**BEFORE THE**
**UNITED STATES OF AMERICA**
**FEDERAL ENERGY REGULATORY COMMISSION**

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| Competitive Transmission Development<br>Technical Conference | )<br>) | Docket No. AD16-18-000 |

**POST-TECHNICAL CONFERNCE COMMENTS OF**
**THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

Pursuant to the Federal Energy Regulatory Commission's August 3, 2016 Notice, the California Independent System Operator Corporation ("CAISO") submits it post-technical conference comments. The CAISO requests that any action the Commission takes on the issues addressed in this proceeding be consistent with the discussion in these comments.

The CAISO undertakes a collaborative transmission planning process to identify the "more efficient or cost effective" solution to meet identified needs. For all regional transmission solutions in the annual transmission plan that are not upgrades to existing transmission facilities the CAISO conducts a competitive solicitation -- open to all interested entities -- to select an approved project sponsor to construct and own the solution. The CAISO has conducted nine competitive solicitations. There is a clear trend toward project sponsors proposing binding cost containment measures, and such measures are becoming more robust and creative.

The CAISO respectfully requests that, in addressing the issues in this proceeding, the Commission allow regions to build on successes with their existing competitive transmission processes. The CAISO urges the Commission to forbear from directing changes to existing transmission planning and competitive solicitation processes that are working effectively, identifying the "more efficient or cost-effective" solutions, spurring competition and cost containment, and promoting the goals of Order No. 1000. Rather, the Commission should allow planning regions to work with their stakeholders to assess "lessons learned" and identify appropriate process enhancements. The CAISO already conducts "lessons learned" reviews after each cycle of competitive solicitations and has sought to continually improve its competitive solicitations and make them more transparent.

Based on the CAISO's experience conducting competitive solicitations, the CAISO recommends that the Commission not establish any new requirements based on simplistic assumptions or direct regions to adopt formulas to select approved project sponsors. Nor should the Commission take actions (*e.g.*, requiring the use of pre-determined weights) that would embed a level of arbitrariness into the selection process or focus selection decisions on a single criterion that could lead to inappropriate results.

It might be beneficial for the Commission to provide narrow, targeted guidance to planning regions regarding their evaluation of individual cost items such as return on equity and rate incentives. Further, the CAISO requests that the Commission adopt a formal policy finding that the binding cost containment measures of **all** project sponsors, not just the winner, are not confidential and, as such, can be fully disclosed in selection reports documenting the results of competitive solicitations. This will provide greater transparency into the selection process.

The CAISO also stresses that planning regions are still in the early stages of implementing Order No. 1000, and there are a lot of lessons to be learned. The CAISO had somewhat of a head start because it implemented a competitive solicitation process shortly before the Commission issued Order No. 1000. The CAISO has learned greatly from the nine competitive solicitations it has conducted. Other planning regions have not yet had that opportunity.

Further, the CAISO's and the other western regions' interregional transmission planning tariff provisions did not become effective until October 2015, and the first group of interregional projects were not submitted to the western planning regions until March 31, 2016. The western planning regions are still in the first year of a two year cycle for evaluating interregional project proposals. There is insufficient experience with the interregional planning process to evaluate how they are working, whether they will succeed, and what modifications might be needed. At a minimum, the Commission should allow these processes to run at least one cycle before undertaking any "lessons learned" evaluation or considering process modifications. It is premature to mandate drastic modifications to Order No. 1000 and planning regions' competitive transmission planning processes, both regional and interregional.

**PANEL ONE: COST CONTAINMENT PROVISIONS IN COMPETITIVE TRANSMISSION DEVELOPMENT**

**<u>Question #1</u>: How do utility transmission providers in regions compare proposals with and without cost containment provisions for transmission facilities eligible to be selected in a regional transmission plan for purposes of cost allocation? Please provide examples. What, if any, guidance should the Commission provide with respect to the comparison of proposals with and without cost containment provisions?**

As the CAISO indicated at the technical conference, there is a clear trend toward project sponsors proposing some form of binding cost containment measures in CAISO competitive solicitations. In the last two competitive solicitations, eight of nine project sponsors proposed construction cost caps. In the last competitive solicitation, all of the project sponsors proposed to cap their return on equity for the life of the project. The CAISO expects that, going forward, it will see few, if any, proposals without construction cost caps or comparable cost containment measures; although, there will likely be uncapped individual cost elements.

Even though the CAISO does not expect to be comparing capped and uncapped construction cost bids in future competitive solicitations, it is providing two examples of how it previously compared proposals with and without construction cost caps. In one instance, the CAISO selected a proposal without a construction cost cap; in the other instance, the CAISO selected the proposal with a construction cost cap. Because the focus of the question is on comparing proposals with and without cost containment measures, the CAISO only discusses its comparative analysis regarding cost-related considerations, not non-cost factors.

### A. How the CAISO Has Compared Capped and Uncapped Proposals

As an initial matter, the CAISO's project sponsor selection reports discuss the following factors that the CAISO considers in assessing project sponsors' cost containment capabilities: (1) binding cost containment measures (including cost caps and cost cap increase conditions); (2) the existence of tangible features of a project proposal that might inherently or materially affect project cost (*i.e.*, making it inherently more or less costly); (3) operation and maintenance ("O&M") cost containment; (4) cost containment for past projects; (5) project management capabilities; and (6) project risks and mitigation of risks.[1] Below, the CAISO discusses two competitive solicitations where it assessed these factors in comparing a proposal with a construction cost cap to proposals without a construction cost cap.

#### 1. The Sycamore-Penasquitos Competitive Solicitation

In the competitive solicitation for the Sycamore-Penasquitos project -- a 230 kV line between two existing sub-stations, one project sponsor proposed a construction cost cap; the other three project sponsors, including the approved project sponsor, did not. The proposed construction cost cap was very high[2], particularly when compared to the CAISO's planning cost estimate for an

[1] *See, e.g.,* Harry Allen-Eldorado 500 kV Project Sponsor Selection Report at 85-87 (Jan. 11, 2016). This report can be found at: http://www.caiso.com/Documents/HarryAllentoEldoradoTransmissionLine-ProjectSponsorSelectionReport.pdf.

[2] The proposed construction cost cap was higher than the project sponsor's cost estimate plus contingency.

overhead line.[3] The binding construction cost cap only applied to costs that the project sponsor could control.[4] The proposed cap also allowed for adjustment for certain cost increases above estimated amounts for rights-of-way, environmental licenses, inflation increases, and financial market increases in the cost of money. The proposed cost cap also could be adjusted if the period to obtain certain licenses extended beyond the expected period.

Two project sponsors, including the approved project sponsor, proposed lines that were primarily overhead; one project sponsor proposed an entirely underground line, and the project sponsor that proposed a construction cost cap proposed to underground most of the line.[5] The approved project sponsor that had proposed a primarily overhead line had existing rate-based rights-of-way and franchise rights for almost the entire length of the line. The approved project sponsor also proposed to use existing overhead towers for a portion of the line and to reconductor existing conductors on these towers. For the remainder of the overhead portion of the line, the approved project sponsor proposed to replace existing wood structures with new steel structures.

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[3] The CAISO developed a planning cost estimate for the project during the transmission planning process and included it in the project's functional specification that the CAISO posted before commencing the competitive solicitation. *See* Sycamore-Penasquitos 230 kV Line Description and Functional Specifications Eligible for Competitive Solicitation, April 1, 2013.

[4] *See* Sycamore-Penasquitos Project Sponsor Selection Report at 51, 54-55 (March 4, 2014). This report can be found at: [http://www.caiso.com/Documents/Sycamore-PenasquitosProjectSponsorSelectionReport.pdf](http://www.caiso.com/Documents/Sycamore-PenasquitosProjectSponsorSelectionReport.pdf).

[5] The competitive solicitation allowed project sponsors to propose either an overhead solution or an underground transmission solution, or a combination of the two, as long as the proposed solution met the identified need. The lower cost, overhead option reasonably comported with state policy favoring the use of existing rights-of-way and transmission infrastructure, but the siting agency -- in this case the California Public Utilities Commission -- ultimately determines on a case-by-case basis which alternative gets built. When the CAISO approves a particular solution, there is no certainty that the siting authority will approve that solution.

The CAISO concluded that the approved project sponsor -- who proposed a primarily overhead line and was relying on existing rate-based rights-of-way and tower positions -- presented the strongest proposal from a cost perspective. First, the following features of the proposal led the CAISO to conclude there was a reasonable basis to expect that the proposal would cost less than the other alternatives:  using existing rate-based rights-of-way and tower positions; relying on reconductoring for a portion of the line; and constructing an overhead line, which is less costly than undergrounding a line.[6]  Second, the cap level of the one proposal with a construction cost cap was high, reflecting both headroom above the project sponsor's estimated cost plus contingency and that the project sponsor was proposing to underground most of the line, which would be expected to cost more than overhead construction.[7]  Also, that project sponsor would face costs that the approved project sponsor was not expected to face: in particular costs associated with new rights-of-way.

Third, although the CAISO acknowledged that it "would ordinarily give great weight to a commitment by a project sponsor to a cap on its costs to develop the project, the qualifications to and open-ended nature of the cost cap that [the project sponsor] has proposed diminishes the value and any 'binding' effect of [the sponsor's] proposal and undermines the purpose of a binding, fixed cost cap commitment."[8]  The CAISO was particularly concerned that the list of

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[6] *Id.* at 52-55.  Another way of looking at this is that it reduces the project's incremental cost risk because the cost of these items is already reflected in rates.

[7] The CAISO found that the project sponsor who was proposing an entirely underground project posed the highest expected construction cost risk.

[8] Sycamore-Penasquitos Selection Report at 54.

costs that could be increased above the cap level was open-ended and thus did "not provide significant assurance of effective and binding cost containment that will not result in potential rate increases."[9]

Fourth, regarding operation and maintenance ("O&M") costs, the approved project sponsor was using its existing, local O&M infrastructure and staff for the project, resulting in many sunk costs; whereas, the sponsor proposing a construction cost cap was proposing to create a new entity with a new O&M infrastructure and O&M costs entirely incremental to the CAISO.[10]

Finally, the approved project sponsor provided a more thorough and comprehensive demonstration of cost containment capability including proposed project organization and management, its approach to risk management and risk mitigation, and the ability to deliver past projects of a similar nature within the final approved budget.[11] On the other hand, the project sponsor that had proposed an open-ended construction cost cap provided only a limited description of its approach to project management, risk mitigation, and cost containment.

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[9] *Id.*

[10] *Id*. at 52, 55.

[11] The CAISO indicated in the selection report that general cost containment capabilities of project sponsors are not as important as a sponsor's agreement to a robust, binding cost cap because the existence of demonstrated cost containment capability does not "lock-in any specific tangible cost containment caps or measures." Sycamore-Penasquitos Selection Report at 51-52. In this instance, the CAISO concluded, however, that it did not consider the one proposed cost cap to be a binding commitment to a fixed cap because the project sponsor would not be situated any differently than other project sponsors if cost increases beyond its control were to occur. *Id.* at 55.

### 2. Estrella Substation Competitive Solicitation

The second example that may assist the Commission in considering these issues is the competitive solicitation the CAISO conducted for the Estrella sub-station project. The overall project included transmission components subject to competitive solicitation and transmission components not subject to competitive solicitation. The costs of both components would be included in transmission customers' rates.[12]

Four project sponsors submitted applications. Only one project sponsor -- the approved project sponsor -- proposed a construction cost cap. The cap was subject to adjustment to reflect any scope changes directed by the CAISO, California Public Utilities Commission, or other regulatory body that impact project costs, and such changes could include changes in design, location, schedule, or other changes in the scope that formed the basis of the binding cost cap proposal.[13] The proposed cap was slightly above the approved project sponsor's cost estimate, plus contingency. The approved project sponsor also proposed to cap its O&M expenses for the first five years of operation. Another project sponsor committed (1) to cap its site lease costs, and (2) not seek any return of equity incentives for the project other than the customary 50 basis point

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[12] The non-competitive transmission facilities included, *inter alia,* facilities that would be constructed by the existing participating transmission owner to interconnect the new substation to two existing transmission lines. The non-competitive portion of the overall project also involved constructing low voltage transmission facilities at the new substation site.

