, as well as claiming that PG&E has "substantial financial resources with which to finance unexpected maintenance or repairs." Report at p. 40. However, that entity had proposed to *project* finance Gates to Gregg, and thus the ISO's analysis on these points had no relevance to the project.

This contention, which was pointed out earlier by Trans Bay, was confirmed in the FERC filing for incentives made by MidAmerican Transco, the entity formed to construct Gates to Gregg. The discrepancy between the Application, the ISO's analysis, and subsequent reality demonstrates that the ISO missed some key points in its analysis, and further demonstrates the need for an independent evaluator and a reexamination of the ISO's evaluation and selection criteria.

Trans Bay has excerpted the following statements from the FERC Order granting MidAmerican Transco risk-based incentives,[19] which clearly demonstrate that the transmission company is not relying on its parent companies' assets, and thus that the ISO's analysis was not correct:

> For example, MidAmerican Transco states that it faces financial risks in developing the Project because it is a start-up transmission company with no business history, no established credit rating, no debt repayment history, no earning history, and no significant financial guarantees from its corporate parent. Order, at P 26.

---

[19] *See MidAmerican Transco Cent. California Transco, LLC*, 147 FERC ¶ 61,179 (June 3, 2014) ("Order").

> M-S-R and CPUC argue that MidAmerican Transco's claims of financial uncertainty—i.e., that it is a start-up company with no financial history or source of regular cash flow—are disingenuous. M-S-R and CPUC contend that MidAmerican Transco's parent company, MidAmerican Energy Holdings Company, has reported $70 billion in assets and that the Commission should consider MidAmerican Transco's corporate structure in evaluating its request for incentive rate treatment. Order, at P 9.
>
> MidAmerican Transco argues that Commission precedent dictates that the Commission analyze its request for transmission rate incentives as a start-up company, rather than considering the financial resources of its corporate parent. MidAmerican Transco contends that it is appropriate to consider its status as a start-up company because potential creditors will evaluate MidAmerican Transco on the basis of its own creditworthiness without regard to the creditworthiness of its corporate parent. Order, at P 15 (citation omitted).
>
> We agree that the Commission may evaluate MidAmerican Transco's request for transmission rate incentives as a request made by a new transmission developer rather than considering the financial resources of MidAmerican Transco's corporate parent. Order, at P 46

Below are several relevant excerpts from MidAmerican Transco filing[20] itself, which demonstrate that the applicant never intended to rely on the assets of its parent companies:

> "Being a new transmission-focused entity, MCCT will expend significant sums during the pre-construction and construction phases without another available source of income for the company". . . . Not obtaining the incentives, would challenge "MCCT's ability to maintain adequate cash flows which could ultimately lead to lower credit rating and higher cost of financing." Filing, at p. 10.
>
> Currently, MCCT has no transmission plant in-service. MCCT faces considerable risks in its efforts to seek financing for what will be its first transmission facility . . . Because this will be MCCT's initial transmission project, MCCT has no other source of revenue for the company. Filing, at p. 10.
>
> MCCT, as a start-up company, has no direct business history, no credit rating, no debt repayment history, and will face significant risks and challenges in financing the project. Filing, at p. 11.
>
> Because this is the first project that MCCT is developing, it has no other sources of regular cash flow. The absence of established financial strength indicators will cause lenders to closely examine the expected future cash flows under the formula rate approved by the Commission. According to the testimony of Mr. Weber, the incentive rate treatments requested herein will

[20] MidAmerican Central California Transco Filing, Docket No. ER14-1661, filed on April 4, 2014.

> significantly enhance the project company's overall financial strength such that MCCT can obtain a viable credit rating. Filing, at p. 11.

This filing provides clear evidence of the faulty analysis set forth in the Gates-Gregg Selection Report. A qualified independent evaluator presumably would understand that the assets of a parent company for a transco that is being project financed are not relevant to the decision of whether the project will be constructed, particularly at a low rate for ratepayers. In fact, Trans Bay has significant experience *project* financing a major California project, as it is one of the few independent transmission companies to have actually financed and constructed a large transmission project in the state of California. But Trans Bay was not ranked highly in this regard in the ISO's evaluation, further demonstrating the flawed methodology.

The ISO also asked parties to comment on how it "should handle a situation where multiple parties may be financially able...but present a greater risk...compared to other sponsors..." Trans Bay believes that, once a project sponsor is qualified, the burden should be on the ISO to demonstrate that one party presents a greater risk for project non-completion than other parties and/or that such party is more likely to impose additional cost on ratepayers. Once project sponsors are approved as financially qualified to construct a particular project, they have already proven they are not "fly by night" entities. So unless there is a particular concern about a sponsor's financial capability to finance the project, that factor should not be weighted very heavily, if at all. If there is a particular concern, then the ISO should clearly explain what the concern is and why such concern is relevant to the particular project being examined.

TransCanyon – TransCanyon is generally supportive of the ISO's current financial evaluation process, and does not believe it is discriminatory. TransCanyon has seen no evidence that the current process discriminates between entities wishing to balance sheet finance and entities wishing to project finance. The ISO appropriately looks at the financial strength of bidders as an important consideration in the evaluation process. To the extent that parties with concerns about discriminatory practices are willing to present specific evidence supporting such concerns, then TransCanyon would be willing to review the specific concerns as part of a broader stakeholder process. Failing that, TransCanyon is satisfied with the ISO's current evaluation process, and does not believe that there is a need to address this issue through the enhanced competitive solicitation process.

5.2.4 Straw proposal

A review of written comments indicates that stakeholders were split as to whether further enhancements were needed to the ISO's financial comparison analysis. While some stakeholders (LS Power, ITC) indicated that the current process favors, or may give the appearance of favoring, balance sheet financing over project financing, other stakeholders (PG&E, TransCanyon) indicated otherwise and said no enhancements to the current process were needed. As previously noted, the ISO is committed to run a fair and non-discriminatory competitive solicitation process while it strives to continue to improve its financial analysis portion of the process. The ISO believes its financial analysis aligns with this commitment and that any wholesale changes to the existing financial analysis process are unnecessary.

The ISO tariff requires that Project Sponsors shall include the following in their applications: (1) Section 24.5.2.1 (a) "A proposed financial plan demonstrating that adequate capital resources are available to the Project Sponsor to finance the transmission solution"; and, (2) Section 24.5.2.1 (b) "Credit rating from Moody's Investor Services and Standard & Poor's of the Project Sponsor, or its parent company, controlling shareholder, or any other entity providing a bond guaranty or corporate commitment to the Project Sponsor." Further, Section 24.5.3.1 (b) of the ISO tariff instructs the ISO to consider "whether the Project Sponsor and its team have demonstrated that they have sufficient resources, by providing information including, but not limited to, satisfactory credit ratings, audited financial statements, or other financial indicators" when analyzing project sponsor applications to determine whether the sponsor is qualified. Finally, when selecting the approved project sponsor, Section 24.5.3.5 of the tariff states that the "ISO will select one qualified Approved Project Sponsor based on a comparative analysis of the degree to which each Project Sponsor's proposal meets the qualifications set forth in Section 24.5.3.1."

Based on the tariff excerpts highlighted above, the ISO, during the qualification process, has an obligation to determine that the applicant project sponsor has sufficient financial assets and credit ratings to finance the permitting, design, engineering and construction of the project, and later the operation and maintenance of the project. What the ISO has found in every solicitation to date is that a number of applicant project sponsors must rely on a parent's financials, credit ratings and other financial indicators to qualify for the project. Limited Liability Corporation (LLC) or Special Purpose Entity (SPE) project sponsors oftentimes lack the financial assets to meet the ISO's tariff-driven qualification requirements. The ISO understands that setting up a separate LLC or SPE is a common industry practice for the types of projects being proposed and that it is common practice for these LLCs and SPEs to rely on a parent or another affiliate for financial support, including access to the capital markets as well as engineering and overall project experience. To allow such companies to compete in the competitive solicitation process and to reduce the risk of qualifying a potentially thinly capitalized project sponsor, the ISO began requiring a parental guaranty. Since the applicant project sponsor's application responses were largely based on its parent's qualifications anyway, the ISO felt that requiring a guaranty made the parent vested in the process and was prudent, just and reasonable. While required, having such a guaranty is not sufficient to be selected as the approved project sponsor. The ISO must still assess the relative strength of the financial aspects of the project sponsors' applications including the terms and conditions and enforceability of any financial assurances such as a guaranty.

In their comments, ITC pointed out that they felt the ISO's tariff did not discriminate on its face but suggested that the application may put project financed proposals at a disadvantage. Specifically, ITC noted that project financed proposals were required to provide a parental guaranty as well as to respond to six additional questions in the application (F-11 through F-16). In their recommended corrective actions, ITC suggested that applicants be prescreened. The ISO does not support the prescreening as described in the "Pre-qualification outside of bidding schedule" section of this straw proposal. Further, Section 24.5.2 of the ISO tariff states, "There is no requirement that a Project Sponsor first be qualified before it may submit a Project Sponsor application."

As a means to eliminate any other perceived disadvantages of a project financed proposal, ITC also recommended project financing entities could demonstrate their financial strength by providing a guaranty (currently a requirement as discussed above) or, alternatively, by providing evidence of their ability to obtain a performance bond or a letter of credit in an amount equal to the total cost of the transmission project, including financing costs and a 30% contingency. While the ISO isn't closed to the idea of allowing alternative forms of financial support to the guaranty for the project, we feel an LLC or SPE setup for the express purpose of managing a proposed project, may have a difficult time securing sufficient evidence of their ability to secure a performance bond or letter of credit prior to selection and that making such a requirement may prove to be a barrier to proposing a project solution.

Another perceived disadvantage of a project financed proposal pointed out by ITC was the requirement that project financed entities respond to six additional questions on the application. Specifically, instructions in the Project Financing section of the application preceding question F-11 state "For the entity that will secure project financing and is required to provide financial assurances for the project, provide the information requested in F-11 through F-16." In fact, the ISO requires questions F-11 through F-16 to be completed by all applicant project sponsors and to date all application submittals have included responses to these questions regardless if the project was being proposed as project or balance sheet financed. However, the ISO will amend the application in the future to clarify that all applicants will be required to answer these questions.

A recurring theme among commenters is that the ISO may be placing too much emphasis on the relative financial strength of project sponsors while the focus should more appropriately be placed on potential project risks once each project sponsor is deemed financially qualified and creditworthy. In early solicitations that may have been the case and CPUC staff's and TransBay's comments have been noted. However, by now having the experience of several prior solicitations, the ISO has largely adopted an approach suggested by CPUC staff, *i.e.*, "once an applicant has demonstrated sufficient financial strength that the risk of failure or substandard performance is low, and then additional financial strength should count very little in the selection process." For example, if a project is estimated to cost $25 million and Sponsor A has $10 billion in tangible net worth and

Sponsor B has $500 million in tangible net worth (and assuming all else being equal), the ISO would consider both sponsors financially qualified and indicate there wasn't sufficient difference in them to choose one over the other for purposes of this criterion. In other words, the ISO would not rank Sponsor A higher simply because it has 20 times the tangible net worth of Sponsor B. Their abilities to finance the particular project and the risks they present would be comparable. Similarly, two sponsors that have investment grade credit ratings even though one may be three ratings higher than the other (again assuming all other things being equal) would be considered as not being materially different for purposes of meeting this criterion.

CPUC staff, SCE, Six Cities and TransBay largely echoed another theme among commenters; *i.e.*, once a sponsor has been financially qualified, the focus should be on mitigating the risk of project abandonment and/or high project costs due to high financing costs. In addition to five years of financial statements, credit ratings and financial ratios, the ISO relies on Moody's Analytics Estimated Default Probability (EDF), a company's tangible net worth and financial liquidity ratios as other tools to assess a project sponsors overall financial health and the risk they may bring to the project. While imperfect, particularly for projects that may not be scheduled to begin for two to three years and have a forty year useful life, they are the best tools available to make such an assessment. While CPUC staff and TransBay suggested that the ISO use an independent evaluator for this evaluation, the ISO feels as though they would be equally challenged by the limited availability of tools to assess a company's long-term viability (a further exploration of the ISO using an independent evaluator is covered in another section of this straw proposal). In addition to the tools described above, the ISO relies on an independent assessment of each sponsor using the ratings report provided by each rating agency. This report describes the rationale for a company being given a particular credit rating and thus can provide valuable insight into risks that potentially could undermine the future success of the project and is valuable input into the comparative analysis process.

LS Power was concerned that project proposals must translate into ratepayer benefits. The ISO believes it's incumbent upon applicant project sponsors to highlight all the strengths of its proposal – whether it be cost caps, financial assurances including the voluntarily offering of collateral as a means of providing financial support (see separate section on Collateral/Credit Requirements in this straw proposal) or ratepayer benefits. Many of these benefits may be derived from the aforementioned but also may result from financing sources and approach (application question F-14), project costs and related assumptions in the detailed financial plan (application question F-15) and in the annual revenue forecasts (application question F-16). The ISO believes there are many opportunities for applicants to "sell" the direct and indirect benefits of their proposal and encourages them to avail themselves of all such opportunities.

5.2.5 Straw Proposal Stakeholder Comments June 30, 2015

Stakeholder	Position	Additional Comments
Brookfield	Supports straw proposal	Existing process provides sufficient flexibility to evaluate each applicant's capacity fairly and on a non-discriminatory basis.
Citizens Energy	Supports straw proposal	Believes the application provides many opportunities to explain both direct and indirect benefits of the prospective sponsor's proposal.
LS Power	Section 5.5.4 of the straw proposal is a step in the right direction.	Detailed identification of all financing parameters, and the extent such factors are estimates, supported by evidence of binding commitments would be beneficial in the evaluation of proposals.
PG&E	Supports straw proposal	Current approach does not unfairly discriminate.
SCE	Supports straw proposal	No additional comments were provided.
Six Cities	Supports straw proposal	Approved project sponsor should be reasonably expected to present minimal risk to ratepayers. Acknowledges TBC's concern that a project sponsor should not be able to rely on the financial strength of its parent in the selection process and then claim before FERC that its parent company's financial position is irrelevant for purposes of the Commission's incentive policies.
Trans Bay Cable	Does not support straw proposal	Does not believe that the CAISO's analysis is sufficient and still recommends that the CAISO amend its tariff provisions to add ratepayer benefit specifically to the evaluation and selection process. Ratepayer benefit should be primary goal of the competitive solicitation process. A project sponsor should not be able to rely on the financial strength of its parent in the selection process and then claim before FERC that its parent company's financial position is irrelevant for purposes of the Commission's incentive policies.
TransCanyon	Supports straw proposal	Agrees that the clarification that questions F-11 through F-16 on the application applies to

		all applicants will be helpful.

5.2.6 Revised Straw Proposal

All but one commenter is supportive of the straw proposal in regards to the financial comparison process. LS Power indicated that Section 5.5.4 of the straw proposal is a step in the right direction but indicated it believes that detailed identification of all financing parameters, and the extent such factors are estimates, supported by evidence of binding commitments would be beneficial in the evaluation of proposals. The ISO agrees and, as a matter of course, considers evidence of binding commitments as characteristics of a stronger proposal.

As the ISO discussed in the straw proposal, the ISO believes that both direct and indirect ratepayer benefits are important determinants in the evaluation and selection process. To that extent, the ISO agrees with Trans Bay Cable that ratepayer benefits should be one of the goals of the competitive solicitation process. However, the ISO disagrees that the ISO needs to amend its tariff provisions to specifically identify ratepayer benefits in the evaluation and selection process. The tariff already identifies financial and non-financial factors and factors that directly and indirectly affect ratepayers. No one benefit should be singled out. They are all relevant to the selection process. The ISO stresses that it is important that project sponsors clearly specify and support tangible ratepayer benefits in their application responses.

The ISO agrees with Trans Bay Cable's concern that a project sponsor that relies on the financial strength of its parent during the selection process should not be able to claim before FERC that its parent company's financial position is irrelevant for purposes of the Commission's incentive policies. Financial assurances provided by the Project Sponsor are among the key terms and conditions included in the ISO's Approved Project Sponsor Agreement. The ISO reserves the right to intervene at FERC or to take other necessary action to ensure the integrity of the selection process, including the resulting approved project sponsor agreement. However, the CAISO cannot control what approved project sponsors file at FERC pursuant to their section 205 rights, and those FERC filings typically occur after the CAISO has already selected the approved project sponsor. In other words, the CAISO typically will not have the benefit of FERC filings when it is making its selection decision. Also, the CAISO cannot unilaterally enforce non-binding commitments.

5.2.7 Draft final Proposal

The ISO has not made any changes to the initial straw proposal with respect to the financial comparison process. Other than TransCanyon reiterating their support for the ISO's position, no other comments were received. Therefore, the ISO considers this issue closed.

5.3 Collaboration period

5.3.1 March 13 stakeholder comments

PG&E – PG&E believes that the collaboration period provided for in the tariff does not provide substantive benefits. Instead, PG&E believes that the collaboration period extends the solicitation review period and needlessly delays project sponsor selection. PG&E stated that such delays can increase permitting risk by truncating the timetable for stakeholder outreach and potentially result in seasonal environmental surveys to be missed which can delay a project schedule by up to a year. PG&E recommended its elimination and that the ISO instead encourage potential sponsors to explore collaboration opportunities early on in the transmission planning process. PG&E further noted that such collaboration need not await the start of Phase 3 of the transmission planning process but can begin during Phase 2.

5.3.2 October 7 ISO response

The ISO noted that PG&E also raised this issue in the ISO's Competitive Transmission Improvements stakeholder initiative in 2013. In that initiative the ISO responded that it did not recommend eliminating the collaboration step from the competitive solicitation process as the collaboration step is a key component of the RTPP tariff amendment and the Order No. 1000 compliance filing, and that FERC had approved the provision twice and has been very supportive of it. The ISO still holds this view, but was open to hear other perspectives on this. The ISO asked stakeholders to express their views on this issue, explain why this issue should (or should not) be examined in this initiative, and submit specific proposals for its resolution through this initiative.

5.3.3 October 28 stakeholder comments

Foothill Services Nevada, Inc. – What protections have been made available to protect market participants from anti-trust violations by two or more transmission incumbents that may collude and thereby undercut all other bidders in negotiations during the ISO collaboration process? Further, what cautions or warnings have the ISO provided incumbents that two or more monopoly service providers that are prospective bidders shall not discuss or exchange information regarding their respective bids (specifically terms and conditions) prior to the bid due date?

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

PG&E – PG&E strongly supports sponsor collaboration as a means of promoting competition for transmission development and reducing the cost of new transmission. However, PG&E believes that the current implementation of the collaboration period can be enhanced to avoid project delays and potential harm to customers from delayed project completion or increased costs.

A delay in project kickoff can substantially increase permitting risk. Seasonal surveys for certain sensitive/endangered species and habitats are required to develop a Proponents Environmental Assessment (PEA) as part of the project licensing process. The timing of these surveys is linked to the spring nest/mating and/or blooming season and is variable by species, geographic location, and annual climate (dry year vs wet year), among other factors. Because specific dates of the mating season are difficult to predict accurately from year to year, there is a need to mobilize resources and field personnel in advance of the actual start of the season. Based on previous project experience, environmental monitoring that is not finalized by March runs the risk of missing a survey should conditions bring an early spring. This could unnecessarily delay the completion of a PEA and ultimately delay the survey until the spring of the following year.

PG&E recommends that the ISO modify Section 24.5.2.3 to allow for a collaboration period facilitated by the ISO to be run prior to or in parallel with the Phase 3 bidding window. PG&E has included an attachment with a timeline depicting the current process based off of the sequence 1 milestones from the 2013-2014 TPP compared to a suggested timeline that incorporates an earlier collaboration period. This modification would ensure that sequence 1 and 2 projects can be awarded in advance of March and mitigate the risk that PEA surveys and other permitting issues can pose for project schedules.

PG&E believes that this change could be successfully implemented based on prior experience that collaboration can and already does begin during Phase 2 prior to ISO's final approval of reliability projects. Additionally, such a collaboration process could also be incorporated with a bidder pre-qualification process to further streamline project sponsor bidding and selection (see PG&E-suggested new topic below entitled "Adopt practice of pre-qualification of bidders outside of bidding schedule").

SCE – Pacific Gas & Electric argues that the collaboration period provided for in tariff section 24.5.3 should be eliminated because it does not provide substantive benefits and unnecessarily extends the solicitation review and selection process. The ISO does not recommend its elimination and views the collaboration step as a key component of the competitive solicitation process.

SCE agrees with the ISO that the collaboration period may promote effective partnerships and should be retained.

Notably, the collaboration period is not automatic, but must be invoked by pre-qualified Project Sponsors. As such, delay will not always arise – rather, the collaboration period would only be invoked if potential qualified Project Sponsors believed that they could, to the benefit of the project and ratepayers, collaborate on a project bid. There is no reason to eliminate this potential benefit.

Also, the collaboration period is still untested. If the collaboration period proves to be a source of unnecessary delay or gaming, ISO could revisit the issue. At this point, however, SCE does not support a stakeholder process on this issue.

Trans Bay – Trans Bay supports the retention of a collaboration period, in order to give project sponsors a modest amount of time to determine whether they can work together to provide more value to ratepayers. There is only a collaboration period if two or more qualified project sponsors request the ISO's assistance in facilitating an opportunity for collaboration,[21] and Trans Bay believes that this feature of the process should be retained.

TransCanyon – TransCanyon would not advocate for the elimination of the collaboration window, but believes it should be modified to improve the transparency, fairness and efficiency of the process. TransCanyon proposes that the collaboration process be modified to either: (a) allow collaborators to pick one of the collaborating bids or the other, but not resubmit bids in their entirety; or (b) allow all bidders to resubmit their bids at the time the collaborating bids are resubmitted.

Allowing only collaborating parties to refresh their bids creates an unfair advantage to those parties. Collaborating parties could incorporate new information, which was not available to other bidders at the time of their bid submissions. For those concerned with the efficiency of the process, the first option would result in a shortened collaboration period, in light of the reduced resubmission requirement, and allow for more expeditious project delivery.

5.3.4 Straw proposal

The ISO continues to support the collaboration period as provided for in the Tariff and does not propose to make any changes at this time. As noted above, a majority of stakeholders agree with this position.

PG&E proposes to move the stakeholder effort to be in coordination with the open bid window, however this would defeat the current design of only allowing actual validated bidders in the solicitation process to collaborate. Until the posting of the validated bidders for each solicitation is made, it would not be apparent to all bidders who the validated and interested parties would be to contact to discuss collaboration.

TransCanyon proposes that any collaborating parties be required to pick one of the original bid submissions. The ISO does not support this as the purpose of the collaboration is to provide the ratepayers with the best possible bid. This is done by requiring collaborating parties to withdraw their original bids and to submit a new bid combining the strengths of the collaborating parties.

[21] See CAISO Tariff, Section 24.5.2.3.

TransCanyon alternatively proposes that all bidders be allowed to refresh their bids should two parties decide to collaborate. The ISO does not support providing non-collaborating parties the ability to refresh their bids as this could encourage project sponsors to not initially submit their best proposal and thus have a negative impact on the selection process and ultimately transmission customers. If new information were to arise that would affect the functional specifications, and therefore impact all bidders, the ISO has the option to close and re-open the bidding process if necessary.

As to Foothill Services Nevada, Inc.'s questions on anti-trust violations and monopoly service, the ISO has looked into both of these issues and does not believe that either poses a valid concern. FERC has approved these tariff provisions as fair and non-discriminatory.