[13] Estrella Substation Project Project Selection Report at 62 (March 11, 2015). This report can be found at: http://www.caiso.com/Documents/ProjectSponsorSelectionEstrellaFinalReport.pdf

adder for membership in an independent system operator or regional transmission organization. No other project sponsor committed to any binding cost containment measures.

The CAISO concluded that the approved project sponsor who proposed a construction cost cap (and a limited cap on O&M costs) presented the strongest proposal from a cost perspective. The proposed cap was robust when compared to the planning cost estimate for the overall project (*i.e.*, both the competitive and non-competitive components) that the CAISO developed during the transmission planning process and posted prior to commencing the competitive solicitation.[14] Also, the CAISO concluded that a cap on construction costs was superior to and more comprehensive than a cap only on lease costs, and site ownership was more beneficial than site leasing under the circumstances presented.[15]

The CAISO also assessed the risk that the cap adjustment provision might be triggered and whether any of the proposals had features that would make them inherently more, or less, costly to construct. The CAISO identified no material risks associated with the project or site likely to trigger a scope change adjustment to the proposed construction cost cap. Further, the CAISO's assessment revealed that none of the project proposals presented any inherent, material cost advantages (or disadvantages) related to constructing the competitive portion of the project based on physical project features or site conditions. Also, the CAISO identified no special construction techniques that

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[14] Estrella Substation Project Description and Functional Specifications for Competitive Solicitation, June 26, 2014. This document can be found at: http://www.caiso.com/Documents/Description-FunctionalSpecificationsEstrellaSubstation.pdf

[15] Estrella Substation Selection Report at 67-68.

would inherently or materially increase any sponsor's costs or pose a distinct cost escalation risk.[16] No project sponsor proposal had any features that would make it inherently more or less costly to construct compared to any other project sponsor's proposal.

A distinctive feature of this competitive solicitation was that a project sponsor's proposed site location would affect the costs of the non-competitively bid portion of the project because it would determine the scope of the facilities required to interconnect the new substation to two existing transmission lines. The approved project sponsor's proposed site was located closest to the two transmission lines, resulting in materially lower expected transmission interconnection costs compared to the other project sponsors' proposals.[17] These interconnection facilities to be built by the participating transmission owner

[16] *Id.* at 67. The CAISO notes that in a different competitive solicitation for a new substation, the CAISO found that the site selected by a project sponsor that had proposed a construction cost cap posed significant geographical and topographical issues that inherently and materially increased the expected cost and risk associated with the proposal. The proposed cap was high, particularly when viewed in the context of the planning cost estimate for the entire project (which had both competitive bidding and non-competitive bidding elements). The proposed site would have required special construction techniques, significant site preparation work, excavation, rock crushing, blasting, material removal, site stabilization, and a new access road. On the other hand, the approved project sponsor's proposed site was relatively flat, had good access roads, required minimal grading, had no known environmental conditions that might be problematic, and did not require any special construction techniques. The expected cost and risk differences between the two proposals led the CAISO to conclude that the uncapped proposal was better from a cost perspective. Spring Substation Project Project Sponsor Selection Report at 57-58 (March 11, 2015). This report can be found at: http://www.caiso.com/Documents/ProjectSponsorSelectionSpringFinalReport.pdf

[17] Under tariff section 24.5.4 (j), the CAISO examines the demonstrated cost containment ability of a project sponsor, including binding cost containment measures, for the project subject to competitive solicitation. The CAISO assessed the cost of constructing the portion of the project subject to competitive solicitation pursuant to tariff section 24.5.4 (j). Under tariff section 24.5.4(k), the CAISO considers "any other strengths and advantages the Project Sponsor and its team may have to build and own the specific transmission solution, as well as any specific efficiencies or benefits demonstrated in their proposal." For the Estrella project, the CAISO assessed the impact that the project sponsors' proposals would have on the costs of the non-competitive portion of the project pursuant to tariff section 24.5.4(k).

were not subject to competitive solicitation, but their costs would be borne by CAISO transmission ratepayers.[18] The CAISO could identify no specific aspects of the other project sponsors' sites or the anticipated interconnection facilities that would offset the comparative advantage of the approved project sponsor regarding interconnection costs.

Regarding O&M costs, one of the project sponsors was relying on its existing O&M organization and infrastructure to perform O&M services associated with the new substation, which gave the project sponsor an inherent advantage regarding O&M costs compared to the other three sponsors who were relying either on new organization/infrastructure or outside service providers – the costs of which were not already included in transmission rates.[19] The sponsor with an inherent O&M cost advantage did not propose to cap its O&M costs, and the CAISO concluded that any qualitative cost advantage resulting from uncapped O&M costs was not superior to the robust construction cost cap and materially lower interconnection costs associated with the approved project sponsor's proposal.[20] Likewise, the CAISO concluded that the benefits resulting from one sponsor's forbearance of a return on equity ("ROE") incentive were not superior to the benefits resulting from the approved project sponsor's robust construction cost cap, limited O&M cap, and significantly lower interconnection costs.[21]

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[18] Also, the transmission interconnection costs were not subject to the proposed construction cost cap.

[19] Estrella Substation Selection Report at 68.

[20] *Id.* at 77.

[21] *Id.* at 68, 77.

The final factor the CAISO assessed was the general cost containment and project management capabilities of the project sponsors. The CAISO could discern no material differences among the project sponsors regarding their general project management, risk mitigation, and cost containment capabilities and history in meeting budgets on prior projects.[22] Based on all of the foregoing, the CAISO concluded that the project sponsor that proposed the construction cost cap presented the strongest proposal from a cost perspective.

### 3. Summary of the Considerations Involved In Comparing Proposals With and Without Construction Cost Caps

As the prior examples indicate, in comparing the strength of a proposal with a construction cost cap to a proposal without a cap from a cost impact perspective, the CAISO primarily has focused on the following factors: (1) the robustness of the level of the proposed construction cost cap (including the amount of any contingency and additional headroom) compared to the CAISO's planning cost estimate for the project; (2) the number and scope of any "outs" or potential adjustments to the proposed cap, the risk that such "outs" or adjustments may be triggered, and the potential magnitude of the cost escalation impact if an "out" is triggered; and (3) specific, tangible features of a project proposal that make it inherently more or less costly than another project proposal and the potential magnitude of the cost advantage or disadvantage. The CAISO

22 *Id.* at 67.

does not rely on project sponsor cost estimates in making a decision.[23] The CAISO has stated in its selection reports that it

> considers commitment to a **robust binding** cost cap to be the most effective way in which the ISO can ensure that a project is developed in an efficient and cost-effective manner. A proposal that best satisfies this factor will contribute significantly to ensuring that the project sponsor selected will develop the project in an efficient and cost effective manner.[24]

Where cap levels are less robust or contain "outs," or where no project sponsor has proposed a cap, the existence of inherent cost advantages or disadvantages becomes more important. In addition, as seen in the Estrella substation competitive solicitation, where applicable, the CAISO must also consider the extent to which a project proposal impacts the costs of other transmission projects or provides other cost benefits or efficiencies. The CAISO also assesses the cost containment, risk mitigation, and project management capabilities of the sponsor, and the project sponsors' history in completing comparable projects within budget. However, as discussed above and stated in

[23] The CAISO has consistently stated since it first proposed to implement a competitive bidding process in 2010 that it does not base its decisions on project sponsor cost estimates because they are unreliable, not binding, and can be manipulated. Revised Transmission Planning Process Tariff Amendment, at 66, Docket No. ER10-1401 (June 4, 2010); CAISO Answer to Protests, at 95-96, Docket No. ER10-1401 (July 15, 2010); CAISO Order No. 1000 Compliance Filing, Docket No., ER13-103, at 62-63 (Oct. 11, 2012). Instead, in evaluating cost-related considerations, the CAISO bases its evaluation primarily on binding cost containment commitments and the tangible features of project proposals that can result in inherent cost advantages or disadvantages. This approach encourages and rewards robust cost containment proposals and demonstrable cost advantages, while avoiding reliance on speculative and unreliable project sponsor cost estimates. The Commission has recognized that the CAISO does not rely on project sponsors' cost estimates in making selection decisions. *California Independent System Operator Corporation,* 133 FERC ¶ 61,214, PP 214, 224 (2010).

[24] *See, e.g.*, Harry Allen-Eldorado Selection Report at 73 (emphasis added).

the CAISO selection reports, these considerations are not as important as the other factors identified above.[25]

### B. Guidance The Commission Can Provide Regarding Comparing Proposals With and Without Cost Containment

Although the CAISO expects to see few if any proposals without construction cost caps or comparable cost containment measures in future competitive solicitations, the CAISO does not believe it is appropriate for the Commission to adopt any hard-and-fast rules regarding comparing proposals with and without construction cost caps. The CAISO's experience shows it would be inappropriate to automatically favor a proposal with a construction cost cap over a proposal without a construction cost cap.

First, that approach would ignore important **non-cost** selection criteria and potentially result in problematic and inappropriate project sponsor selections.

Second, because cost containment proposals can vary significantly -- with varying cap levels, the number of items being capped, and the number and scope of the "outs" being proposed -- hardwiring simplistic rules or requirements directing a system planner to automatically favor projects with formal cost containment measures likely would cause adverse results for ratepayers in some circumstances. A cap with extensive headroom offers minimum value to ratepayers, and may not be superior to an uncapped proposal with features that

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[25] *See, e.g.,* Gates-Gregg Project Project Sponsor Selection Report, at 46 (Nov. 6, 2013). The report can be found at: http://www.caiso.com/Documents/Gates-GreggProject-ProjectSponsorSelectionReport.pdf

make it inherently less costly to construct. Caps with significant outs can unduly increase risk and potentially eviscerate the value of any cap.

Third, a cost-contained proposal can have features that cause it to be inherently more costly or present other cost escalation risks compared to an uncapped proposal with features that make it inherently less costly. A proposal with a cap well over the planning cost estimate because it primarily involves undergrounding a transmission line (when feasible overhead solutions exist) or relies on a route or site that presents added challenge and risks, or requires special construction techniques, can be expected to cost more than a proposal that includes overhead construction options, utilizes existing rights-of-way, tower positions, or materials on hand, or has more favorable site/route locations and conditions.

Fourth, a proposal with a construction cost cap could rely on lower quality materials that increase losses and potentially increases future O&M costs.

Fifth, compared to other proposals and depending on its specific features, a proposal with a construction cost cap could present a greater risk of cost escalation regarding uncapped cost elements (*e.g.*, O&M, debt cost, rate incentives being sought, amount of equity in the capital structure) or can increase the costs of another transmission project.

A planning region must be able to holistically consider all factors that affect cost, cost escalation risk, and cost-effectiveness. Under these circumstances, it is better to allow the planning regions to evaluate proposals based on their specific merits. To the extent planning regions select a proposal without a construction cost cap over a proposal that contains a construction cost cap, planning regions should (1) demonstrate what specific benefits, advantages (including inherent cost advantages), or reduced risk profile the uncapped proposal provides compared to the capped proposal, and (2) explain why such benefits or advantages are more valuable than the proposed cost cap.

**Question #2: What can public utility transmission providers in regions do to ensure there is sufficient transparency for transmission developers to understand: (a) how a proposal will be evaluated in advance of the proposal submission; (b) developments, if any, that occur during the evaluation process; and (c) the reasons the selection decision was made. Should cost containment provisions in all proposals, and not just the winning proposals, be made known? What, if any, guidance should the Commission provide with respect to this issue?**

### A. The CAISO's Evaluation of Project Sponsor Proposals

The CAISO provides transparency regarding its selection process through these means: (1) the CAISO tariff sets forth the selection criteria and the selection standard the CAISO applies in selecting an approved project sponsor; (2) before each competitive solicitation, the CAISO posts a functional specification that sets forth the key selection criteria (taken from the selection criteria specified in the tariff) for the project;[26] (3) the CAISO posts a competitive solicitation application, which indicates the information and considerations the

[26] Prior to each competitive solicitation, the CAISO holds a public call with all interested parties to discuss the competitive solicitation process, reiterate the selection criteria and standard the CAISO will apply in selecting an approved project sponsor, and indicate the key selection criteria and functional specifications for the project.