5.3.5 Straw Proposal Stakeholder Comments June 30, 2015

Stakeholder	Position	Additional Comments
Brookfield	Collaboration should be retained, and refocused so as to deliver greater value for ratepayers.	Concerned that the collaboration period has not been clearly tailored to serve the CAISO or its customer's best interest. Clarifying the CAISO's interpretation of its selection criteria and evaluation processes, and its means of eliminating bias, would help bidders to identify collaborators that could more usefully improve a joint bid. Potential for abuse needs greater attention. For example, if there were only two qualified applicants, we would be concerned that allowing collaboration could provide an opportunity for abuse.
Citizens Energy	No Comment	
LS Power	Does not support straw proposal	Concerned that the collaboration period invites gaming, suggests three possible remedies: 1) Move collaboration forward to prior to submission of bids. ISO could post a list of all potential interested bidders. 2) Only allow collaboration if all bidders are willing to collaborate and not just a subset of bidders. 3) Require bidders who elect to collaborate to adopt the cost proposal from one of the already submitted bids.
PG&E	Does not support straw proposal	PG&E continues to support modification of the collaboration period to further improve the efficiency and transparency of the

		sponsor selection process. PG&E recognizes that there is presently little motivation among other stakeholders to modify the current process. PG&E requests that the ISO continue to observe the competitive solicitation timelines and effectiveness of the collaborative process, and, if needed revisit the issue again in the future.
SCE	Supports the straw proposal	SCE supports continuing the collaboration period per the current CAISO Tariff.
Six Cities	No comment	
Trans Bay Cable	No comment	
TransCanyon	No comment	

5.3.6 Revised Straw Proposal

It is clear from the comments received on the straw proposal that there is not widespread consensus for retaining the collaboration process, as currently configured in the Tariff and that further discussion is needed to determine if modifications are needed. Brookfield, PG&E and LS Power all voiced concerns in their comments on the straw proposal. Brookfield stated that it feels there is potential for abuse, especially if there are only two validated bidders; PG&E continues to support modifications to the collaboration period to improve efficiencies; and LS Power mentions the possibility for gaming and provides a number of suggested remedies.

SCE supports continuing the collaboration period per the current ISO Tariff, and four stakeholders (Six Cities, TransCanyon, Trans Bay Cable, and Citizens Energy) did not provide comments on the straw proposal on this issue.

TransCanyon voiced concerns in its comments on the original issue paper and proposed that the collaboration process be modified to either: (a) allow collaborators to pick one of the collaborating bids or the other, but not resubmit bids in their entirety; or (b) allow all bidders to resubmit their bids at the time the collaborating bids are resubmitted.

Based on the level of concern and disparate views expressed, the ISO proposes to separate this topic from the other issues addressed in the straw proposal and take additional time to hear from stakeholders on proposed improvements to the collaboration process.

The ISO would like to encourage the following general principles for any proposed modification to the collaboration process:

- Proposals would not add additional time to the overall process
- Proposals would not add significant work effort to the process (for example adding a new pre-qualification process would be considered a significant work effort and not supported by the ISO)
- Proposals would not add significant costs to the application process that would discourage potential project sponsors

Based on these principles and combining the themes of the comments received, the ISO has developed the following three proposals on which additional stakeholder input is being sought:

1) Modify the application window to allow potential bidders interested in collaborating to announce themselves shortly after the bid window opens (for example within two weeks?), and require all collaboration to be done prior to submitting an application at the close of the bid window. The ISO would post the list of potential bidders interested in collaborating and their contact information on the ISO website. The CAISO would retain the current bid window, which is a minimum of two months, however there would be no further collaboration window provided after the application window is closed. There also would be no qualification requirement to announce interest in collaborating. Any entity (collaborating or not) would still be able to submit an application at the end of the application window, even if it did not participate and announce interest in collaborating.
2) Retain the existing collaboration process, however allow non-collaborating parties to refresh their application if there is successful collaboration among bidders. The refresh of the bid would have to be limited in scope, for example, only allow updates to cost estimates or cost containment measures. The amount of time allocated to revalidate the updated proposal would have to be kept to a minimum so as to not delay the process or add significant costs. In addition, project sponsors would have to submit their refreshed bid by the end of the existing collaboration period and the ISO would accept such refreshed bids only if there was successful collaboration among other parties.
3) To address concerns regarding potential gaming issues where there are only two validated project sponsors for a project, the ISO suggests that any collaboration among the two parties must result in an equal or lower cost (including cost containment) for ISO ratepayers; otherwise the collaboration would be rejected by the ISO and revert back to the original bids, or the ISO may choose to re-open the bidding process.

Please provide comments on these and any other proposal or variation of these proposals that meet the principles above.

5.3.7 Revised straw Proposal Stakeholder Comments Sept 15, 2015

	Alternative 1	Alternative 2	Alternative 3
Trans Canyon	Supports	Supports if alternative 1 is not chosen	Supports if alternative 1 is not chosen
PG&E	Strongly Supports	Less effective than Alternative 1	Less effective than Alternative 1
NEET West	Does not support	Does not support	Supports
SCE	Does not support However, If adopted, increase bid window by an additional 2 weeks	Supports w/modifications Allow bid refresh even if collaboration is not successful & require additional deposit	Does not believe alternative 3 is necessary
Six Cities	No Comment	No Comment	Supports Suggests it should apply to all collaborative bids.
LS Power	Supports as best alternative Helpful to add more time to bid window	Adds complexity and still allows for potential gaming as bids can be modified	Only addresses one narrow concern Not exclusive from Alternative 1 – could be reasonable to implement if only 2 bidders even if bidders do not collaborate in the bid window.

5.3.8 Draft final Proposal

After reviewing the six sets of comments received on this topic, the ISO proposes to move forward with option 1 of the revised straw proposal with minor modifications. The ISO believes that this proposal best addresses the key stakeholder concerns of potential gaming, avoiding schedule delays, and simplifying the collaboration process.

The draft final proposal is as follows: Modify the application bid window to allow potential bidders interested in collaborating to announce themselves within two weeks after the bid window opens and require all collaboration to be done prior to submitting an application at the close of the bid window. The ISO would post the list of potential bidders interested in collaborating and their contact information on the ISO website. The CAISO would extend the current bid window, which is currently a minimum of two months, to be a minimum of ten weeks. There would be no further collaboration window provided after the application window is closed. There also would be no qualification requirement to announce interest in collaborating. Any entity (collaborating or not) would be able to submit an application at the end of the application window, even if it did not participate and announce interest in collaborating.

TransCanyon, PG&E, and LS Power support the above proposal, stating that it best addressed stakeholder concerns. TransCanyon stated this approach creates a more level playing field by allowing parties to indicate upfront their willingness to collaborate and has the potential to shorten the current process by 2-3 months. PG&E stated that it would simplify and make the process more predictable, improve efficiency, and eliminate gaming risk. LS Power commented that the current process is unfair and that this proposal addresses stakeholder concerns and avoids any kind of gaming by completing collaboration prior to the close of the bid window.

NEET West was the only commenter to completely oppose option 1. NEET West argued that the current collaboration period has proven successful on previous projects and therefore should be kept. NEET West also argued that the current collaboration period does not unduly delay project sponsor selection or add unnecessary time to the overall process. However, NEET West's arguments did not address the gaming concerns or added work effort (for both project sponsors to prepare and the ISO to evaluate additional bids) that have been brought up by other stakeholders.

Although SCE opposed option 1, stating that it believes there are still commercial benefits in having an opportunity for validated project sponsors to collaborate after the initial bid window, they stated that if option 1 was selected, additional time should be allowed for the bid window. The ISO has provided for an additional two weeks in the draft final proposal.

LS Power suggested that there may be value in adding a variation of option 3 by allowing all validated/qualified bidders to jointly adopt one of the existing bids. In essence, this would be an opportunity for all validated/qualified bidders to have another chance at a form of collaboration resulting in a single bid that would eliminate the need for a comparative analysis. The ISO believes that this proposal is more complex than it appears at face value, as the bids include sponsor and team information, not exclusively project information. As well as introducing gaming and timing concerns, process and policy would have to be developed to determine what elements could be changed with this type of joint agreement such as proposed teams, financing entities, material suppliers, or other specific elements of the application. Therefore, the ISO does not support this proposal.

5.4 Collateral/credit requirements for approved project sponsors

5.4.1 March 13 stakeholder comments

SCE believes that the ISO tariff should be revised to require a project sponsor to demonstrate its ability to meet the financial security requirements. SCE pointed out that in the event that the ISO selects a project sponsor that is not creditworthy (i.e., not investment grade rated) and is unable to complete construction of the project, a new project sponsor or a participating transmission owner may be required to complete the project using its own capital resources. SCE suggested that the risk of loss of collateral may be the financial incentive a project sponsor needs to complete construction. SCE further suggested that electric customers may be forced to incur higher costs required to expedite completion of construction of a transmission project delayed by a failed approved project sponsor and that collateral could mitigate these increased costs.

5.4.2 October 7 ISO response

The ISO asked stakeholders to express their views on this issue, explain why this issue should (or should not) be examined in this initiative, and submit specific proposals for its resolution through this initiative.

5.4.3 October 28 stakeholder comments

CPUC staff – CPUC Staff are sympathetic to the ISO's view that extensive financial evaluation for qualification and selection should make financial security posting unnecessary. Nonetheless, bidders should have the option to offer financial security. The rationale for this might be to offset an otherwise anticipated unfavorable comparison between bidders showing sufficient financial strength to mitigate performance risks versus bidders showing the "very highest" financial strength. However, as noted above, the selection process should not be unduly influenced by better-than-necessary ("beauty contest") qualifications, the benefits of which are slight or nonexistent. As also noted above, one role of an independent evaluator for large projects would be to minimize the reality or perception of selection based on such differences.

ITC – ITC agrees with the ISO that there is no need to impose collateral or credit requirements. As indicated in response to the 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.

LS Power – LS Power agrees with the ISO position in its October 14, 2014 APSA filing at FERC that there is no need to require an Approved Project Sponsor to post financial security (see pages 14-15 of the ISO FERC filing on this topic). LS Power urges that ISO not impose a financial security requirement for all of the same reasons outlined in the ISO FERC filing. LS Power would also note that the ISO is not alone in this stance. The New York Independent System Operator (NYISO) also has no such credit requirement in its tariff for their approved project sponsor. LS Power does not believe that any additional tariff language or language in the Approved Project Sponsor Agreement is needed on this topic.

PG&E – PG&E is neutral on the issue of collateral but is interested to review and comment on any concrete proposal presented in the future. PG&E would like to see how such a measure in addition to the current financial vetting process could be implemented to ensure customers are protected from collateral/credit risk.

Six Cities – The Six Cities support SCE's view as expressed in the Status Update/Issue Paper that project sponsors should be required to demonstrate that they are capable of meeting appropriate financial security requirements. The concerns regarding ratepayers potentially bearing higher costs in the event a sponsor is incapable of completing a project (and responsibility for the project thus being transferred to a Participating Transmission Owner) appear valid, and financial security requirements may provide the correct incentive for project completion in circumstances when a high-risk project sponsor may otherwise contemplate abandonment of a project. The ISO should continue to require prospective project sponsors to clearly demonstrate their financial worthiness (through financial statements, credit ratings, and similar materials) as part of the solicitation process. This, coupled with appropriate security requirements, will protect ratepayers from bearing the costs if the sponsor is financially unable to complete a project.

SCE – In comments on the Approve Project Sponsor Agreement (APSA) (both to the ISO and FERC), SCE has asked for a stakeholder process to determine whether an approved Project Sponsor should be required to post collateral. For the reasons described below, SCE believes now is the appropriate time to conduct such a stakeholder process. In addition, SCE below provides a discussion for a possible framework of the collateral requirement:

<u>Why Collateral Makes Sense</u>

Development security requirement helps to offset costs to California's electricity customers against increased expenses of having to replace the Project Sponsor and complete the transmission project. For example, there could be added costs and delays associated with holding a new solicitation and finding a Replacement Project Sponsor. Similarly, once a replacement Project Sponsor takes over, it may need to perform construction on an expedited basis to minimize the delay for a reliability-driven project. A Replacement Project Sponsor may incur additional costs related to such matters as needed reengineering, maintaining efficacy of permits, rights of way, environmental studies, and curing any outstanding defaults. Any increased costs resulting from the replacement of the Project Sponsor should be borne by the original Project Sponsor, rather than ratepayers. Development security will absorb or mitigate these costs.