CAISO will rely on in selecting an approved project sponsor;[27] and (4) the CAISO issues a detailed, written selection report that sets forth, *inter alia,* the CAISO's analysis supporting the selection of an approved project sponsor. The CAISO discusses these in greater detail below.

### 1. The CAISO's Selection Standard

The CAISO selects an approved project sponsor by conducting an exhaustive comparative analysis of all competing project sponsors that evaluates 11 selection criteria and six qualification criteria in the tariff.[28] To add greater transparency to the CAISO's decision making process, during the Order No. 1000 stakeholder process, the CAISO worked with stakeholders to add the following provision to CAISO tariff section 24.5.4:

> [t]he 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 CAISO Documents.

This tariff language reflects the purpose (and expected end result) of the comparative analysis. [29] It also reflects the CAISO's belief that some principle

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27 The main competitive solicitation application can be found at: http://www.caiso.com/planning/Pages/TransmissionPlanning/Default.aspx
The cost-related portion of the application can be found at: http://www.caiso.com/Documents/CAISOApplicationWorkbook.xlsx

28 CAISO Tariff Section 24.5.4.

29 CAISO Order No. 1000 Compliance Filing, Docket No. ER13-103, at 53 (Oct. 11, 2012).

should guide selection of an approved project sponsor beyond simply tallying up the number of individual selection criteria that a project sponsor "won." In selecting an approved project sponsor, the CAISO focuses on how a project sponsor's satisfaction of the individual selection and qualification criteria supports achievement of this standard.

As the CAISO stated in its Order No. 1000 compliance filing, in determining which project sponsor best meets the selection standard, the CAISO does not reward experience just for experience's sake.[30] Rather, the CAISO looks at what the experience shows, how it is pertinent to the specific project subject to competitive solicitation, how it promotes satisfaction of the selection standard, and how it mitigates, or potentially foretells, risk. In making the selection decision, the CAISO evaluates a project sponsor's experience to assess its relative ability to successfully obtain permits, acquire land, and design, construct, operate, and maintain the facility in a reliable, competent, timely, low-risk, efficient, safe, and cost effective manner.

### 2. The Key Selection Criteria

To add greater transparency to the process and provide further guidance to potential project sponsors in preparing their proposals, the CAISO posts, prior to opening the bid window, those selection criteria specified in the tariff that the CAISO believes are key to select an approved project sponsor for the regional transmission facility that is the subject of the competitive solicitation.[31] The

30 *Id.*
31 *Id.*

CAISO identifies the key selection criteria in the functional specification it posts for each transmission solution subject to competitive solicitation.

Tariff section 24.5.1 recognizes that the key selection criteria "highlight specific topics to which particular attention should be paid in the application given their importance in connection with a particular Regional Transmission Facility." As the CAISO has previously indicated, the "posting of the key selection factors will provide project sponsors with information about the factors which will be the most important for purposes of project sponsor selection."[32]

The CAISO determines the key selection criteria for each competitive solicitation based on 11 considerations specified in tariff section 24.5.1. That tariff section requires the CAISO, in determining the key criteria for each transmission solution subject to competitive solicitation, to consider these factors: (1) the nature, scope, and urgency of the need for the transmission solution; (2) the expected severity of siting or permitting challenges; (3) the size of the transmission solution, potential financial risk associated with the transmission solution, expected capital cost magnitude, cost overrun likelihood, and the ability of the project sponsor to contain costs; (4) the degree of siting/permitting, construction, operation, and maintenance difficulty; (5) risks associated with the permitting, financing, construction, operation, and maintenance of the transmission solution; (6) technical and engineering design difficulty, or whether specific expertise in design or construction is needed; (7) special circumstances or difficulty associated with topography, terrain, or configuration; (8) specific

[32] CAISO Answer to Protests, Docket No. ER13-103, at 77 (Dec. 21, 2012).

facility technologies or materials associated with the transmission solution; (9) binding cost containment measures including cost caps; (10) abandonment risk; and (11) whether the overall cost of the proposal could affect the CAISO's prior Phase 2 determination (and inclusion in the approved comprehensive annual transmission plan) of the "more efficient or cost-effective" transmission solution. **Tariff section 24.5.1 requires that cost containment always be one of the key criteria for selecting an approved project sponsor.**

The approach reflected in this tariff section reflects that (1) the range of projects subject to competitive solicitation will be varied, (2) the requirements for, needs driving, and challenges presented will vary from project to project, and (3) the importance of the selection factors will be different for each individual project depending on the specific facts and needs of the project.[33] The CAISO's ability to set the key selection criteria based on the specific circumstances and requirements of each project gives the CAISO the necessary flexibility to craft the competitive solicitations to make all regional transmission facilities subject to competitive solicitation, while also informing project sponsors up front what selection criteria are particularly important for each solicitation and how their proposals will be evaluated. The key selection criteria tariff provision also ensures that cost is an important consideration in every CAISO competitive solicitation.

33 *Id.*

### 3. The CAISO's Selection Report

Section 24.5.5 of the CAISO tariff requires the CAISO to post on its website a report regarding its selection of an approved project sponsor. The tariff requires the CAISO to set forth, in a detailed manner, the results of the comparative analysis, the reasons for the CAISO's decision, and how the CAISO's decision is consistent with the selection standard. Tariff section 24.5.5 also requires that the selection report "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." In late 2015, the CAISO concluded a "lessons learned" stakeholder process that resulted , *inter alia*, in the CAISO committing to implement these enhancements to its selection reports to increase transparency: (1) provide clearer explanations of differences between project sponsors regarding meeting applicable selection criteria and their relevance to the decision;[34] and (2) disclose the specific details and dollar levels of all binding cost containment commitments agreed to by the approved project sponsor.[35]

The CAISO believes that selection reports should allow project sponsors to learn from each competitive solicitation. They must understand why they were selected or not selected and why they were "graded" a particular way on each factor. Because the CAISO's selection reports are public, they provide further

[34] Competitive Solicitation Process Enhancements, Draft Final Proposal, p. 56 (Oct. 12, 2015). This proposal and other documents related to the stakeholder process can be found at: http://www.caiso.com/Documents/DraftFinalProposal-CompetitiveSolicitationProcessEnhancements.pdf

[35] In its selection report for the Harry Allen-Eldorado project (at 73-74) the CAISO disclosed the binding cost containment commitments of the approved project sponsor for the first time.

up-front guidance to potential participants in CAISO competitive solicitations as to how the CAISO evaluates proposals. Prior selection reports can inform project sponsors on how to prepare stronger proposals for future solicitations.[36]

The CAISO has adopted a standard format for its selection reports to facilitate review and guide project sponsors. First, the report serially addresses each of the individual selection criteria. As discussed in greater detail *infra,* the report specifies considerations the CAISO considers in evaluating and comparing project sponsors' capabilities and risks regarding the criterion. The report summarizes the key information each project sponsor provided to demonstrate its capabilities regarding the criterion and that the CAISO relied upon in evaluating and comparing project sponsors' satisfaction of such criterion.[37] The selection report next presents the CAISO's comparative analysis of project sponsor capabilities regarding the specified considerations and the overall criterion. The selection report repeats this format until the CAISO has completed its comparative analysis regarding all of the individual selection criteria.

After comparing project sponsors' satisfaction of each of the individual criteria, the selection report then sets forth the CAISO's overall comparative analysis for approved project sponsor selection. As required by tariff section 24.5.5, the discussion seeks to show how the decision is consistent with the selection standard in section 24.5.4, the reasons for and key facts supporting the

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[36] For example, the CAISO has seen project sponsors who participated in earlier competitive solicitations propose stronger cost containment measures and bolster other capabilities in subsequent competitive solicitations.

[37] Prospective project sponsors can review the selection reports and see what information project sponsors have previously submitted to demonstrate their capabilities regarding individual selection criteria and how the CAISO assessed such showings.

CAISO's decision, and the role specific selection factors, in particular the key selection factors, played in the decision.

In the next few sub-sections, the CAISO provides examples of how its selection reports (and other public documents) specify the considerations involved in the CAISO's analysis of project sponsor proposals.

#### a. Project Schedule and Abandonment Risk (Other Than Financial Default)

A project sponsor's proposed schedule and the ability to meet schedule is one of the selection criteria specified in tariff section 24.5.4. In addition, the CAISO's selection standard recognizes the need to minimize the risk of untimely project completion and project abandonment. The CAISO's selection reports expressly state that the CAISO assesses these considerations in evaluating project sponsors' ability to meet schedule: (1) proposed schedules; (2) scope of activities specified in the proposed schedules; (3) amount of schedule float; (4) demonstrated experience of project sponsors; and (5) potential risks associated with the project sponsor's proposal. [38] By reviewing the CAISO's selection reports, prospective project sponsors will know in advance how the CAISO will evaluate their proposals regarding project schedule. Also, the CAISO's competitive solicitation application seeks much of the information that allows the CAISO to assess these factors.

[38] *See, e.g.,* Harry Allen-Eldorado Selection Report at 14.

The CAISO first assesses each project sponsor's proposed schedule to determine whether it meets the deadline specified by the CAISO in the functional specification, reflects all of the requisite steps in the process, provides a reasonable amount of time to satisfy each step, and contains any float and, if so, how much.

In assessing the risk that a project sponsor may not meet its proposed schedule, the CAISO must consider all relevant facts that might affect land acquisition, siting, permitting, and timely project completion and consider the criticality of meeting the schedule deadline and how far out the deadline is. The CAISO must weigh schedule risk against the time available to place the project in service. Where there is clearly sufficient time before the required in-service date, the CAISO has found that the probability would be relatively low that any potential schedule risks would prevent any of the project sponsors from completing the project by the specified in-service date.[39]

In the Sycamore-Penasquitos competitive solicitation, the time available to complete the project was relatively short, and the schedule would be tight for any project sponsor. Under these circumstances, the CAISO found that one project sponsor posed less schedule risk than the others based on these factors: (1) the project sponsor was relying on exiting rights-of-way, franchises, tower positions, and reconductoring for much of the project; (2) California law provides that the CPUC in approving new transmission to meet renewable portfolio ("RPS") goals first consider solutions that utilize existing rights-of-way and involve upgrading

[39] *See, e.g.,* Spring Substation Selection Report at 22.

existing facilities instead of building new greenfield transmission,[40] if technically and economically justified; (3) the project sponsor demonstrated significant experience with recent projects in the area; (4) the project sponsor was prepared to file its environmental assessment commencing the certificate of public convenience and necessity ("CPCN") process, immediately after the CAISO selected an approved project sponsor; and (5) the project sponsor provided a more thorough proposal for project management and had already identified major risks and mitigations in the proposal.[41]

The selection standard in tariff section 24.5.4 also requires the CAISO to assess a project sponsor's ability to minimize the risk of project abandonment. Abandonment risk is one of the 11 factors the CAISO must consider under tariff section 24.5.1 in determining the key selection factors for a project. Abandonment risk (resulting from factors other than financial risk) can arise from many of the factors identified above that affect schedule risk, particularly environmental, regulatory, siting, and permitting challenges.

Regulatory risk can cause project abandonment when a project sponsor fails to obtain necessary permits or a certificate of public convenience and necessity or the siting authority orders routes/site changes, project scope

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[40] California Public Utilities Code, Section 1005.1.