It is noteworthy that in its Designated Entity Agreement ("DEA") filed in compliance with Order 1000,[22] PJM Interconnection, L.L.C. ("PJM") requires the Designated Entity (the equivalent in PJM of ISO's Project Sponsor) to post development security of three percent of project costs "to cover the incremental costs of construction resulting from having to reassign the project if the Designated Entity defaults or abandons the project."[23] No one appears to have protested this requirement and the Commission approved the DEA that included the collateral requirement provision.[24]

In its Issue Paper on the Completive Solicitation Process Enhancements submitted to FERC, ISO explains that a development security requirement is unnecessary. ISO explains that, under its Tariff, the ISO will examine a Project Sponsor's "ability to assume liability for major losses" and "the current and expected capabilities of the Project Sponsor and its team to finance, license, and construct the facility and operate and maintain it for the life of the solution" as part of the bid evaluation and project selection process. ISO concludes there is no reason to require a Project Sponsor who has "met these criteria" to undertake the additional burden of posting financial security. SCE respectfully disagrees. Even if a Project Sponsor has "met these criteria," the ISO has little recourse against the Project Sponsor (especially a special purpose entity) if the Project Sponsor goes under and/or the project fails.

<u>Who Must Post</u>

Development security should be required of a Project Sponsor regardless of the entity's credit rating. Development security allows ISO to cover losses associated with a failed project. This is important regardless of what credit rating, if any, the Project Sponsor has.

---

[22] On July 14, 2014, PJM submitted, in Docket ER14-2426-000, a pro forma Interconnection Coordination Agreement as Attachment LL of PJM's Open Access Transmission Tariff (OATT) and, in Docket No. ER13-198-004, a pro forma Designated Entity Agreement as Attachment KK of PJM's OATT to comply with the Commission's directive in its May 15, 2014 order on PJM's compliance with Order No. 1000. FERC approved PJM's agreements on the condition that PJM make minor modifications. *See Order Conditionally Accepting Proposed Agreements Subject To A Further Compliance Filing,* in Docket Nos. ER14-2426-000 and ER13-198-004 (September 12, 2013).

[23] Filing Letter re PJM Interconnection, L.L.C., Docket No. ER13-198-00 (3rd Compliance Filing) ("PJM Filing Letter") at 15.

[24] *See also, Order on Rehearing and Compliance*, Docket No. ER13-83-003, et al. at P 417 (June 19, 2014) ("[i]t may be appropriate to require additional collateral once a project has been selected in a regional transmission plan for purposes of cost allocation to ensure that the transmission developer has adequate resources to construct the transmission project.").

Financial security should be required for all projects – reliability, public policy and economic projects – because without it, failure of any of these projects could result in higher costs for ratepayers. Importantly, development security should be collected from all Project Sponsors.

Timing & Amount of Development Security Posting

The development security should be posted as of the effective date of the APSA and held by the ISO until final project approval and commercial operation.

SCE proposes that the minimum development security for the APSA be three percent of the total estimated cost of the project. However, the ISO may have discretion to require additional development security for what they believe are higher risk entities with lower creditworthiness.

Types of Financial Security

SCE is open to addressing this issue, among others, through a stakeholder process. As an initial matter, acceptable forms of collateral could include the items listed below:

- Letters of Credit
- Surety Bonds
- Cash deposit in an escrow account

Letters of Credit authorize the beneficiary to draw a specific amount from the issuing bank under a qualifying event. Letters of Credit would be issued by a qualified financial institution such as a U.S. commercial bank, U.S. financial institution, or U.S. branch of a foreign bank, with an investment grade credit rating of at least A- by S&P, A3 by Moody's, or A- by Fitch. The creditworthiness of the issuer is the key requirement.

A surety bond meeting the criteria listed below, is also an acceptable form of development security for meeting collateral requirements:

a) Surety is listed on the United States Department of Treasury's most recent and effective listing of approved sureties;
b) Surety is an admitted surety insurer authorized to transact the business of surety in the State of California;
c) Surety has an A.M. Best's Insurance Rating of not less than A:VII;
d) Either the maximum bond amount is not greater than the surety's underwriting limitation, or if any portion of the maximum bond amount is over such underwriting limitation, such excess amount is protected with reinsurance.

Cash deposited in an escrow account as collateral will also satisfy the development security requirements.

Trans Bay – Trans Bay does not support the proposal to impose collateral or credit requirements on project sponsors because it would potentially add an undue financial burden on project sponsors, impose additional cost on ratepayers, and introduce yet another barrier to the competitive process. The ISO has never required financial security from project sponsors, including the investor-owned utilities. If the ISO does seek to impose collateral requirements, it should initiate a new stakeholder process to address the issue of including financial security requirements for ***all*** transmission projects, not just those built under the competitive solicitation process. Any other result would be unduly discriminatory, as no party has demonstrated why independent transmission companies that are financially capable of constructing a transmission project should be subject to collateral security requirements, while the investor-owned utilities, in their roles as Participating Transmission Owners, should not be subject to those same requirements for any transmission project they construct.

TransCanyon – TransCanyon is supportive of the ISO's current process for evaluating the financial capabilities of project sponsors. As stated above, the ISO already conducts a complete examination of a project sponsors financial resources. This evaluation includes the ability of the project sponsor to assume responsibility for major losses. In light of this evaluation, there is no demonstrated need to require a financial security from project sponsors. TransCanyon does not believe there is a need to initiate a stakeholder process on this issue at this time.

5.4.4 Straw proposal

The ISO's position remains that requiring an applicant project sponsor to post financial security should not be a requirement and this position is supported by a majority of the comments received. As part of its tariff obligation, the ISO does conduct a financial analysis on all applicant project sponsors to determine credit worthiness, and also assess a probability that the applicant may default in its financial obligations.

The ISO, however, is open to allowing an applicant sponsor to voluntarily post some form of financial security. The ISO assumes that the applicant would choose to do this to strengthen its application in the financial area. This will be clarified in the project sponsor application.

5.4.5 Straw Proposal Stakeholder Comments June 30, 2015

Stakeholder	Position	Additional Comments
Brookfield	Does not support straw proposal	Financial security should not be required, and Brookfield does not support a voluntary option.
Citizens Energy	No Comment	
LS Power	Does not support straw proposal	LSP opposes the addition of voluntary credit support mechanisms.
PG&E	Supports the straw	Suggests security amount should be a

	proposal	percentage of the overall project cost.
SCE	Supports the straw proposal	SCE recommends that the requirement to post financial security should apply to all sponsors.
Six Cities	Supports the straw proposal	Agrees with SCE's position, and cites PJM requires development security.
Trans Bay Cable	No Comment	
TransCanyon	Does not support straw proposal	TransCanyon also opposes the allowance of posting security on a voluntary basis.

5.4.6 Revised Straw Proposal

The ISO notes that those stakeholders providing an opinion on this matter are split evenly. As such, the ISO has reconsidered this proposal and made the determination not to change the straw proposal and not to require the posting of financial security at this time. The ISO has now completed eight competitive solicitations. As part of the qualification process, the ISO reviews the credit history and balance sheets of the applicants (or the applicants' corporate parents) to determine whether the applicant project sponsor has the financial wherewithal to finance, engineer, permit, construct, operate and maintain the transmission facility. Further, the ISO revised its project sponsor application to require corporate guarantees from the sponsor's corporate parent(s) in the event that the sponsor was relying on its parent(s) credit history and financial capability. The ISO also notes that a posting of financial security would not have resulted in a change in the selection of any of the approved project sponsors in any of the prior competitive solicitations. For these reasons, the ISO will not change its requirements to require the posting of financial security from the approved project sponsor.

Cost containment is and has always been a significant factor when the ISO conducts its comparative analysis. The ISO has been encouraged by the robust cost containment measures proposed by several applicant project sponsors. The ISO believes it is important to continue to encourage this development. As such, the ISO will not prevent an applicant from committing to include a voluntary posting of additional financial security in the event that the applicant is identified as the approved project sponsor.

5.4.7 Draft final Proposal

The ISO has not made any changes since the initial straw proposal in which the ISO stated that posting of financial security should not be a requirement at this time. The ISO notes that posting of financial security would not have made any impact in the completed competitive solicitations to date.

TransCanyon provided additional comments on the revised straw proposal. First, TransCanyon believes that without specific requirements for collateral, the ISO is likely to receive different proposals that may not meet the intent of the ISO. Second, TransCanyon recommends the ISO adopt specific collateral requirements, and further that the ISO determine which collateral requirements are in its customer's best interests. Third, after the ISO determines the framework and process to establish collateral for each project, the ISO should require collateral from each applicant project sponsor on a consistent basis.

The ISO does not agree with TransCanyon on these points. The ISO has encouraged, and continues to encourage applicant project sponsors to provide robust proposals demonstrating cost containment and financial capability. For this reason, the ISO will accept proposals including collateral or other financial consideration if the applicant project sponsor believes that this addition will strengthen its proposal. The ISO is not prescriptive in how applicants choose to tailor their proposals. Further, the ISO believes that imposing prescriptive features in this particular area may discourage innovation or unduly discourage competition. For these reasons other reasons mentioned previously, the ISO does not agree that requiring the posting of collateral by the approved project sponsor is required at this time.

5.5 Evaluation of selection criteria

5.5.1 March 13 stakeholder comments

LS Power – LS Power believes that the current selection process has no connection between the ISO's evaluation of selection criteria and a tangible benefit to ratepayers from either an efficiency or cost perspective. LS Power questioned the meaning of terms such as "slightly better" and "slight difference" (used by the ISO in project sponsor selection reports) in terms of ratepayer benefit. LS Power suggested that cost or efficiency impacts of one sponsor's advantages over another should be the focus in evaluating selection criteria.

5.5.2 October 7 ISO response

ISO Tariff section 24.5.4 sets forth the standard that the ISO applies in its comparative process to select an approved project sponsor. 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 asked stakeholders to express their views on this issue, explain why this issue should (or should not) be examined in this initiative, and submit specific proposals for its resolution through this initiative. In particular, the ISO asked whether stakeholders have any recommended approaches for addressing these issues that would be effective, workable, and meaningful in the context of the FERC-approved flexible approach that the ISO employs.

5.5.3 October 28 stakeholder comments

CPUC Staff – Differences among bidders that are not truly quantifiable should not be tortuously quantified. Furthermore, differences that are not truly meaningful (e.g., "beauty contest" differences) should not determine the selection outcome, regardless of whether those differences are quantified. Thus, "slightly better than…" (with respect to a given criterion) should not determine a selection outcome unless it can actually be demonstrated that "slightly better than" clearly translates into a meaningful advantage regarding key outcomes such as cost or ability to complete on time. As stated above, one role for an independent evaluator would be to provide additional assurance and transparency that qualitative differences such as "slightly better than" are not driving the selection unless this can be clearly justified.

ITC – 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.