[41] Sycamore-Penasquitos Selection Report at 19-21. *See also* Imperial Valley Policy Element Project Sponsor Selection Report, at 24 (July 11, 2013), where the CAISO found the approved project sponsor was best situated to complete the project within a relatively short timeframe because (1) it had the authority to site the project and grant all necessary environmental permits, (2) it already had eminent domain authority, (3) it had already completed the review process for part of the project, (4) it did not need a permit to cross the canal, and (5) it had greater familiarity with and experience in the area. The selection report can be found at: http://www.caiso.com/Documents/ImperialValleyPolicyElement-ProjectSponsorSelectionReport_Jul11_2013.pdf

changes, or environmental mitigation that drive up the costs of the project and either cause the approved project sponsor to abandon the project or the CAISO to cancel the project. The risk might be greater for a project sponsor that proposes an entirely greenfield transmission line along a challenging route compared to a project sponsor that proposes to utilize existing rights-of-way or expand existing rights-of-way to meet the same need. In that regard, the California legislature has established principles that the planning and siting of new transmission facilities should minimize financial and environmental impacts. These principles encourage (1) first utilizing existing rights-of-way by upgrading existing transmission facilities instead of building new transmission facilities, when technically and economically justifiable, (2) followed by expanding existing rights-of-way when construction of new transmission lines is required, when technically and economically feasible, and (3) then creating new rights-of-way, when justified by technical, environmental, or economic reasons, in that order. [42]

Project sponsors must know of applicable laws and policies such as this in developing their proposals, and the CAISO must take this risk into account in selecting an approved project sponsor proposal.[43] The CAISO carefully assesses proposals for route, site, and environmental risks.[44] Not only do such

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[42] *See* California Public Utilities Code, Section 1005.1; Senate Bill 2431, Stats. 1988, Ch. 1457 (the so-called "Garamendi Principles"); Senate Bill 1059, Chapter 638, Statutes of 2006 (Transmission Corridor Designation).

[43] The CAISO would identify any potential abandonment concerns in its analysis of schedule because many of the underlying causes of risk are the same. For example, the CAISO considered siting and regulatory risk as one factor in selecting an approved project sponsor in the Sycamore-Penasquitos competitive solicitation. Sycamore-Penasquitos Selection Report at 20, 63.

[44] In selecting transmission solutions for inclusion in the transmission plan, the CAISO also considers potential siting and permitting risk and risk of potential abandonment.

risks provide opportunity for cost escalation and project delay, they can cause circumstances that can lead to project abandonment. [45]

### b. Financial Capabilities

The financial resources of a project sponsor and its team is another selection criterion in tariff section 24.5.4. The selection standard also requires that the CAISO consider a project sponsor's ability to finance the facility in a cost-effective manner for the life of the project and minimize the risk of project abandonment. The CAISO diligently assesses the financial capabilities of project sponsors to determine their ability to fully finance the project over its life span at a competitive cost, complete the project under a wide range of possible scenarios (*e.g*., construction delays, cost escalation, regulatory interventions), and minimize the risk of financial default and project abandonment.[46]

The CAISO's selection reports set forth the considerations the CAISO considers in assessing a project sponsor's financial capabilities: (1) project financing experience; (2) project financing proposal; (3) financial resources; (4) credit ratings; and (5) financial ratio analyses.[47] The CAISO considers these

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[45] The CAISO can assess whether a proposed binding cost cap poses an undue risk of project abandonment because the cap is too low and not feasible. *See* Imperial Valley Project Selection Report at 25.

[46] *See, e.g.,* Delaney-Colorado River Transmission Line Project Sponsor Selection Report, at 49 (July 10, 2015). This report can be found at: [http://www.caiso.com/Documents/DelaneyColoradoRiverTransmissionLineProject-ProjectSponsorSelectionReport.pdf](http://www.caiso.com/Documents/DelaneyColoradoRiverTransmissionLineProject-ProjectSponsorSelectionReport.pdf)
The CAISO notes that one of the 11 factors under tariff section 24.5.1 that the CAISO considers in determining the key selection criteria for a project is the potential financial risk, associated with the transmission solution, expected capital cost magnitude, and cost overrun potential.

[47] *Id.* at 36-37. As the CAISO has stated in its selection reports, the CAISO does not consider lack of a credit rating to be an adverse factor in its analysis. *Id.* at 49.

components separately and then develops an overall comparative analysis of financial capabilities.[48] As stated in the CAISO's selection reports, the CAISO considers all of the financial information project sponsors provide to demonstrate their financial capabilities in each area.[49] The selection reports indicate that the CAISO also utilizes two metrics -- tangible net worth and Moody's Analytics Estimated Default Frequency ("EDF") -- based on information provided by project sponsors.[50] This is another example of how the project sponsor selection reports inform project sponsors how the CAISO evaluates financial capabilities and assesses potential default risk.[51]

#### c. Experience

As specified in section 24.5.4 of the CAISO tariff, the CAISO also evaluates the experience, qualifications, record, and capabilities of project sponsors **and their teams[52]** regarding rights-of-way acquisition, permitting and

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48 *Id.*

49 *Id.* at 36.

50 *Id*. The CAISO has stated in its selection reports that it considers tangible net worth to be more meaningful than company net worth because its better represents assets that are more immediately available for project funding. Likewise, the CAISO has indicated its preference for EDF rather than agency credit ratings because it is a more forward looking measure of a company's financial health. It produces a forward looking default probability by combining financial statement and equity market information into a highly predictive measure of stand-alone credit risk. EDF provides the CAISO with one additional metric to assess a project sponsor's ability to see a project through to the end.

51 It is extremely important that planning regions be able to closely assess and appropriately value project sponsors' financial capabilities in the selection process. Bankruptcy or financial default can lead to project abandonment, potentially delaying needed projects and resulting in added costs for ratepayers. The CAISO notes that subsequent to selecting an approved project sponsor in one competitive solicitation, the approved project sponsor's parent filed for bankruptcy. Although this has not resulted in any problems for the project, it highlights the importance of having strong financial capabilities and the potential risk embedded in selecting an approved project sponsor.

52 The CAISO tariff requires the CAISO, in evaluating project sponsors' satisfaction of the selection and qualification criteria, to consider the capabilities and records of both the project

engineering, and construction and maintenance. The project sponsor selection reports expressly specifies the CAISO's considerations in assessing project sponsor's satisfaction of these criteria. Further, the CAISO's competitive solicitation application, which is posted to the CAISO website, contains numerous questions requesting project sponsors to provide specific information regarding their team's capabilities in these areas.

Regarding right-of-way acquisition, the tariff specifies that the CAISO will evaluate the experience of the project sponsor and its team in acquiring rights-of-way that would facilitate approval and construction of the project. Selection reports document that in assessing the technical and engineering qualifications and experience of project sponsors and their teams under tariff sections 24.5.4 (f), the CAISO considers (1) the permitting and engineering experience of the project sponsor and its team for projects it has developed, (2) the permitting and engineering experience for similar projects of the project sponsor's team members or members designated as having responsibility for project permitting and engineering, and (3) how much of the experience of the project sponsor and its team is in the U.S. and the state where the project will be located.[53]

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sponsor and its team. *See* CAISO tariff section 24.5.4 (a)-(k). Thus, the CAISO considers the capabilities of every contractor, consultant, financier, and collaborator that a project sponsor identifies in its bid package as being part of the team. By collaborating with other project sponsors in a joint application or enlisting team members with significant experience, strong records and robust financial capabilities, project sponsors can strengthen their proposals and remedy areas of potential weakness.

[53] *See* Harry Allen-Eldorado Selection Report at 38-39. The CAISO's selection reports have consistently stated that the CAISO considers rights-of-way acquisition, permitting, engineering, and construction experience in the U.S. and the state where the project will be built to be a slight advantage over experience in other jurisdictions.

Selection reports also show that the CAISO considers similar factors in assessing the construction and maintenance experience of project sponsors and their teams pursuant tariff section 24.5.4 (g), namely the previous record of the project sponsor and its team regarding construction, including facilities outside of the CAISO-Controlled grid, and the previous record of the project sponsor and its team regarding maintenance, including facilities outside of the CAISO grid. [54]

In selecting an approved project sponsor, the CAISO does not simply tally up the experience and record of project sponsors and their teams; rather, the CAISO assesses how the experience, qualifications, and record of a project sponsor and its team further achievement of the CAISO's selection standard. The CAISO has found that (1) pertinent experience and qualifications can be advantageous in meeting a tight schedule,[55] (2) having a major maintenance headquarters, with spare parts, transformers, and staff close to the project can produce efficiencies and better address future problems,[56] and (3) a project sponsor's record of cost containment for past projects and project management and risk management capabilities, can be an indicator of potential cost escalation risk.[57]

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54 *Id.* at 41.

55 Imperial Valley Selection Report at 10; Sycamore-Penasquitos Selection Report at 20.

56 Wheeler-Ridge Junction Substation Project Selection Report, at 56, 77 (March 11, 2015). The report can be found at: http://www.caiso.com/Documents/ProjectSponsorSelectionWRJFinalReport.pdf

57 Sycamore-Penasquitos Selection Report at 52-53.

### d. Overall Comparative Analysis for Approved Project Sponsor Selection

The final component of the CAISO's selection report is the overall comparative analysis supporting the selection of an approved project sponsor. As the CAISO stated in its recently concluded "lessons-learned" stakeholder process, the CAISO undertakes a comprehensive, holistic comparative analysis that considers all of the selection criteria, stressing the key selection criteria, which always includes cost containment.[58]

Selection reports show that the CAISO selects an approved project sponsor based on the totality of the facts[59] (1) focusing on capabilities that are relevant to the project, (2) identifying meaningful differences between project sponsors and the degree and importance of those differences,[60] and (3) assessing the risks and benefits of each proposal.[61] As the overall comparative analysis section of the selection reports show, the CAISO seeks to maximize benefits to ratepayers in a cost-effective manner while sufficiently ensuring

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[58] *See* Competitive Solicitation Process Enhancements, Draft Final Proposal at 56.

[59] The CAISO assesses project sponsors' proposals based on the information project sponsors provide in their applications. The CAISO tariff (section 24.5.2.3) and BPM (section 5.3.3.2) provide the general types of information project sponsors are expected to submit to the CAISO in a competitive solicitation. The CAISO has a standard application form that applies to all project sponsors. Project sponsors are free to provide as much, or as little, supporting detail as they want in their application. The information requirements and application questions provide another indicator of the factors the CAISO considers in its evaluation.

[60] As the selection reports show, where the differences between project sponsors are not materially the same with respect to a given criterion, the CAISO uses terms such as better, slightly better, or significantly better in the selection report to indicate the scope of the difference. *See* Competitive Solicitation Process Enhancements, Draft Final Proposal, at 56. To the extent the CAISO finds there are no material differences between project sponsors or proposals for purposes of meeting a specific criterion, the CAISO will treat the project sponsors as basically being equal. *Id.*

[61] Competitive Solicitation Process Enhancements, Draft Final Proposal at 56.

reliability, ability to site and permit the project, safety, financial viability, timely project completion, and minimizing abandonment and other project risks.

The selection reports also show that when there are material differences between different project sponsors regarding different selection criteria, including key selection criteria, the CAISO carefully considers the magnitude of the differences and what is most important to the project. This can involve several considerations.

One consideration is the type of project that is the subject of the competitive solicitation. In the Harry Allen-Eldorado and Delaney-Colorado River competitive solicitations, the CAISO concluded that although cost containment was just one of several key selection criteria, it was important in those solicitations because the justifications for the two projects were solely based on economic benefits to ratepayers.[62]

In the Wheeler Ridge competitive solicitation for new substation needed for reliability reasons, the CAISO found that the extremely close proximity and size of the approved project sponsor's maintenance headquarters and its existing spare parts inventory, including spare transformers, was a particular benefit because it would help address any future reliability, operational, or other unexpected problems.[63] The CAISO concluded that, for this reliability project, the approved project sponsor was best positioned to respond to field operations issues and emergency situations. Although the CAISO found that another

[62] Harry Allen-Eldorado Selection Report at 97; Delaney-Colorado River Selection Report at 131.

[63] Wheeler Ridge Selection Report at 77.

project sponsor was stronger regarding cost containment for the portion of the project subject to competitive bidding, the approved project sponsor had some inherent cost advantages that would contribute to its construction, operation, and maintenance of the facility in an efficient and cost-effective manner for the life of the project.[64] Further, the approved project sponsor's more favorable site location projected comparatively lower transmission interconnection costs (which were associated with the portion of the project not subject to competitive solicitation).[65] The CAISO also found that the approved project sponsor was equal to or stronger regarding the other selection criteria, including having an advantage regarding two key selection factors. The CAISO found that given the specific nature of the project, the slight edge went to the approved project sponsor.

The CAISO also considers the relative importance of the selection factors given the specific needs of the project. In the Suncrest Reactive Power competitive solicitation, the CAISO concluded that the fact that one project sponsor was utilizing existing property rights and was stronger regarding meeting schedule was outweighed by another project sponsor's stronger cost containment measures because schedule risk was not as critical given there was no imminent reliability need.[66] As discussed above in the section regarding the

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[64] The cost advantages resulted from the use of a substation site that was already in rate base and existing O&M infrastructure and staff.

[65] *Id.* The approved project sponsor's proposed site was located closer to the existing transmission system to which the new substation would interconnect.

[66] Suncrest Reactive Power Project Project Sponsor Selection Report at 46 (Jan. 6, 2015). This report can be found at: http://www.caiso.com/Documents/SuncrestProjectSponsorSelectionReport.pdf

CAISO's evaluation of schedule risk, there have been other competitive solicitations where meeting a tight schedule was important; although, in those instances the project sponsor strongest from a schedule perspective was also strongest from a cost perspective.

Another example, discussed above, was the importance of transmission interconnection costs in the substation competitive solicitations because they materially affected the total cost of the overall transmission project, which included both competitive and non-competitive components. This factor was a non-issue in other competitive solicitations.

A third consideration is the degree of the differences between the project sponsors and the magnitude of the advantages they confer or risks they present. The distinction between slight and significant differences is important in the CAISO's overall analysis because significant differences can present significant benefits or significant risks. In the CAISO's competitive solicitation for the Delaney-Colorado River project, the approved project sponsor's cost containment advantage was so significant that the CAISO concluded it could not be offset by the approved project sponsor ranking slightly lower than other project sponsors in several non-cost related categories, including experience in acquiring rights-of-way, acquiring permits, engineering design, and maintenance.[67] All differences were slight and resulted from the approved project sponsor's use of contractors with less experience with 500 kV

[67] Delaney-Colorado River Selection Report at 131-32.

transmission projects in California and Arizona.[68] The CAISO found that the approved project sponsor and its team were sufficiently capable, had significant general experience in these areas, and the considerations that caused the approved project sponsor to be ranked slightly lower in these categories did not warrant the CAISO selecting a different sponsor.

Another example is the competitive solicitation for the Estrella substation.[69] The approved project sponsor was the only sponsor to propose a binding construction cost cap. It was robust. The approved project sponsor also had materially lower interconnection costs compared to the other project sponsors. Although another project sponsor was slightly better regarding two non-cost factors, the CAISO found this resulted from a single advantage -- having a more local O&M organization (although the locational advantage was materially not as strong as the locational advantage in the Wheeler-Ridge substation competitive solicitation). The CAISO concluded this slight advantage stemming from a single, non-cost consideration did not outweigh the robust cost cap and significant interconnection cost advantage, particularly given that the approved project sponsor's team was well-qualified, experienced, and financed to capably, cost-effectively, and reliably license, finance, construct, operate, and maintain the project.[70]

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68 *Id.*

69 Estrella Selection Report at 77.

70 *See also* the Harry Allen-Eldorado competitive solicitation where the CAISO found that the approved project sponsor's strong cost containment advantage, possession of existing rights-of-way, relevant experience in the region, and possession of many of the approvals for the project outweighed a slight financial disadvantage, particularly given that the approved project sponsor had sufficient resources to complete the project and provided letters of support from financial institutions. Harry Allen-Eldorado Selection Report at 97.

## B. Developments, If Any, That Occur During the Evaluation Process

The Commission also seeks comments regarding how to ensure transparency regarding developments that occur during the evaluation process. The CAISO notes it permits potential project sponsors to submit questions or seek clarification regarding an upcoming competitive solicitation. The CAISO posts such questions (maintaining the anonymity of the questioner), and the CAISO's responses to its website so they are available to everyone.

The CAISO does not permit project sponsors to unilaterally revise their bids once the application window closes. The CAISO's competitive solicitation process is based on the expectation that project sponsors should submit their best bids with their applications. Also, the CAISO has declined to meet with project sponsors that desire to further explain or clarify their proposals. If the CAISO determines that a proposal needs clarification, the CAISO submits a written request to the project sponsor and requires written responses. The CAISO believes that communications between the CAISO and project sponsors during the evaluation process must be at arm's length, and planning regions must avoid even the appearance that any project sponsor could receive preferential treatment.

Prior to issuing its selection report, the CAISO gives all project sponsors the opportunity to have the CAISO read to them the information they provided in their applications and that the CAISO will reflect in the selection report. This allows project sponsors to identify any information that may be incorrect or proprietary before the CAISO finalizes the selection report.

To the extent “developments” occur during the evaluation process, the CAISO believes they must be handled in a fully open, transparent, and non-discriminatory manner that accords no project sponsor a potential undue advantage.  If developments occur that require a change of scope for the project, the CAISO expects that it would re-solicit bids bid the modified project.

### C.  Guidance The Commission Should Provide

The CAISO requests that the Commission provide any guidance consistent with the foregoing discussion.  In addition, the CAISO requests that the Commission adopt a formal policy finding that the binding cost containment measures of **all** project sponsors, not just the winning project sponsor, will not be confidential going forward and may be fully disclosed by planning regions in their selection reports.  The CAISO believes that allowing planning regions to disclose the details of **all** cost containment proposals in their decisional reports will encourage planning regions to treat cost as an important factor and provide compelling reasons for not selecting the proposal with the strongest cost characteristics.

The CAISO believes its competitive solicitation process is working and can provide the benefits envisioned by Order No. 1000.  More project sponsors are proposing binding cost containment measures, and such measures are becoming more robust. The CAISO urges the Commission not to change existing processes that are working effectively and promoting competition. Rather, the Commission should direct planning regions to regularly assess "lessons learned" from completed competitive transmission processes and work with stakeholders to organically identify and implement necessary enhancements that promote transparency and more robust evaluations.

Below, the CAISO comments on competitive transmission proposals that others have made.

### 1. The Commission Should Not Require Pre-established Weights Or Formulaic Rules for Project Sponsor Selection

The Commission should not require the use of pre-established weights, pre-determined formulas, or simplistic rules for project sponsor selection. That will only introduce and embed a level of arbitrariness into the process, increase the opportunities for error, and potentially dictate inappropriate project sponsor selections.

First, there is no magical weighting formula that can ensure the correct weighting of cost and non-cost factors and a proper result every time. Every competitive solicitation and each project proposal will have unique characteristics. Based on the CAISO's experience in conducting nine competitive solicitations, the CAISO strongly believes that any pre-assignment of weights is at best imperfect; at worst, it is arbitrary and can hardwire inappropriate and problematic results.

Requiring regional planners to adopt pre-established metrics would fail to recognize that the importance of individual selection factors can vary depending on the particular circumstances of each project. One basic example is the importance of schedule. For a reliability project needed in the short-term, meeting schedule is much more important than it would be for a policy or economically driven project not needed for another 10 years. Applying a generic pre-established weight in the tariff for schedule could fail to capture its actual value in both scenarios, potentially undervaluing it in one, and overvaluing it in the other. The 11 criteria specified in the tariff that the CAISO considers in determining the key selection criteria for each competitive solicitation demonstrate the extensive risk that pre-established weights can improperly value a specific criterion for a specific project. The CAISO's ability to identify key selection criteria for each competitive solicitation allows the CAISO effectively to evaluate and value project-specific risks, challenges, and requirements, while still providing advance guidance to potential project sponsors.

That an evaluator assigns some numerical value to a sponsor's demonstration of its capabilities regarding each selection criterion and then tallies up all numbers each sponsor has received to determine a winner does not constitute transparency. The evaluation is still essentially a qualitative assessment, but with the evaluator assigning a numerical value to such qualitative assessment. That approach increases the risk of error (and potential litigation) because not only does the planning region need to get the qualitative assessment right, it also needs to get right the exact number it assigns the project sponsor for each selection criterion. What really matters is an explanation of **why** a particular sponsor was "graded" a certain way relative to competing project sponsors and whether the overall decision was based on meaningful and material differences between project sponsors and consistent with the goals of Order No. 1000.

Finally, one of the CAISO's selection criteria is the other strengths, advantages, benefits, or efficiencies a project sponsor and its team may provide.[71] Proposals may provide other advantages (or disadvantages) that the CAISO will not know about until it receives the actual proposals. Pre-assigning weights could fail to capture the actual value of any showing or the differences between project sponsors. In the CAISO's three sub-station competitive solicitations, the proposed locations of the substations subject to competitive solicitation would affect the scope and cost of the transmission interconnection facilities the participating transmission owner must construct (which were not subject to the competitive solicitation). Before the project sponsors submitted their applications, the precise cost impact was unknown to the CAISO. Once the applications were submitted, however, it was apparent that the different locations the project sponsors proposed for the substation would significantly affect the total cost of the transmission interconnection facilities and the overall project (comprising the competitive bidding component and a non-competitive component). The cost impacts amounted to millions-and-millions of dollars of

[71] CAISO tariff section 24.5.4 (k).

transmission rate base.[72] The interconnection cost impacts of submitted proposals varied significantly. On the other hand, in the other six competitive solicitations the CAISO has conducted, the additional, advantages, benefits, or efficiencies demonstrated by project sponsors were *de minimis* or non-existent. Under these circumstances, pre-assigning weights to this category could risk valuing the factor too much or too little. The CAISO's flexible approach allows it to capture the appropriate and relative value of this factor based on project sponsors' actual proposals.

### 2. Least-Cost Should Not Be the Sole Driver of Selection Decisions

Some parties argue that the Commission should adopt rules specifying least project cost as the driver of selection decisions. Such an approach ignores that numerous factors besides cost are important, *e.g*., reliability, ability to complete the project on time, financing capabilities, operational and other advantages (or disadvantages) proposals may have, level of risks posed, project feasibility, state law preferences for using or expanding existing rights-of-way, siting agency polices,[73] ability to site the facilities, the quality of the materials and technologies used, and abandonment risk.

[72] In one competitive solicitation, the projected transmission interconnection costs were more than 60 percent of the proposed cost of constructing the entire competitive project.

[73] Siting authorities may place a greater value on factors other than cost, *e.g*., aesthetics, recreational value, noise, environmental impacts. For example, a Proposed Decision Granting Certificate of Public Convenience and Necessity for the Sycamore-Penasquitos 230 kV Transmission Line Project recommends adoption of a significantly more costly project alternative with a cap that is approximately twice the planning cost estimate of the project proposal the CAISO approved in its competitive solicitation. *In the Matter of the Application of San Diego Gas*

Basing decisions primarily on least project cost could cause a system planner to devalue or neglect other considerations, potentially leading to problematic and inappropriate project sponsor selections, or a project that cannot be sited as proposed. Take a project needed to resolve a near-term reliability problem. Would it be prudent to select a project sponsor with a $1 cost advantage, but poses a significant risk it could not complete a needed reliability project in time? Similarly, a project sponsor could propose the lowest construction cost cap, but include an "out," or permit a cap adjustment, if the siting agency modifies the route. If the route that project sponsor proposes presents significant siting risk because of environmental or other issues, would it be prudent to automatically require the planning region to accept the bid with the lowest base construction cost cap? A project sponsor with a $1 construction cost cap advantage could pose a materially greater risk of financial default, project abandonment, or cost escalation risk regarding its uncapped costs (*e.g.*, debt, O&M).[74]

There are a multitude of scenarios where the proposal with the lowest construction cost cap presents added risks that could outweigh the benefit of the

*& Electric Company for a Certificate of Public Convenience and Necessity for the Sycamore-Penasquitos 230 Kilovolt Transmission Line Project,* Application 14-04-011 (Aug. 20, 2016). Planning regions need to be able to take these types of considerations into account on a case-by-case basis depending on the specific scope and impacts of the project.