LS Power – LS Power believes strongly that the primary purpose of the ISO evaluation of project sponsor proposals is to pick the best project for rate-payers. While LS Power continues to believe that overall cost should be the primary selection factor for determining the approved project sponsor, at a minimum the ISO should be identifying all rate-payer costs so that rate-payers can determine whether the selection of a higher-cost project is in fact selection of the more efficient or cost effective proposal. In making its recommendation LS Power recognizes that not every qualification or evaluation criterion will have a quantifiable ratepayer benefit, those that do provide quantifiable benefits should be recognized and likewise if one evaluation criterion does not have quantifiable ratepayer benefits, it should specifically identified that there are not quantifiable benefits. As the ISO itself has previously noted, the extent of FERC jurisdiction is rates and those matter likely to impact rates. Obviously there are many ways to impact rates some of which are more easily quantified than others. LS Power's proposal is that Section 24.5.4 should include a provision that for each selection criteria, and to the extent included in the evaluation the qualification criteria, the ISO will identify the quantifiable ratepayer benefits of one proposal over another. To the extent that the ISO determines that with respect to a particular evaluation criterion, or qualification criterion to the extent used for evaluation, that no sponsor proposal provides quantifiable benefits in excess of any other proposal, the ISO must affirmative state such. Likewise, if the ISO's position is that benefits cannot be quantified for a particular evaluation or qualification criterion, ISO should be required to affirmatively state that also. The ISO would be required to include the above referenced declarations in the report to stakeholders required by Section 24.5.5. Because it will be addressing quantifiable benefits, or the lack thereof, the ISO would cease referencing "slight" or similar imprecise differences. To the extent that ISO determines that a "slight" difference warrants selection of one proposal over another, it must inform rate-payers as to the quantifiable basis for its determination.

The ISO's evaluation of financial criteria in prior proposal windows provides a good example of the reform of the evaluation process and this also addresses the ISO stakeholder question #2 regarding "Should the financial comparison between bidders be revised?" LS Power believes that it should and that if the quantifiable benefits of one financial structure over another, or the lack of quantifiable benefits, was affirmatively identified, the ISO would have made different conclusions in its recent proposal windows. For example, in the Gates-Gregg Project Sponsor Selection Report, at 20 the ISO stated that it had

> Identified significant differences in several financial factors, including but not limited to the tangible net worth of the project sponsors and their parent companies, their ratios of assets to the cost of the project, and their recent operating results, including whether they have incurred recent operating losses. The ISO's measure of tangible net worth compares assets to liabilities and eliminates goodwill, restricted assets, and other intangible assets not immediately available to a company. All of the ISO's analysis supported the following conclusions.

The ISO then concluded;

> The ISO has determined that PG&E/MAT's proposal is better than the proposals of the other project sponsors with regard to most financial factors of the analysis and compares relatively favorably on the remaining factors. PG&E/MAT's tangible net worth and asset ratio relative to the cost of this project exceed those of the other project sponsors. Both PG&E and MAT have significant experience with financing transmission projects with utility financing. Their recent operating results and credit ratings are satisfactory. Based on these factors, in conjunction with all of the other financial factors included in the ISO's analysis for this criterion, the ISO has determined that PG&E/MAT's proposal is overall better than those of the other project sponsors with regard to this criterion.

Missing from the ISO analysis is why things like "tangible net worth" make one project "better than the proposals of the other project sponsors" from a rate-payer perspective.

This is particularly true where all project sponsors, including the one selected, indicated an intent to use a special purpose entity to actually develop the project rather than "utility financing." As LS Power has told FERC in multiple Order No. 1000 compliance processes, development as a special purpose entity is often better for rate-payers than traditional utility financing. Limited recourse financing in fact is the most disciplined way to finance transmission construction because when the lenders have only the assets of the project to look to the lenders place the project under heavy scrutiny to confirm the strength and stability of the business plan, the creditworthiness of its major counterparties, the technology risk associated with its operations, and the level of financial commitment from the owners. By evaluating criteria like tangible net worth, credit ratings and asset ratios without specifically tying why those criteria matter to rate-payers on a quantifiable basis, ISO diminishes their importance as an evaluation criteria and skews the outcome of its evaluation.

LS Power proposes this identification of ratepayer benefits as discussed above as tariff language. The tariff language to implement this is as follows:

> 24.5.4. The ISO will conduct a comparative analysis to select an Approved Project Sponsor from among multiple project sponsor proposals, as described in Section 24.5.3.5. The purpose of this comparative analysis is to take into account all transmission solutions being proposed by competing Project Sponsors seeking approval of their transmission solution and to select a qualified Project Sponsor which is best able to design, finance, license, construct, maintain, and operate the particular transmission facility in a cost-effective, efficient, prudent, reliable, and capable manner over the lifetime of the facility, while maximizing overall rate-payer benefits and minimizing the risk of untimely project completion, project abandonment, and future reliability, operational and other relevant problems, consistent with Good Utility Practice, applicable reliability criteria, and ISO Documents. To conduct this comparative analysis, the ISO will use the qualification criteria described in Section 24.5.3.1 as well as the ~~following~~ selection factors set forth in this Section 24.5.4. For each qualification or selection factor reviewed by the ISO in determination of the Approved Project Sponsor, the ISO will identify the quantifiable ratepayer benefits of the project proposal the ISO deems to be the best proposal with respect to each factor. To the extent that the ISO determines that no proposal provides more quantifiable rate-payer benefits over any other proposal, or that benefits cannot be quantified for a particular factor, the ISO should so state. The selection factors are:
>
> * * *
>
> 24.5.5. The ISO will notify Project Sponsors as to results of the project evaluation process in accordance with the schedule and procedures set forth in the Business Practice Manual. Within 10 Business Days after selecting an Approved Project Sponsor(s) for a needed transmission solution, the ISO will post on the ISO website a report regarding the selection of the Approved Project Sponsor(s). The report will set forth in a detailed manner the results of

> the comparative analysis undertaken by the ISO, including any identified quantifiable ratepayer benefits, or ISO's determination that no benefits were identified or quantifiable, the reasons for the ISO's decision(s), and how the ISO's decision is consistent with the objectives identified in Section 24.5.4. For the Approved Project Sponsor the ISO will identify the quantifiable rate-payer benefits of its project proposal over any other proposal. The report will specifically identify the role of the selection factors set forth in 24.5.4 in determining, or not determining, the ultimate selection of project sponsors.

PG&E - PG&E reiterates its previous comments from the March 2014 stakeholder meeting and agrees with the ISO that the process must retain the flexibility for qualitative engineering judgment. If the project sponsor selection analysis were to become overly quantitative (such as forcing all bid scoring into a numeric rating system), many of the subtle differences among sponsor proposals could be lost. The ISO must retain the flexibility to make sound qualitative decisions based on engineering judgment while focusing on the best interest of customers. PG&E recommends this issue as presented be removed from further process improvement discussion.

Six Cities – As a general proposition, the Six Cities agree that the focus of project sponsor selection should be on ratepayer benefits relative to cost. It is not clear, however, whether there is a specific proposal for improving the focus on ratepayer benefits that underlies the concerns expressed by LS Power as described in the Status Update/Issue Paper. The Six Cities are open to consideration of changes to the evaluation process to enhance factors that will benefit ratepayers.

One tangible ratepayer benefit that project sponsors may provide is the ability to construct projects at reasonable costs. While there are already factors reflected in the solicitation process that consider cost (including cost containment measures), these could be made more robust. The Six Cities suggest, at a minimum, that the following incremental changes to the solicitation process be considered: (i) the ISO should establish requirements for transmission developers to disclose in the competitive solicitation process any incentives that the developer intends to seek from FERC (if a petition for such incentives has not previously been filed) and (ii) developers that intend to seek incentives should be required to provide the ISO with documentation comparing the estimated cost of the transmission project with and without the incentives.

SCE – 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 cannot know which criteria will be given more or less weight.

SCE would be in favor of the ISO stakeholder process considering whether additional information should be provided after-the-fact regarding how the ISO used each factor in selecting a Project Sponsor. SCE, however, does not support an *ex ante* weighting. SCE agrees with the ISO that a more formulaic approach would impede a holistic review of all elements of a project, taken together. SCE agrees that value should only be given to selection criteria if such criteria benefit ratepayers. Nevertheless, SCE does not believe that it is possible to quantify this value through a formulaic approach.

Trans Bay – Trans Bay agrees with the arguments put forth by LS Power and supports the recommendation that tangible ratepayer benefit be included explicitly as an evaluation and selection criterion.

Trans Bay would encourage and support the ISO in a filing with the FERC to amend its tariff provisions to add ratepayer benefit to the evaluation and selection process, as ratepayer benefit should be the primary goal of the competitive solicitation process. Without consideration of the lifetime cost of an asset, it is unclear whether or how the ISO evaluates ratepayer benefit, as each of the qualified bidders have, by definition, been deemed qualified to construct a transmission project in California.

Trans Bay's primary concern has to do with the lack of clarity about the significance given to each evaluation and selection criterion, as well as to the misapplication of several of the criteria. As described above, the use of an independent evaluator engaging in the tasks set forth above could help achieve more clarity and transparency.

For example, an examination of the various reports and filings demonstrate that the ISO's evaluation of project cost and cost containment have been flawed. In the Gates to Gregg Report, the ISO rated PG&E/MAT as better than others on cost and cost containment. Although the ISO was not able to disclose the actual cost proposals, it was noted in oral discussions at the Lessons Learned stakeholder meeting that PG&E/MAT's estimate was bid much lower than other project proposals. In the Selection Report, the ISO devoted considerable space to discussing cost containment issues, although it then stated that it did not give PG&E/MAT "credit" for most of their purported cost containment capabilities.

As noted throughout, there is little transparency regarding how much "credit" was given for the various criteria, and Trans Bay is unable to determine how the ISO credited cost and cost containment criteria. In its FERC incentives filing, however, PG&E/MAT estimated the cost of the Project to be $157 million, not including contingencies or inflation, which means that its cost estimates likely increased significantly from the bid, assuming that its bid was lower than those of other applicants.[25] This amount was well above the ISO's estimated cost range of $115 million to $145 million. More importantly, the filed estimated costs was well above Trans Bay's bid amount, which included both physical and price contingencies of approximately $15 million ***and*** proposed a more feasible route, approximately seven

---

[25] Order at P 5. The CAISO did not even intervene in the PG&E/MAT incentives filing to ensure that the statements made in the bid were affirmed in the filing. Based on a review of the Selection Report and the FERC incentives filings, it appears that the two contained material discrepancies. At the very least, the CAISO should ensure that bidders are held to their bid representations and/or are required to clearly explain any differences.

miles longer than that proposed by PG&E/MAT. While there may be an explanation for this discrepancy, none has been provided.

Although no project sponsor agreed to a cap, Trans Bay proposed to agree to a binding cost cap once the route was known, which is the earliest time that a rational business decision could be made to agree to a binding cost cap. The ISO has never explained clearly how a company could agree to a firm cost cap at a time when the project route and schedule are not fully developed. Trans Bay also proposed a financing mechanism that would save ratepayers money, but that proposal was never addressed in the Report.

Moreover, while PG&E and MidAmerican did not agree to a cost cap, the ISO discussed at length the incumbent utility's ability to contain costs through the use of its already-existing rights-of-ways, the work it had already done (likely at ratepayer, not

shareholder expense –another issue not discussed in the Report), in-house personnel, and other factors; however, based on the cost estimate in the filing, the ISO's "rating" of PG&E/MAT as "slightly better" than others in these areas seems even more suspect.

In sum, these examples demonstrate that vague criteria applied loosely and without rigorous examination by an independent evaluator experienced in evaluating RFPs and comparing bids will result in faulty analysis and undermine the perceived fairness of the process. Several companies, including Trans Bay, have already proposed numerous ideas, including specific weighting and scoring, which the ISO is not considering, as well as the use of an independent evaluator.

TransCanyon – TransCanyon agrees with the ISO's existing approach to the evaluation of selection criteria. The current process provides the ISO with reasonable and appropriate flexibility to consider both quantitative and qualitative aspects of the proposals received. This includes important factors such as experience, qualifications and the specific proposal or transmission solution. TransCanyon agrees with the ISO that since the selection criteria are not uniform from one proposal to another, it would be impractical to conduct a purely quantitative or formulaic evaluation of proposals. TransCanyon believes that the current process is appropriate.

5.5.4 Straw proposal

The ISO will not pursue any tariff changes in this area. The ISO will strive to provide clearer explanations of differences between project sponsors with respect to meeting the applicable criteria and their relevance in the decision making process. In addition, the ISO will seek additional information in the project sponsor application. Also, as discussed in Section 5.1, the CAISO utilizes two separate outside consulting firms. This will ensure that cost and non-cost related factors are independently, fairly, and comprehensively assessed.