[74] The proposal with the lowest construction cost cap may not be the best proposal even solely from a cost perspective. Take for example a proposal with a construction cost cap that is $1 lower than the cap in another proposal, but which contains far more extensive outs and conditions. The least cost solution probably would not be the best solution in that instance.

construction cost cap.[75] Planning regions must be able to assess individual proposals on a case-by-case basis and consider the entire package. Hardwiring simplistic rules can be problematic and lead to project sponsor selections that do not benefit the CAISO or ratepayers.

**<u>Question #3</u>: Should there be standardization of cost containment provisions or exclusions of certain costs to facilitate comparison of proposals with differing cost containment provisions? If so, what role should the Commission and/or public utility transmission providers in regions play in pursuing standardization?**

Based on the CAISO's experience conducting competitive solicitations, the CAISO urges the Commission not to standardize cost containment provisions or direct regional planners to exclude certain costs from potential cost containment. Risks can vary from project to project. Project sponsors should be permitted to propose any cost containment measures they believe are appropriate given the nature of the project and the risk they will bear for that project.

The CAISO has seen and dealt with a wide variety of cost containment proposals. Although diverse cost containment provisions can pose a challenge

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[75] Reasons causing lower project cost (*e.g.*, lower grade materials) can potentially increase other costs (*e.g.,* losses or O&M) or create future problems (*e.g.*, increased outages) rendering the project with the lowest construction cost cap more costly to ratepayers in the long-term when all factors are considered. The CAISO provides the following hypothetical example to illustrate this, building off its competitive solicitations for new substations. Assume a project sponsor has the lowest construction cost cap for the portion of the project subject to competitive solicitation, but compared to other project sponsors its remote (*i.e*., lower cost) site location results in significantly increased interconnection costs that are not part of the competitive solicitation but which will be borne by transmission ratepayers. The increased interconnection costs could offset any cost benefits associated with the competitive portion of the project. Planning regions must be able to assess and compare proposals based on their overall impacts.

in the comparison process the CAISO has been able to evaluate them. The CAISO retains a well-respected expert consulting firm to assist us in our analysis of cost containment proposals.

In recent CAISO competitive solicitations, cost containment proposals have gotten stronger and more creative. The Commission should not chill creativity or limit potential benefits to ratepayers. However, as discussed in the CAISO's responses to Question #1 of Panel Two and Question #7 of Panel Three, the CAISO believes that it might be beneficial for the Commission to provide guidance to transmission planning regions on how to address certain narrowly targeted issues. This would facilitate comparative evaluations without unnecessarily limiting the benefits that can be achieved through competitive transmission processes.

**Question #4: What quantitative and qualitative methods can public utility transmission providers in regions use to evaluate proposals with different cost containment provisions, such as cost caps with different exclusions or that cap different components of the revenue requirement?**

In its response to Question #1, the CAISO identified the general factors it considers and principles it applies in assessing project sponsors' cost containment capabilities. This general framework applies not only to the CAISO's comparison of capped and uncapped proposals, but also to the CAISO's evaluation of proposals with different cost containment measures. Below, the CAISO discusses its experience evaluating proposals with different cost containment provisions.[76] The CAISO notes that the discussion pertains only to its comparative analysis of project cost considerations, not non-cost factors or the overall selection analysis.

The CAISO's experience with competitive solicitations shows that the scope and robustness of cost containment proposals can vary significantly from the number of cost elements being capped, the levels of the caps, the number and scope of "outs" from the caps, and the rate incentives being sought.

To assess proposals with different cost containment measures, the CAISO, with the assistance of an expert consulting firm, conducts a comprehensive cost analysis and runs numerous studies and scenarios to calculate illustrative revenue requirements for each project sponsor that reflect proposed cost containment measures, incorporate appropriate common assumptions to harmonize the calculations and ensure consistency (*e.g.*, tax rates, asset book life, and inflation rates to the extent project sponsors do not cap inflation), compare illustrative revenue requirements on a net present value basis, and indicate key drivers of differences between project sponsors. The CAISO also conducts and assesses a multitude of sensitivities (including sensitivities that adjust multiple individual cost elements) to compare cost containment measures effectively and assess the impacts of different cap levels and potential cost escalation associated with cost elements that are uncapped or

[76] To enhance its review of project sponsors' costs, the CAISO has revised its competitive solicitation application by, *inter alia*, developing a separate application form addressing costs and cost containment and seeking additional information regarding costs, cost containment, and rate incentives.

have specified outs. In addition, the CAISO conducts sensitivity studies to assess how proposals hold up under "worst case" scenario-type conditions.

The CAISO's evaluation of cost containment also focuses on the proposed binding caps and cap increase conditions. As the CAISO's project sponsor selection reports show, the CAISO addresses capped cost elements separately and in the aggregate.[77]

In the last two competitive solicitations, all but one project sponsor proposed a binding construction cost cap. As a starting point, the CAISO compares the proposed binding construction cost cap levels because construction cost is typically the biggest driver of total project cost. The CAISO will develop base illustrative revenue requirements utilizing the proposed construction cap levels. If a project sponsor proposes no binding construction cost cap, the CAISO will assess the proposal following the approach described in its response to Question No. 1 (*i.e.*, comparing capped to uncapped proposals). As stated above and in filings with the Commission, the CAISO does not rely on project sponsor cost estimates; it looks at binding cost containment measures and project proposal features expected to make the project inherently more or less costly to construct.

Next, the CAISO assesses any exclusions, "outs" from, or permitted adjustments to, a proposed construction cost cap. In the Harry Allen-Eldorado competitive solicitation, the approved project sponsor's construction cost cap was

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77 *See* Delaney-Colorado River Selection Report at 117-19; Harry Allen-Eldorado Selection Report at 85-86.

in 2020 dollars; the other caps were in 2015 dollars. The CAISO ran sensitivities to compare the cap in 2020 dollars to the 2015 caps under various inflation rates.

In the Harry Allen-Eldorado solicitation, one project sponsor's cap included allowance for funds used during construction ("AFUDC"); the others did not. The CAISO ran sensitivity studies calculating illustrative revenue requirements using different levels of AFUDC to test the robustness of the cost caps. Those sensitivity studies showed that, even under the "worst case scenario", the approved project sponsor's construction cap (that did not include AFUDC) provided the greatest overall cost containment.

Also in the Harry Allen-Eldorado solicitation, one project sponsor's cap did not include the costs of interconnecting to the south side of the sub-station, as required by the functional specification. To ensure an apples-to-apples comparison between all of the project sponsors, the CAISO had to "add" that cost when developing illustrative revenue requirements.

These are just a few examples of how the CAISO has dealt with exclusions to costs caps, but the CAISO follows a similar analytical process for other exclusions.

The CAISO also evaluates the "outs" and cap adjustment provisions that project sponsors propose. Significant "outs" can eviscerate the value of a cost cap. A proposal with fewer and narrower "outs" will have a qualitative advantage because it poses less risk of cost escalation. Where a proposal combines the lowest base construction cost cap with fewer and narrower "outs" compared to other proposals, it will have the advantage regarding the evaluation of construction cost caps.[78] Where the sponsor with the lowest base construction cost cap has more or broader "outs" than other sponsors, or where the project sponsors propose different "outs" (*e.g.*, a route risk "out" vs. an environmental mitigation "out"), further analysis and more studies may be necessary. [79]

The CAISO can run sensitivity studies to capture potential cost escalation associated with "outs." Also, the CAISO may need to assess the potential risk that an "out" will be triggered and what the cost impact might be. In the Delaney-Colorado River competitive solicitation, the approved project sponsor had the lowest base construction cost cap and proposed to absorb route risk up to a specified amount. A second project sponsor absorbed route risk, but its proposal allowed for the recovery of additional environmental mitigation costs above the amount specified in its proposal up to a certain level. A third project sponsor absorbed both risks. The CAISO ran sensitivities based on the increased amounts the two sponsors had agreed to bear for any potential increase in route or environmental mitigation costs. The CAISO and its expert consulting firm also thoroughly reviewed the routes proposed by the project sponsors to assess potential route risk. The review concluded that the cost escalation risk associated with the approved project sponsor's proposal was low, particularly given the specific parameters of its "out."[80] The CAISO also conducted extensive sensitivity analyses of the project revenue requirement results, which

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[78] *See* Harry Allen-Eldorado Selection Report at 86.

[79] *See* Delaney-Colorado River Selection Report at 117-18.

[80] The CAISO will examine the route to determine whether there are potential environmental, land-acquisition, topographical, or other risks that could cause a siting or permitting agency to modify the route or impose additional environmental mitigation.

demonstrated that the cost advantage of the approved project sponsor's proposal was very robust compared to the proposals of the other sponsors such that it could absorb a significant increase in route-related (or other) costs and still be the least cost project. In this instance the more robust capital cost escalation conditions proposed by others did not outweigh the significant cost differential between the proposals' construction cost caps.

The CAISO also assesses individual cost elements other than construction-related costs that project sponsors propose to cap or contain. The most common have been return on equity ("ROE"), (including commitments to forgo ROE incentives other than the 50 basis point adder for being a member of an ISO or RTO), debt, limited-term O&M caps, and the amount of equity in the capital structure.

In the Harry Allen-Eldorado competitive solicitation, all of the project sponsors proposed to cap their return on equity, albeit at different levels. In the Delaney-Colorado solicitation, some project sponsors capped their return on equity, others did not. Under these circumstances, the CAISO developed illustrative revenue requirements based on proposed ROE cap levels, and ran sensitivities at other levels.[81] However, any assessment of capped and uncapped ROE levels must also involve some qualitative assessment because, even though the CAISO can monitor recently filed and approved ROEs, it does

[81] The CAISO has revised its competitive solicitation application so that going forward project sponsors must indicate the ROE they intend to seek from the Commission, separately identifying any ROE incentives or adders they intend to seek and the level of such adders. In a separate question, the application asks whether the project sponsor is proposing a binding cap on ROE, whether the cap includes any ROE incentives, and whether there are any conditions under which the cap would not apply.

not know the actual ROE the Commission will approve for any individual project sponsor, both initially and over the expected life of the project. The CAISO must also assess the overall robustness of any proposed ROE cap. Assume for example that a project sponsor proposes to cap its ROE at 14 percent for the life of the project. The CAISO cannot simply assume a 14 percent ROE for that project sponsor because recent ROEs have been below that level. A 14 percent cap might provide value in future years, but it provides little value under current economic conditions, especially if other project sponsors are proposing more robust ROE caps.[82]

In some instances a project sponsor has proposed to cap the equity in its capital structure at 50 percent. In its assessment, the CAISO has treated this as a qualitative advantage in considering the overall cost package because it reduces the risk of cost escalation associated with a capital structure thick in equity. Although the CAISO can run revenue requirement sensitivities using different capital structures, it is difficult to assign, with certainty, a specific monetary value to this cost containment measure because the CAISO cannot predict what the actual capital structures of the other project sponsors will be over the life of the project, and most competitors are proposing 50/50 capital structures.[83]

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[82] In its response to Question #7 of Panel Three, the CAISO discusses its evaluation of rate incentives (and proposals to forgo rate incentives).

[83] In its revised competitive solicitation application, to better inform the CAISO's evaluation of proposed capital structures, the application requires project sponsors to indicate the assumed capital structure they intend to propose to the Commission, whether they are proposing a binding cap on the amount of equity in the capital structure, and what the level of the equity cap is.

Proposals to cap debt costs have not been prevalent in cost containment proposals submitted in CAISO competitive solicitations. The CAISO assesses debt caps in a similar manner to equity caps because it cannot predict with certainty what any project sponsor's debt costs ultimately will be. The CAISO will run illustrative revenue requirement sensitivities based debt cost cap levels to the extent project sponsors propose them, debt cost estimates, the same debt cost for all project sponsors, and other reasonable interest rate levels.[84] The CAISO believes that a **robust, binding** debt cost cap can benefit ratepayers and is better than no cap because it reduces the risk of cost escalation. A high debt cost cap may offer minimal benefits to ratepayers, similar to construction cost caps and ROE caps with excessive headroom. The CAISO also notes that debt cost can be affected by a project sponsor's particular financial circumstances. All else being equal, a project sponsor with strong financial fundamentals will be better positioned to have lower debt costs than a project sponsor with weak financials. A project sponsor with stronger financials can have a qualitative edge, but a robust, binding cap would outweigh any qualitative advantage.

No project sponsor has proposed to cap O&M costs for the life of the project. However, some project sponsors have proposed limited term O&M caps. Because the life-of-the-project cost caps proposed by project sponsors have only pertained to capital costs, the CAISO typically assesses O&M costs separately from the revenue requirements associated with capital cost items. In that regard,

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[84] The revised competitive solicitation application expressly asks project sponsors whether they are proposing to cap their debt cost and to identify any conditions under which the debt cap would not apply.

the CAISO will calculate illustrative revenue requirements only for capital costs and non-O&M costs. Then, as discussed *infra,* in assessing the overall cost "package," the CAISO will also run sensitivity studies of all costs, including O&M costs.

Because no project sponsor has proposed a lifetime cap on O&M costs and the CAISO has been unable to reliably assign a specific cost number to it, the CAISO's evaluation of O&M has been more qualitative.[85] Even where project sponsors propose limited term O&M caps, the CAISO must assesses the robustness of the cap. In the Harry Allen-Eldorado competitive solicitation a project sponsor's limited term cap on O&M and A&G costs was extremely high. Also, that project sponsor had not yet settled on a specific O&M provider, and there were no specific features of its proposal that would have indicated that its O&M costs might be inherently lower than those of its competitors. The competing project sponsors had already contracted with local utilities to provide O&M services, and they provided much more detailed information regarding their O&M costs, including their O&M contracts, than the other project sponsor.

The CAISO assesses uncapped O&M costs in much the same manner as it assesses uncapped proposals. Because the CAISO does not make selection decisions based on project sponsor cost estimates, the CAISO does not accept the O&M estimates of project sponsors at face value. As discussed in response to Question #1 above, the CAISO determines whether a project sponsor's O&M proposal presents any tangible features that might produce inherently higher or

[85] As discussed *infra*, the CAISO captures limited-term O&M caps in illustrative revenue requirement sensitivities.

lower O&M costs, all else being equal. As discussed in the response to Question #1, the CAISO has found that a project sponsor's use of its existing O&M infrastructure and staff can reduce the cost escalation risk, especially when compared to sponsors relying on entirely new or incremental O&M infrastructure.

Where all of the project sponsors propose to outsource their O&M services, the analysis becomes more challenging. That was the case in the Delaney-Colorado River and Harry Allen-Eldorado competitive solicitations. The CAISO recognized that the proximity of affiliate resources near the transmission line and written agreements with local utilities to provide O&M services at regulatory agency-approved rate levels could provide cost advantages. However, the CAISO concluded that the potential O&M cost differences between the project sponsors were too uncertain to be given significant weight or a specific dollar value, in particular, because all of the project sponsors were outsourcing their O&M services.[86]

After assessing the cost containment proposals for individual cost elements, the CAISO assesses project sponsors' overall cost containment packages. In its final assessment of cost, the CAISO's goal is not to find the least cost proposal; the goal is to find the "best cost" proposal. The "best cost" proposal best optimizes lower projected revenue requirements and effective cost escalation risk mitigation.

The first part of this analysis focuses on project sponsors' illustrative revenue requirements. The biggest driver in this evaluation is construction cost

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[86] Harry Allen-Eldorado Solicitation Report at 86-87; Delaney-Colorado River Selection Report at 117.

because it is the largest cost component and the one most likely to be capped and predictable. Other costs (*e.g.,* ROE, debt, equity in the capital structure) can affect the overall revenue requirement but typically not to the same extent as construction cost. Also, measuring the level of the cost differences between project sponsors regarding these other costs is less certain because some costs depend on Commission action, some projects sponsors may propose caps and others may not, and cost levels may fluctuate over the life of a project The illustrative revenue requirements and sensitivity studies can test potential differences and their impacts. In the Delaney-Colorado River solicitation, the approved project sponsor had a significantly lower construction cost cap and a slightly higher ROE cap than another sponsor. A revenue requirement sensitivity utilizing both project sponsors' construction cost caps and their capped ROEs showed that the approved project sponsor had a significant cost advantage even assuming the most unfavorable ROE outcome to it. Further sensitivities assuming the higher ROE and higher than expected debt costs (compared to the second project sponsor's debt cap) still showed a significant illustrative revenue requirement advantage.

Then the CAISO factors in the "outs" and cap adjustment provisions proposed by a project sponsor. These pose cost escalation risk, and the CAISO must consider the risk of the "out" being triggered and the potential cost impact. The CAISO studies and evaluates the specific facts and circumstances to assess potential risk. The CAISO accounts for potential cost escalation impacts by running various illustrative revenue requirement sensitivities. The CAISO (1) identifies points where project sponsors' illustrative revenue requirements "cross over" as the result of potential cost escalation due to "outs" and adjustment provisions, and (2) decides what the likelihood is that such crossover points might be reached. When there is a reasonable possibility that the crossover point can be reached, the CAISO must then determine whether the value of risk mitigation measures is greater than the mere fact of a lower base cost cap.

The next step is to account for the costs and risks associated with uncapped cost elements, such as O&M. The CAISO has run sensitivities using project sponsors' O&M cost estimates and using the same O&M cost for all project sponsors, while accounting for any proposed limited-term O&M caps.[87] Even if the CAISO determines that a project sponsor has a potential qualitative cost advantage regarding O&M costs, the CAISO does not value that advantage as much as it does robust, binding cost containment measures (*i.e.*, strong caps with minimal outs). All else being equal, a qualitative advantage regarding O&M costs does not outweigh a materially lower and more robust construction cost cap.[88] In instances where proposed cap levels and cost escalation risks are comparable or there is no clear "best cost" proposal (*e.g.,* due to differing cap levels and "outs"), a qualitative advantage associated with O&M can be a contributing factor in determining the "best cost" proposal.[89]

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[87] The CAISO notes that in both the Delaney-Colorado River and Harry Allen-Eldorado solicitations even after taking into account O&M cost estimates and binding cost containment commitments, the CAISO's cost analyses showed that the approved project sponsors' proposal still had the lowest overall project revenue requirement.

[88] *See* Suncrest Selection Report at 40.

[89] *See* Gates-Gregg and Sycamore-Penasquitos selection reports.

Finally, as reflected in the CAISO's project sponsor selection reports, in comparing proposals with different cost containment provisions the CAISO also considers cost containment performance for past projects, project management capabilities, and project risks and mitigation of risks. As stated in the CAISO's response to Question #1 above, these considerations are not as important as robust binding, cost containment commitments or inherent cost advantages. They are more likely to contribute to a selection decision where no project sponsor proposes binding cost containment measures or has inherent cost advantages, or where the determination of "best cost" is not clear based on the aforementioned considerations.

Proposals that cap more cost elements, have lower cap levels (particularly regarding the construction cost cap), and have limited outs will be in the strongest position to be considered "best cost".

**PANEL TWO: COMMISSION CONSIDERATION OF RATES THAT CONTAIN COST CONTAINMENT PROVISIONS AND RESULT FROM COMPETITIVE TRANSMISISON DEVELOPMENT PROCESSES**

**<u>Question #1:</u> Should the Commission have a role in evaluating the rate-related components of competing proposals for transmission facilities eligible to be selected in a regional transmission plan for purposes of cost allocation (e.g., terms of cost containment provisions, rate of return, transmission incentives) before the public utility transmission providers in a region select a proposal? If so, what role? What steps could the Commission take to prevent such a role from creating undue delays in transmission planning processes?**

The CAISO has evaluated the rate-related components of proposals in competitive solicitations and has experienced no significant barriers or challenges to performing this function. The CAISO's competitive solicitation process timeline allows it to solicit proposals for all regional projects subject to competitive solicitation, including near-term reliability projects and to select approved project sponsors in a timely manner. Based on its successful competitive solicitations conducted, the CAISO sees no need for the Commission to pre-judge the rate-related components of competing proposals before a regional planner selects a proposal. The CAISO also respectfully suggests that a general role for the Commission in evaluating competing proposals where no utility has submitted a rate filing may contravene the Federal Power Act. Absent a finding that an existing rate is unjust and unreasonable under Section 206 of the Federal Power Act, the Commission generally does not have authority to direct the decisions a utility will undertake prior to the submission of a rate proposal, petition for declaratory order, or other submission to the Commission. Even if the Commission concludes that it is appropriate to take on a role in evaluating the rate-related components of competing proposals, the CAISO is concerned that such an additional step could significantly extend the timelines for completing competitive solicitations.

The CAISO's existing timeline requires a relatively expedited consideration of project proposals. Following the close of the bid window, the CAISO has up to 35 business days to validate the applications and, after validation, the CAISO has up to 35 business days to qualify the project sponsors.[90] After qualification, the CAISO has 60 business days to complete the

[90] Table 2-1 of the Business Practice Manual for the Transmission Planning Process.

comparative analysis, select a project sponsor, and draft the project sponsor selection report. Any evaluation by the Commission should allow the CAISO sufficient time to complete these activities within the aforementioned timeframe. In response to Question #7 of Panel 3, the CAISO has noted that to fit within the CAISO's selection timeline, the Commission would need to complete any evaluation of requested incentives or establish a return on equity for a project sponsor within approximately 70 business days after the competitive solicitation bid window closes.

The CAISO believes that the current process is working and that it is unnecessary for the Commission to take over the role of evaluating all of the cost-related aspects of competitive solicitation proposals and determine the best proposal from a cost perspective. Also, based on the CAISO's experience with cost containment proposals, evaluating cost containment proposals often requires assessing matters not purely cost of service or rate-related. Project sponsors have proposed cost cap exclusions or adjustment mechanisms related to route or site changes, increased levels of environmental mitigation, and regulatory actions that affect project schedule, scope, or location. Under these circumstances, the CAISO and its consultants have had to (1) evaluate route and environmental risks and challenges, (2) examine potential route alternatives, (3) assess the risk that a siting agency might modify the route (and what the extent of the modification might be) or impose mitigation measures that are more costly than those contemplated by a project sponsor, and (4) analyze potential schedule risk that could result from siting authority actions and its potential impact on cost. In numerous competitive solicitations, the CAISO has had to assess site conditions and the need for special construction techniques in evaluating and comparing potential project costs and cost escalation risk. Evaluating these factors can require consideration and analysis of matters other than rates and cost of service, including transmission planning, permitting and siting, local topography, route/site conditions, rights-of-way concerns, environmental conditions and regulation, state siting policies, preferences, and laws, construction challenges, potential schedule impacts, and state regulatory affairs.

An option the Commission might consider is issuing a policy statement that provides narrowly targeted, up-front guidance to planning regions regarding their evaluation of individual cost containment components such as ROE, rate incentives, levelized cost of service proposals, or rate designs that push cost recovery out into the future. The Commission might identify what specific assumptions planning regions should make when (1) project sponsors cap their ROE at different levels for the life of the project, (2) some project sponsors cap their ROE but others do not, or (3) some sponsors agree to forgo ROE incentives but others do not. That would provide planning regions with more concrete information on which to base their decisions without requiring time-consuming, “deep dives” into fact-intensive, project-specific issues or comprehensive analyses of proposed “outs” and cost adjustment provisions. It would also avoid the need to conduct costly and resource-intensive rate-type proceedings and the general inefficiency of having planning-related decisions being made in multiple forums.