Not all sponsor capabilities can be reduced to numbers, and FERC has ruled that it is appropriate for the ISO to consider factors other than cost. Capabilities other than cost are important in the project selection process, and their importance cannot be discounted or ignored. In future competitive solicitation reports, the ISO will strive to provide clearer explanations of the differences between project sponsors with respect to meeting the applicable criteria and their relevance in the decisional process, while balancing confidentiality concerns.

Section 24.5.4 of the ISO tariff sets forth the standard the ISO applies in its comparative process to select an approved project sponsor. That standard states: “The purpose of this comparative analysis is to take into account all transmission solutions being proposed by competing Project Sponsors seeking approval of their transmission solution and to select a qualified Project Sponsor which is best able to design, finance, license, construct, maintain, and operate the particular transmission facility in a cost-effective, efficient, prudent, reliable, and capable manner over the lifetime of the facility, while maximizing overall benefits and minimizing the risk of untimely project completion, project abandonment, and future reliability, operational and other relevant problems, consistent with Good Utility Practice, applicable reliability criteria, and ISO Documents.” The ISO conducts a holistic assessment of all applicable criteria, including the key selection criteria, to determine which sponsor best meets this standard. Under this approach, the ISO must identify any relevant differences/distinctions between sponsors and proposals and capture the degree of those differences. Where the differences between sponsors are not materially the same with respect to a given criterion, the ISO uses terms such as better, slightly better, or significantly better to indicate the scope of the difference. To the extent the ISO states that one sponsor or proposal is slightly better with respect to a specific criterion, the ISO believes there is a relevant distinction between sponsors or proposals that separates them and will identify that distinction. To the extent the ISO finds that there are no material differences between sponsors or proposals for purposes of meeting a specific criterion, the ISO will treat them as basically being equal. Project sponsors have generally indicated whether they intend to seek rate incentives and which incentives they will seek.

However, the ISO will revise its application to require (1) sponsors to disclose any incentives they intend to seek from FERC, and (2) sponsors that intend to seek incentives compare the estimated cost of the project with and without incentives. The suggestion that companies might not agree to a firm cost cap when the project route and schedule are not fully developed has been disproven by numerous bid submissions. Project sponsors have submitted binding bids that include potential route changes or have committed to limit the cost impacts of any route changes.

Finally, the purpose of this initiative is not to debate specific findings in prior competitive solicitation decisional reports.

5.5.5 Straw Proposal Stakeholder Comments June 30, 2015

Stakeholder	Position	Additional Comments

Brookfield	Suggests revisions to straw proposal	It is important that criteria are interpreted and applied to preclude bias. ISO must be transparent and avoid any weighting that introduces bias that is not absolutely necessary to provide reasonable cost and performance. ISO must be publically seen as holding project sponsors to their proposal when they seek rate recovery. ISO should draw more prominent attention to its methodology and assumption for calculating relevant costs outside of the project sponsor's competitive scope of work. Where sponsors seek incentives, care needs to be taken to ensure that requiring them to provide a comparison of costs with and without the incentives does not result in an arbitrary or unfair evaluation of other sponsors' applications.
Citizens Energy	Supports straw proposal	Direct and indirect benefits should be considered.
LS Power	Provides suggestions	Appreciates efforts to provide clearer explanations of the evaluation criteria and comparative analysis and supports further transparency to assist bidders in developing proposals to best meet the stated need. Refers to comments in Financial Comparison process requiring additional details related to financial aspects of proposals such as whether the proposed capital structure is binding.
PG&E	Supports straw proposal	Suggests that in addition to issuing a project sponsor selection report, the ISO host a post-solicitation de-brief with each bidder to discuss its bid and its effectiveness in greater detail than can be included in the public document.
SCE	Supports straw proposal	
Six Cities	Supports straw proposal's adoption of Six Cities' recommendation	Requests that the ISO confirm that the selection report will document the ISO's analysis of project-specific transmission incentives so that ratepayers will be fully informed as to the CAISO's consideration of this factor

Trans Bay Cable	Opposes straw proposal	Continues to support position that tangible ratepayer benefits should be included specifically as a selection criterion. Lifetime project cost should be included in the ISO's selection criteria. Continues to raise issues regarding the Gates-Gregg solicitation report and points to the approved project sponsor's cost estimates filed with FERC.
TransCanyon	Provides suggestions	Supports ISO efforts to provide greater transparency, but these efforts should not result in public disclosure of commercially sensitive information that the sponsor has requested the ISO to treat as confidential. Recommends that the ISO implement a standard legend (e.g., highlighting, footnoting) that would clearly indicate competitively sensitive information embedded within the application responses.

5.5.6 Revised Straw Proposal

With respect to Six Cities' recommendation, in the selection report the ISO will discuss project sponsors' proposed treatment of transmission incentives and provide its comparative analysis taking them into account so that ratepayers will be fully informed as to the CAISO's consideration of this factor.

In response to PG&E's suggestion, the ISO notes that all project sponsors are welcome to meet with the ISO for a post-solicitation de-brief, and several project sponsors have availed themselves of this opportunity. The ISO stresses that during these de-briefs, it cannot disclose the confidential information of other project sponsors.

With respect to TransCanyon's comments, the ISO agrees that its efforts to increase transparency in the project sponsor selection reports should not result in the disclosure of commercially sensitive information. The ISO notes that prior to issuing its decisional report, it holds a teleconference with each sponsor to read the factual information regarding that sponsor that the ISO intends to include in the report, thus giving the sponsor the opportunity to identify any proposed disclosures as commercially sensitive. The CAISO is walking a fine line on this matter --- on one hand it is trying to provide sufficient information in the selection report so that the public can understand the reasons for its decision; on the other hand, the CAISO is trying to protect confidential and commercially sensitive information and not disclosing sponsors' specific bidding strategies. The ISO will consider what features it can incorporate into the application process to highlight specific confidential information that project sponsors do not want disclosed. Project sponsors should also clearly state in their applications which responses or information is considered confidential or commercially sensitive.

For the reasons set forth in the straw proposal, the ISO will not carve out ratepayer benefits as separate selection criteria. With respect to TBC's comment, the ISO does consider the lifetime costs of the project. However, project sponsors need to show specific, tangible, reasonable, demonstrable, binding cost containment commitments that will last for the life of the project or identify specific, real, supported, tangible factors or measures that will contain costs (*e.g*., possession of existing rights-of-way, other project-relevant sunk costs that are already reflected in rates). Further, as discussed in the straw proposal, the purpose of this initiative is not to discuss specific issues in prior solicitations. Also, the fact that an approved project sponsor filed estimates at FERC that exceeded another project sponsors' costs needs to be considered in context. As discussed above, if project sponsors have not agreed to binding cost containment measures that have been reflected in an APSA, they are not bound to file at specified cost levels. The CAISO will monitor filings and intervene if necessary to ensure the integrity of the selection process, but the ISO cannot dictate a sponsor's actions under section 205 of the FPA unless the sponsor has a binding commitment to something specific. Also, the CAISO's evaluation of project sponsor applications typically occurs before a project sponsor will make a rate filing at FERC. Accordingly, the ISO does not have the benefit of seeing that filing before it makes a decision. Moreover, the ISO does not have the benefit of knowing the filing sponsor's reasons or strategy for filing at a specific cost level. For example, it is well known that parties may file for higher returns on equity or cost levels knowing that other parties will be arguing for significantly lower rates, essentially using the proposed higher rate to offset the proposed lower rates. The filed costs for a project that has not even been built yet do not reflect what the actual costs of the project will be. Ultimately, FERC will decide if the expenditures are prudent and will determine the rate that is just and reasonable.

With respect to LS Power's comments, the ISO notes that it considers all binding cost containment commitments in the selection process. The ISO is committed to being as transparent as possible in its analysis and in a way that will assist project sponsors in developing future proposals, while protecting commercially sensitive information. As discussed above, the ISO urges parties to participate in post-selection process de-briefings if they have any questions.

The ISO agrees with Brookfield that it is important that the criteria are interpreted and applied to preclude bias. The ISO also agrees that cost and performance are important criteria. The tariff requires cost to be a key selection criteria, and the ISO has typically included performance-related capabilities as a key selection criteria. With respect to costs associated with work outside of the specific scope of the project up for competitive solicitation, the ISO will try and provide more information in the functional specifications about how a project sponsor's proposal could impact those costs. For example, in the three substation projects, the various locations of the substations proposed by the project sponsors impacted the costs that would be incurred in connection with the non-competitive solicitation piece, thus impacting the cost of the total project (both the competitive solicitation and non-competitive solicitation pieces). In that instance, the ISO uniformly applied its cost methodology to all sponsors to ensure consistent treatment of all project sponsors. With respect to any comparison of project costs with and without incentives, the CAISO notes that the example provided by Brookfield would not occur. Brookfield poses an example where one sponsor has a single project cost, and another project sponsor has a single project cost with incentives and a single project cost without incentives, which cost levels would "surround" the first sponsor's cost level. If the second project sponsor does not make a binding commitment to forego rate incentives, the ISO will treat the project sponsor's proposal as permitting all incentives. If such sponsor makes a binding commitment to forgo incentives, the ISO will recognize that binding commitment for purposes of its comparative evaluation. The ISO treats the second sponsor as having only one proposal in these circumstances, not two.

5.5.7 Draft final Proposal

TransCanyon requests that the ISO assign relative weightings to the key selection criteria. Specifically, TransCanyon requests that the ISO assign specific points or percentage values to the key selection factors and any other factors it considers relevant with respect to a particular project. TransCanyon states that this will allow project sponsors to better tailor their proposals to the specific priorities of the project and prioritize their resources to meet those needs.

As the ISO has indicated previously, weighting and formulaic scoring is beyond the scope of this initiative. The fact that the ISO has already identified certain factors as key factors should provide guidance to project sponsors regarding the importance of addressing these factors. Assigning points or weights is not necessary to convey that message. In response to stakeholder feedback, the ISO also has been indicating why the key selection factors are important for each project. The ISO has discussed herein and elsewhere why it does not support weighting and formulaic scoring approaches.

5.6 Project-specific weighting and scoring methodology

5.6.1 March 13 stakeholder comments

CPUC Staff – CPUC staff suggested that more specific ex ante disclosure of how bids will be evaluated is needed, including weighting of selection criteria.

LS Power – LS Power suggested that clarification is needed on key selection criteria and how they will be weighed against each other (i.e., at the beginning of the process the ISO should clarify how much weight it will give to each key selection criteria).

Trans Bay – Trans Bay believes that without a scoring process, applicants are unable to know which criteria will be given more or less weight, and that it should be discernible how much weight each criterion was given. Trans Bay argued that it is unclear whether one proposal being "slightly better" than another provided that project sponsor with a higher overall score than another sponsor in any particular category. Trans Bay further believes that the ISO should give minimal, if any, weight to the qualification criteria such as company size, California-specific experience, and that once a sponsor is determined to be qualified to develop, permit and construct the relevant project, the ISO should give very little, if any, weight to rights-of-way acquisition experience in California.

PG&E – PG&E believes that the project sponsor selection process should not be overly prescriptive, that the ISO should refrain from quantitative analysis and should instead retain the flexibility for qualitative engineering judgment, and that subtle differences between project sponsor proposals could be lost by forcing all bid scoring into a numeric rating system.

5.6.2 October 7 ISO response

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 indicated it 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 invited stakeholders to submit specific proposals for achieving these objectives through this initiative.

5.6.3 October 28 stakeholder comments

CPUC Staff – At a minimum, project-specific key selection criteria should be identified and selection should be clearly driven largely by those criteria. Those criteria should be applied objectively and transparently, and selection should not be determined by bidder differences that do not have (either obviously or as demonstrated) a meaningful impact on key outcomes such as costs and ability to complete on time. While overly rigid scoring of criteria could "embed a level of arbitrariness", so cold qualitative rankings such as "slightly better than", especially if there is ambiguity regarding how "better" is measured or regarding how "better" meaningfully impacts key outcomes such as costs and ability to complete on time. The burden should be on the ISO to demonstrate that such non-quantitative differences (and, where not obvious, quantitative difference) meaningfully impact key outcomes such as costs and risk of not completing on time. Use of an independent evaluator for large projects could support or partly substitute for such a demonstration.

ITC – ITC understands that the ISO does not want to re-litigate whether it should have a scoring methodology to apply to select projects in order to preserve the flexibility that the ISO believes it needs. ITC would prefer for the ISO to have a scoring methodology set out in its tariff, as SPP has done.[26] 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.

---

[26] 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.

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.

PG&E – PG&E believes the improved clarity and detail provided by the ISO through the key selection criteria in recent project solicitations (like Delaney-Colorado River) greatly helps potential project sponsors to understand important project elements and drivers. PG&E recommends this issue as presented be removed from further process improvement discussion.

Six Cities – The Six Cities are open to consideration of measures that would improve transparency in the selection process. While not fundamentally opposed to a numerical scoring system, the Six Cities are unpersuaded that numerical scoring alone will provide more transparency in the evaluation process as compared with written analyses of different factors that were accorded more or less weight.

One area in which transparency may be improved is, as discussed above, with respect to the incentives that prospective project sponsors intend to request. The Six Cities believe that any incentives a developer may seek should be factored into the selection process, so that the ISO is working with complete and accurate cost information as it assesses sponsors' proposals.

SCE – Please see SCE's comments directly above.

Also, SCE does not agree with Trans Bay Cable's suggestion that the ISO should discount criteria such as company size, California-specific experience and ability to acquire rights-of-way in California. Factors such as these can demonstrate a potential project sponsor's unique qualifications to develop a transmission project in ways that benefit ratepayers.

Trans Bay – Although the ISO "will not consider issues such as weighting, scoring, and mathematical formulas for selecting project sponsors," Trans Bay reiterates its position and agrees with other parties in prior comments to the ISO on this issue. Trans Bay encourages the ISO to reconsider its position, either in this current initiative or alternatively in a separate initiative in the near term. The ISO repeatedly cites FERC's decision that found the ISO's approach to be a reasonable framework for selecting project sponsors. The ISO's TPP competitive solicitation process evaluation and selection framework was developed *prior to* the ISO actually conducting a solicitation. Now, after two years and with real-life experience with the solicitation process, it is appropriate and important to re-examine the framework and entertain proposals for a more objective weighting and scoring methodology for each project. A scoring methodology is standard for most commercial RFPs, and especially ones of the size and scope involved in the Competitive Solicitation Process.

Without a scoring process, participants and the public cannot know which criteria are given more or less weight, other than the ISO's representations of the "key selection criteria," and after-the-fact reporting in the Selection Reports.

The ISO has asked for other proposals in lieu of weighting and scoring. Trans Bay has proposed the use of an independent evaluator, and believes that improvement to the process would be a good start. But we are unaware of other creative processes for running an RFP that would be superior to providing objective weights and scores to proposals so that all stakeholders can be clear about how a selection decision was made. Trans Bay believes that it would be appropriate to give different weights to different factors depending on the project (e.g., for larger projects greater than $1 billion financial capability might be more important than for a $50 million project, or permitting experience of the project sponsor AND their consultants might be more important if there is a very difficult route involved in the project). Trans Bay believes that an independent evaluator could help to make these assessments.

TransCanyon – See TransCanyon's comments on the "Evaluation of Selection Criteria".

5.6.4 Straw proposal

As the ISO indicated in its October 7, 2014 Issue Paper, this initiative is not intended to consider issues pertaining to weighting, scoring, and formulas for selecting project sponsors. The ISO has not reconsidered that determination or the scope of this initiative and continues to believe that an approach that allows for flexibility enables a more holistic review based on the information provided by project sponsors without embedding a level of arbitrariness into the process. As indicated above, the ISO will strive to improve the clarity and detail provided in the decisional reports and seek to better explain the differences between applicants and their relevance in the decision, while respecting confidentiality concerns to the extent practicable.

The ISO notes that FERC has ruled in numerous orders that cost and schedule are not the sole drivers in selecting an approved project sponsor. FERC has recognized the importance of other project sponsor capabilities. The ISO encourages project sponsors to include as much detail and documentation as possible in their applications to support their satisfaction of the applicable criteria, responses to questions in the applications, and support for their identified costs. To the extent stakeholders believe that there are additional questions the ISO can ask in the project sponsor application or specific information/documentation the CAISO should require project sponsors to provide to identify specific cost or other benefits associated with their proposals, the ISO requests stakeholders to identify such information in their comments. The ISO will be including the additional information identified by Six Cities.

5.6.5 Straw Proposal Stakeholder Comments June 30, 2015

Stakeholder	Position	Additional Comments
Brookfield	Provided comments	Project selection report needs to be detailed, comprehensive, clearly understood and clearly reasonable.
Citizens Energy	No comments	
LS Power	Does not support straw proposal	Continues to support a weighting methodology
PG&E	Supports the straw proposal	
SCE	Supports the straw proposal	
Six Cities	No comments	
Trans Bay Cable	Does not support straw proposal	Supports a scoring methodology
TransCanyon	No comments	

5.6.6 Revised Straw Proposal

As indicated in the issue paper and the straw proposal, the issue of weighting and formulaic scoring is beyond the scope of this initiative.

5.6.7 Draft final Proposal

Issues pertaining to weighting and formulaic scoring are beyond the scope of this initiative.

5.7 Obligation regarding the transfer of assets

The ISO included a discussion of this topic in the October 14 stakeholder web conference and invited stakeholders to comment on the issue, which was raised outside of the March 13-October 7 stakeholder process.

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 contended 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 believed 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.[27]

Following the October 14 web conference, the ISO invited stakeholders to comment on this issue within this stakeholder initiative. In particular the ISO asked 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?

5.7.1 October 28 stakeholder comments

CPUC Staff – CPUC Staff believe that as a general principle it is desirable to provide for transfer of assets following abandonment, at the discretion of the alternative (new) project sponsor. At this time we do not comment on how this should be arranged, such as regarding language in the approved project sponsor agreement, or regarding compensation or other protections for the original sponsor.

ITC – ITC responds 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.

LS Power – LS Power does not believe that there should be a Tariff or contractual *obligation* for a selected project sponsor to transfer assets if the sponsor will no longer be building the project, for whatever reason. As an initial matter, the project sponsor that will no longer be developing the project already has strong incentive to transfer the assets as it is likely the assets have limited value outside their use for the project at issue. Further, to the extent that the initial project sponsor has any abandonment claims at FERC, it has incentive to transfer the assets to reduce any ratepayer impact regarding the loss of the project. In addition, such an obligation could interfere with the project sponsor's third-party agreements, including financing arrangements, joint venture arrangements or other project development agreements that deal with the allocation of assets upon termination of the project sponsorship.

Imposing an obligation to transfer assets also creates a number of issues for the ISO. If such an obligation were imposed, ISO would have to define in the Tariff or APSA, exactly what "assets" would be covered by the provision. In addition, because only the approved project sponsor and the ISO are signatories to the APSA, a requirement to transfer assets would create third party beneficiaries to the APSA (i.e., the prospective substitute project

[27] On November 7, 2014, FERC issued its order conditionally accepting the ISO's proposed *pro forma* APSA, effective November 10, 2014, subject to a compliance filing.

developer) in direct violation to the language of the APSA that says there are no third-party beneficiaries to the APSA. Finally, if there is to be an obligation to transfer assets there must be a corresponding obligation on the prospective transmission developer to purchase those assets. Without a corresponding obligation to purchase, the obligation to transfer would create a highly unequal bargaining position.

Finally, LS Power does not believe that an obligation to transfer will be approved by the Commission. The Commission has been, appropriately, reluctant to mandate actions on private parties regarding the management of their assets. FERC's manner of dealing with such issues is through the prudence process.

LS Power does not believe any additional tariff language or language in the Approved Project Sponsor Agreement is needed on this topic.

PG&E – PG&E agrees this is an issue requiring further discussion and would like to see a more detailed proposal to provide more substantive comments.

Six Cities – The Six Cities see no justification for a project sponsor that is incapable of completing a project to retain a continued interest in project assets if the new project sponsor is capable of utilizing some or all of the original sponsor's assets. Failure to transfer assets to a new project sponsor at just and reasonable, cost-based prices would harm ratepayers by potentially requiring the new project sponsor to start over with planning and construction activities or otherwise delay completion of the project, thus resulting in increased costs. A project sponsor that fails to finish a project should forego recovery of and should be required to refund to ratepayers or deduct from the transfer price any amounts associated with incentive ROE adders that were previously collected. Moreover, if a project sponsor has been authorized to collect any portion of its abandoned plant costs, then its recovery of abandonment costs should be deducted from any compensation it receives from the new project sponsor for the transferred assets.

SCE – In its comments to FERC on ISO's pro forma APSA, SCE commented that the APSA does not sufficiently address what happens to the project assets if and when the project is abandoned. The APSA only contemplates that the Project Sponsor will transfer responsibility to the alternate Project Sponsor and says nothing about rights. SCE is concerned that retention of rights by a failed Project Sponsor gives the failed Project Sponsor leverage that could compromise timely and cost-effective transfer of the project to the backstop or alternative Project Sponsor. SCE has proposed that a Project Sponsor that abandons the project should be under an obligation to transfer assets to the successor Project Sponsor, such that ratepayers and system reliability are not unduly disadvantaged as the result of the abandonment.

SCE acknowledges, however, the concerns raised by LS Power that projects must be ultimately financeable and that the needs of project backers and lenders must be acknowledged in modern financial transactions. As such, SCE recommends that ISO begin a stakeholder process aimed at creating a process that assures the rights and interests of all impacted parties, in the event of Project Sponsor abandonment, are adequately protected.

Trans Bay - Trans Bay believes that prior to including a transfer provision in the APSA, the ISO should conduct a more in-depth stakeholder process. While Trans Bay understands the issue, it has some concerns about any broad requirement to transfer one entity's assets to another. Trans Bay does not believe this is a simple matter, and there are various issues to be worked through to ensure that there is a proper balance between allowing the chosen project sponsor to complete its project with the cooperation of the relevant IOUs and ensuring that the IOUs have the ability complete a project where it is truly abandoned. Additionally, as noted above, there are several options for setting a fair purchase price for any assets transferred; therefore, Trans Bay believes stakeholders should have an opportunity to comment on one or more specific proposals with regard to the purchase price of such assets. Since all of the current projects have been awarded to incumbent utilities or their subsidiaries, a short delay to conduct an open stakeholder process regarding this issue should not have an impact on the efficacy of such a provision at a later time, if the ISO ultimately determines such a provision is required.

TransCanyon – In the event the original project sponsor abandons a needed project, TransCanyon agrees that there should be a requirement to transfer assets to the new project sponsor, but only if the new project sponsor indicates a need for those assets. This should be done with the requirement that the original project sponsor be fairly compensated for the assets that are transferred.

The determination of what constitutes fair compensation under this circumstance should involve communication and coordination among the ISO, the original project sponsor and the new project sponsor. TransCanyon would support a stakeholder process to determine the details on how the original sponsor should be compensated. This should include a process for any dispute resolution among the parties.

5.7.2 Straw proposal

Section 24.6.4 of the ISO tariff and Article 5.8 of the APSA allows the ISO to terminate the APSA and the Approved Project Sponsor is required to work with the ISO and alternative Project Sponsor to transfer the project responsibilities. Comments received were split on whether the Approved Project Sponsor should have a requirement or obligation to transfer the assets to the alternative Project Sponsor. Moreover, a number of stakeholders suggested that a proposal needs to be developed to have a more informed discussion.

To that end, the ISO proposes that if the alternative Project Sponsor desires the Project assets, the Approved Project Sponsor shall negotiate in good faith with the alternative Project Sponsor to transfer such Project assets. The ISO does not believe that the Approved Project Sponsor should be obligated to transfer Project assets absent 1) determination by the alternative Project Sponsor that the assets are desired to continue the Project; and 2) fair compensation for the assets. However, the ISO is not in a position to determine what the “fair compensation” should be.

5.7.3 Straw Proposal Stakeholder Comments June 30, 2015

Stakeholder	Position	Additional Comments
Brookfield	Oppose	ISO should not force the negotiation because it is a regulatory issue
Citizens Energy	No comment	
LS Power	Support	
PG&E	Support with qualifications	Wants a more in-depth stakeholder process to address a specific proposal for “fair compensation”
SCE	Support with qualifications	Fair compensation should not exceed net book value, and revised section 25.5 of the APSA to give third party beneficiary rights to the replacement project sponsor to enforce the transfer of assets.
Six Cities	Support with qualifications	The abandoning project sponsor should forego recovery of, or refund, any ROE adders collected, and deduct any abandoned plant costs.
Trans Bay Cable	No comment	
TransCanyon	Support	

5.7.4 Revised Straw Proposal

The ISO sees merit in further defining the “fair compensation” standard and agrees with SCE and Six Cities that the cost to acquire the abandoned facilities should not be greater than the FERC approved cost for the facilities. Under FERC’s cost-of-service rate making, a just and reasonable rate that is cost-justified can include transmission rate incentives or return on equity based on the risks and challenges of a project, construction work in progress, pre-commercial cost recovery, and abandoned plant cost recovery. Thus the Approved Project Sponsor that is transferring assets to an alternative project sponsor should do so at the cost of the asset, or the net book value is the Approved Project Sponsor is already depreciating the asset.

Based on concerns raised, the ISO concurs that absent this additional clarification there may be an incentive for the Approved Project Sponsor, as an example, to procure equipment and then abandon the project if it can make a profit on the equipment sale. Yet the ISO is dependent on the various competitive transmission solicitation projects and their developers to meet the timelines identified in the APSA, which in turn met the policies of California and the reliability of the grid. Therefore, the ISO proposes to include in the APSA language establishing the obligation to transfer assets if the alternative Project Sponsor needs them at the cost of the asset.

SCE requested that the ISO add to section 25.5 of the APS a third party beneficiary right that would allow the alternative Project Sponsor to invoke the obligation that the transfer cost should not be greater than the net book value of the of the assets being transferred. The ISO disagrees. Given the competitive solicitation process and the APSA construct, it would be the ISO that would enforce the right to transfer the asset to the alternative Project Sponsor at the cost of service.

5.7.5 Revised Straw Proposal Stakeholder Comments September 15, 2015

Stakeholder	Position	Additional Comments
LS Power	No comment	
NEET West	Supports	
PG&E	Supports	
SCE	Supports	
Six Cities	Supports with addition	The cost of the abandoned facility should not include amounts associated with incentive adders to a developer's return on equity.
TransCanyon	Opposes	The transfer of assets should be market based and while cost or net book value is a good starting point, ultimately CAISO should not impose a particular outcome on commercial transactions.

5.7.6 Draft final proposal

Although the ISO agrees with Six Cities that a developer that is abandoning the project should only be compensated for the cost of the abandoned facility without any incentive adders approved by FERC, this is a FERC rate issue that FERC will need to determine. In addition, Six Cites requested that the Approved Project Sponsor be required to notify the ISO and Participating TOs of all FERC filings submitted for the project. The ISO agrees with this change. The ISO notes that the Transmission Control Agreement, which is not yet executed by the approved project sponsor, has a similar requirement. Accordingly, ISO proposes to amend the Approved Project Sponsor Agreement to incorporate this notification requirement. However, the ISO disagrees that an approved project sponsor's FERC filings should be posted under the ISO's recent documents because they are not

ISO documents. The ISO also disagrees that the ISO should issue a market notice when filings are made by the approved project sponsor. The ISO does not issue market notices for any of its filings and is not in a position to track all filings by other entities.

TransCanyon believes that a cost or net book value approach could be a good starting point for negotiations, but ultimately the ISO should not seek to use this process to impose a particular outcome on commercial transactions that may be otherwise negotiated under perfectly acceptable circumstances. Two fundamental underpinnings of the competitive transmission solicitation process and the Approved Project Sponsor Agreement are as follows. : First, FERC typically approves transmission rates on a cost-of-service basis with specific adders to incent development, not on market-based rates. Second, the Approved Project Sponsor Agreement is a two-party agreement between the ISO and the approved project sponsor, and a project sponsor applicant will be aware of this requirement prior to submitting an application. It is a reasonable condition applicable to entities voluntarily electing to participate in the competitive solicitation process. The ISO is also the entity that determines if an alternative project sponsor is required. Thus, the ISO will be involved in any negotiations regarding the cost of transferred assets. Third, the project is needed by the ISO and will have been awarded based on the representations of the approved project sponsor. Particularly with respect to reliability projects, the ISO should not be held hostage by an approved project sponsor that holds out for a higher price knowing that the ISO needs the project to be in service by a certain date to avoid reliability standard violations. The proposal facilitates timely completion of the needed project.

5.8 Cost estimate standard

This is a new issue and was raised by PG&E in their October 28 written comments.

5.8.1 October 28 stakeholder comments

PG&E – PG&E believes that the cost estimate framework used in the current selection process is acceptable, but would like to provide the following suggestion as a means to facilitate the comparative analysis between project sponsor application proposals. The ISO could better define the detail and quality required in the project cost estimate by establishing criteria that the cost estimate conform to an industry best practice such as the Association for the Advancement of Cost Engineering, International (AACE I) Estimate Model. Adopting such a practice could improve the efficiency of the solicitation process because cost estimate accuracy would be clearly defined and ensure that uniform practices are followed in developing a cost estimate buildup.

The benefits of implementing such a measure may include:

1. Setting clear expectations to prospective bidders for level of accuracy and establishing the minimum level of detail required.

2. Improving communication between ISO and bidders involved with preparing, evaluating and using project cost estimates through the use of common methodologies and practices.
3. Enabling better tracking and monitoring of estimate accuracy as a project progresses beyond solicitation and into execution.

PG&E does not have a specific recommendation of how the ISO may implement such a measure, but would like to introduce topic for consideration and discussion at this time.

5.8.2 Straw proposal

The ISO concurs that it is important that a minimum level of detail is required when applicant project sponsors submit cost estimates for competitively solicited projects. For this reason, the ISO plans to update the project sponsor application such that sponsors have a better understanding of the amount of detail required by the ISO. Further, the ISO will provide more clarity on the identification and disclosure of the project sponsor assumptions used in the preparation of the various cost estimates. The ISO is targeting posting the revised project sponsor application prior to the next cycle of competitive solicitation.

5.8.3 Straw Proposal Stakeholder Comments June 30, 2015

Stakeholder	Position	Additional Comments
Brookfield	None stated	Does not support mandating adoption of an industry best practice standard as proposed by PG&E.
Citizens Energy	No comment	
LS Power	Supports the straw proposal	Clarity on sponsor cost assumptions will be helpful.
PG&E	Supports the straw proposal	Recommends adoption of an industry best practice such as Association for the Advancement of Cost Engineering International estimate model (AACEI)
SCE	Supports the straw proposal	
Six Cities	Supports the straw proposal	
Trans Bay Cable	No comment	
TransCanyon	Supports the straw proposal	Having a minimum and standard level of detail will help the CAISO directly compare proposals.

5.8.4 Revised Straw Proposal

All of the stakeholders submitting definitive comments on this topic were either in agreement with the straw proposal or had no comment. The ISO will not make any changes to the straw proposal.

5.8.5 Draft final Proposal

There has been no change to the initial straw proposal for the financial comparison process. Further, there was no additional stakeholder input. Therefore, the ISO considers this issue closed.

5.9 Pre-qualification outside of bidding schedule

This is a new issue raised by PG&E in their October 28 written comments.

5.9.1 October 28 stakeholder comments

PG&E – As a means to improve the efficiency of the competitive solicitation process, PG&E proposes that the ISO adopt a practice of pre-qualifying bidders prior to opening the solicitation bidding window. The current process requires that bidders submit and the ISO evaluate repetitive information for multiple project applications within the same sequence and potentially multiple projects in sequential sequences. Such repetition is neither an efficient use of resources nor beneficial to rate paying customers. By pre-qualifying bidders, the overall timeline and cost from solicitation start to final sponsor selection could be reduced.

Drawing examples from other ISO's such as MISO and SPP, in advance of a project solicitation, prospective bidders could submit non-project specific engineering experience, environmental experience, operations/maintenance, and financial information. Following SPP's model, qualification status could extend for up to 5 years subject to an annual recertification to ensure that information is current.

5.9.2 Straw proposal

The prequalification issue was addressed during the FERC Order No. 1000 stakeholder process. Pre-qualification is only supported by a single commenter. The ISO does not believe there are changed circumstances that warrant the ISO modifying the existing FERC-approved qualification process. The ISO continues to favor an approach that allows for flexibility and does not believe that pre-qualifying project applicants will provide a benefit to the current competitive solicitation process. The ISO has identified a variety of differing projects to meet identified transmission system objectives and requirements. These projects include new transmission lines, bulk electric system substations and transmission system voltage support elements. The construction, maintenance and operation requirements for each of these transmission solutions poses a unique set of challenges that requires different skill sets and varying levels of capital exposure. The ISO evaluates each proposed sponsor's application based on the scope and capital requirements with respect to the specific transmission solution identified during the competitive solicitation process. The ISO believes that evaluating all project sponsors based on generic requirements adds significant levels of complexity and does not add value to the current competitive solicitation process. In addition, a pre-qualification process has the potential to limit the applicant pool because proposal acceptance would be contingent on the pre-approval process.

5.9.3 Straw Proposal Stakeholder Comments June 30, 2015

Stakeholder	Position	Additional Comments
Brookfield	Supports the straw proposal	The current methodology appears to be working and there is no benefit to adding layers of administration and cost to the process
Citizens Energy	No comment	
LS Power	Does not support the straw proposal	LS Power agrees with PG&E that a pre-qualification process could be more efficient for CAISO and bidders; however it recognizes that the current process has the benefit of requiring qualifications to be customized for each specific project
PG&E	Does not support the straw proposal	PG&E believes that such a measure would further improve efficiency and transparency of the process, especially when combined with other suggested process improvements
SCE	Supports the straw proposal	SCE concurs with the CAISO position
Six Cities	Supports the straw proposal	The Six Cities do not, at this time, support adoption of a pre-qualification process for the reasons stated in the Straw Proposal, including the administrative burden and cost of pre-qualifying a large number of prospective project sponsors that may not end up participating
Trans Bay Cable	No comment	
TransCanyon	Supports the straw proposal	

5.9.4 Revised Straw Proposal

Four of the six stakeholders submitting definitive comments on this topic were in agreement with the straw proposal. PG&E noted that it believes pre-qualification, when combined with other suggested process improvements, would further improve the efficiency and transparency of the process. LS Power agreed with PG&E, and it noted the benefits of not prequalifying project applicants.

The ISO continues to favor an approach that allows for flexibility and does not believe that pre-qualifying project applicants will provide a benefit to the current competitive solicitation process. Therefore, no changes will be made to the straw proposal.

5.9.5 Draft final Proposal

There has been no change since the initial straw proposal. Further, there was no additional stakeholder input. Therefore, the ISO considers the issue closed.

6 Next steps

As a next step, the ISO invites stakeholders to submit comments on the ISO's draft final proposal on the topic discussed in section 5 above or where the ISO has proposed specific revisions to the straw proposal. Comments are due October 26 and should be submitted to InitiativeComments@caiso.com.

Following review and evaluation of the comments received, the ISO will consider potential revisions to its proposal. No further rounds of stakeholder engagement are planned for this initiative. To the extent that any of its proposals require tariff amendments, the ISO is targeting the December meeting of the ISO Board of Governors to seek approval for such changes.