Also, as discussed in the CAISO's response to Question #7 of Panel Three, another approach might be for the Commission to rule on incentive and ROE filings on a case-by-case basis before the planning region commences its comparative analysis to select an approved project sponsor. A more limited review of that nature might be more achievable from a timing perspective than evaluating the overall cost containment proposals of competing project sponsors and would provide more granular evidence for planning regions to use in their assessments. The CAISO notes that the schedule within which the Commission must act would still be tight (and it is unknown what the volume of proceedings and scope of the controversies would be).

**<u>Question #3:</u> The Commission has accepted proposals to allow incumbent and non-incumbent transmission developers to recover, under certain circumstances, costs associated with developing transmission projects that are proposed but not selected in a regional transmission plan for purposes of general cost allocation. Should the Commission reexamine, in general, whether such costs may be recovered?**

The CAISO does not believe that the record supports a general reexamination of cost recovery for proposals developed in planning processes and, , does not support a directive that all transmission developers participating in CAISO competitive solicitations be permitted to recover the costs associated with developing their bid submission proposals. The CAISO is already seeing healthy participation and competition in the transmission planning and competitive solicitation processes providing ratepayer benefits. The CAISO does not believe additional incentives are necessary to spur competition. Reimbursing all participating project sponsors for these costs will unnecessarily increase the costs borne by ratepayers and reduce the benefits achieved from competitive solicitations, with no guarantee that such an approach will produce lower cost proposals. The CAISO is concerned that giving every project sponsor a "no risk bite at the apple" could simply increase the number of proposals or encourage project sponsors to spend more money on their submissions -- both actions increasing the costs to ratepayers -- without providing corresponding benefits to ratepayers. Also, it could unnecessarily increase the burdens on CAISO staff.

The CAISO notes that, unlike a sponsorship model, its competitive solicitation process does not require project sponsors to undertake costly engineering studies and formally design and submit specific transmission projects to the CAISO for consideration. Instead, the CAISO collaboratively works with stakeholders to determine the most cost effective solution to an identified need, and interested developers then compete to build the project identified during the collaborative transmission planning process. The CAISO does not just identify the needed transmission solution, it also determines the general functional specifications for the project and makes them public at least 30 days prior to the opening of the competitive solicitation window. The costs of participating in a CAISO competitive solicitation process should be significantly less than the cost of participating in other types of competitive transmission models.

In summary, the CAISO is concerned that granting developers a "risk-free" opportunity to propose projects and participate in competitive solicitations will drive up costs -- and potentially offset any cost reductions achieved through the competitive solicitation -- without providing any benefits. Also, it is inconsistent with the CAISO's Commission-approved tariff provisions requiring participating transmission developers, not ratepayers, to pay for the CAISO's costs of conducting a competitive solicitation.[91]

**<u>Question #4:</u> Which entities should monitor, verify, and/or enforce compliance with cost containment provisions of selected transmission facilities? What are effective ways for them to do so and what are the advantages and disadvantages of different approaches?**

The CAISO includes the binding cost containment commitments of the approved project sponsor in its project sponsor selection report. That can inform CAISO stakeholders' participation in the transmission rate incentive and rate proceedings of approved project sponsors. Those stakeholders are well positioned and adequately informed to monitor compliance and address any concerns in those proceedings.

The CAISO incorporates all of the binding cost containment commitments that an approved project sponsor proposed in its competitive solicitation application into the Approved Project Sponsor Agreement ("APSA"). However, the CAISO does not have enforcement authority over transmission costs and does not set transmission rates. Only the Commission has authority over the

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91 CAISO tariff section 24.5.5.

implementation and enforcement of transmission rates and incentives. The CAISO is wholly reliant on the Commission to enforce any binding cost containment provisions reflected in an APSA. The Commission can verify adherence to cost containment commitments and enforce binding cost containment commitments under its ratemaking authority.

To facilitate this effort, one option would be for the Commission to require all approved project sponsors to submit executed APSAs with their section 205 filings to establish rates for the project and petitions for rate incentives. To the extent approved project sponsors seek and are awarded incentives prior to execution of the APSA, the Commission could require them to submit the executed APSA on compliance so the Commission can reconsider any previous rulings, if necessary.[92]

**PANEL THREE: TRANSMISSION INCENTIVES AND COMPETITIVE TRANSMISISON DEVELOPMENT PROCESSES**

**Question #1: Should the Commission pre-approve any or all of the following incentives for transmission facilities selected in a regional plan for purposes of cost allocation through competitive transmission development processes: 100 percent construction work in progress in rate base; regulatory asset treatment; or recovery of 100 percent of the cost of abandoned facilities?**

The CAISO supports preapproval for regulatory asset treatment and recovery of 100 percent of the prudently incurred costs of abandoned facilities. The CAISO believes that the Commission should permit project sponsors, on a

[92] The CAISO will also reflect the binding cost containment commitments of the approved project sponsor in its project sponsor selection report.

case-by-case basis, to choose whether they want to use construction work in progress ("CWIP") or AFUC and should not mandate use of CWIP.[93]

The CAISO believes that preapproval of abandoned plant recovery is appropriate when a facility has been initially proposed and approved through a process involving stakeholder input, such as the CAISO's collaborative transmission planning process, and the subsequent decision to abandon the project is not under the control of project developer. The CAISO tariff obligates approved project sponsors to make a good faith effort to obtain all approvals and property rights for and to construct needed transmission projects reflected in the annual transmission plan for which they are responsible.[94] Within 120 days after the CAISO selects an approved project sponsor, the approved project sponsor must submit a construction plan to the CAISO. Approved project sponsors should diligently and expeditiously proceed with reliability projects so such projects can be completed in a timely manner, and the CAISO does not face potential reliability criteria violations. Because approved project sponsors must immediately commence project development after being selected, the CAISO believes that they should be pre-approved for abandoned plant cost recovery to mitigate against any risk of cost non-recovery.

Today, transmission developers face significant risk in developing and pursuing projects given the rapid changes in the industry, the risk that planning regions may find that projects approved in one transmission plan are no longer

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[93] The CAISO notes that many project sponsors in its competitive solicitations have opted for AFUDC rather than CWIP.

[94] CAISO tariff section 24.6.

needed in a subsequent transmission plan as the result of changed circumstances, and the significant challenges developers face in obtaining siting approvals. These and other factors can lead to project abandonment. Although the CAISO can consider potential abandonment and regulatory risk in determining which transmission solutions to approve, the CAISO does not determine what facilities ultimately are approved and sited. State and federal siting authorities control siting decisions; these decisions are beyond the control of the CAISO and individual transmission developers. Preapproving abandoned plant cost recovery will encourage participation in competitive transmission processes, promote the timely and diligent pursuit of approved projects, and protect transmission developers from undue risk.

**<u>Question #6:</u> Transmission developers face at least two types of risks: risk associated with participation in the transmission planning processes and risk associated with developing a transmission project. The Commission's current incentive policies focus on the latter. Please comment on risks associated with participation in the transmission planning processes and indicate what, if any, changes to the planning processes could mitigate the risk.**

The CAISO's transmission planning process is open to all stakeholders, and all stakeholders can suggest solutions to meet identified needs or modifications to identified solutions. The CAISO receives input form a host of stakeholders. There is no ownership right to a transmission solution identified during the transmission planning process and reflected in the annual transmission plan. Rather, all regional transmission solutions approved by the CAISO, except upgrades to existing transmission facilities, are subject to competitive solicitation. Transmission developers face no risk in participating in the CAISO's planning process; although, they may face a cost. Transmission developers can still participate in a competitive solicitation even if they do not actively participate in the transmission planning process. Providing incentives under these circumstances could unnecessarily increase costs.

**<u>Question #7</u>: Do public utility transmission providers in regions consider that a transmission developer may request and be awarded transmission incentives when evaluating transmission proposals and, if so, how? For example, how would public utility transmission providers in regions consider a proposal with a potential transmission incentive given that the incentive might or might not be granted? Should a competitive transmission development process clearly state whether, and, if so, how incentives should be part of a developer's proposal and how requests and grants of such incentives will be evaluated by the public utility transmission providers in the region? Is there an optimal time for submission of incentive requests to the Commission and for Commission decisions upon them?**

### A. The CAISO's Consideration of ROE Incentives

A few project sponsors in CAISO competitive solicitations have made binding commitments to forgo return on equity ROE incentives other than the 50 basis point adjustment for being a member of an ISO/RTO. Other project sponsors have agreed to cap their return on equity, inclusive of any ROE incentives. If transmission developers voluntarily agree to forgo ROE incentives, the Commission should not preclude that from being a consideration in a competitive solicitation process.

All else being equal, the CAISO would favor a proposal that forgoes return on equity incentives over a proposal that does not forgo them because it reduces the risk of cost escalation and can reduce costs (if the developer otherwise would have been eligible to receive them), benefitting ratepayers. The CAISO must assume a project sponsor may receive incentives unless the sponsor commits to not pursue them.

As discussed above in response to Question #4 of Panel One, in CAISO competitive solicitations, project sponsors have proposed to cap different cost elements, agreed to forgo (or not forgo) certain ROE incentives, proposed construction cost caps at different levels (or no construction cost caps), proposed different "outs" or adjustments to their caps, and demonstrated project features expected to make the project more or less costly. Under these circumstances, the CAISO must evaluate the proposals based on the totality of facts, assessing the scope and robustness of the cost containment measures and the risk and potential magnitude of cost escalation.[95] The CAISO and its expert consultant can run revenue requirement sensitivities that include and exclude reasonable values for ROE incentives, depending on what a project sponsor has proposed. To the extent a project sponsor makes no binding commitment to forgo a specific ROE incentive, the CAISO will treat that sponsor on an equal footing with every other project sponsor that made no binding commitment to forgo that ROE incentive because the CAISO cannot predict with certainty whether the Commission will grant (or deny) such incentive for a particular project sponsor. The CAISO can run illustrative revenue requirement sensitivities for these project sponsors reflecting both no incentive and possible, reasonable incentive levels.

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95 The CAISO keeps apprised of Commission orders regarding ROE incentives, and they can inform the CAISO's assessment of potential risk.

For project sponsors that agree to forgo a specific ROE incentive, the illustrative revenue requirement for that project sponsor would reflect no ROE incentive, enabling the CAISO to compare a sponsor's illustrative revenue requirement with no incentives to other project sponsors' illustrative revenue requirements reflecting various incentive rate levels.

Binding commitments to forgo rate incentives have not been the deciding factor in a competitive solicitation. As an example, in the Delaney-Colorado River competitive solicitation, two project sponsors proposed to forgo ROE incentives other than the 50 basis point adder for RTO membership. One of the project sponsors proposed no construction cost cap, and the other proposed relatively high construction cost cap. The CAISO concluded these proposals were not as strong as a proposal with very robust construction cost and ROE caps (inclusive of any ROE incentives).[96] In the Estrella substation competitive solicitation, the CAISO found that a proposal to forgo ROE incentives was not as strong as a proposal with a robust construction cost cap and significantly lower transmission interconnection costs (that were not part of the project subject to competitive solicitation but which would be borne by CAISO ratepayers).[97]

These competitive solicitations show that forgoing ROE incentives has been less influential where another project sponsor has proposed significantly more robust cost containment measures, in particular a more robust construction cost cap. A proposal to forgo ROE incentives could be more influential if project sponsors' other cost containment measures are relatively close or where it

[96] *See* Delaney-Colorado River Selection Report at 117-19.
[97] *See* Estrella Substation Selection Report at 67-69.

unclear which sponsor has the "best" cost proposal because it reduces cost escalation risk and can produce a "cross-over" point between project sponsor's illustrative revenue requirements.

In the CAISO's recently concluded "lessons learned" stakeholder process, certain stakeholders urged the CAISO to focus on the rate incentives that project sponsors might seek from the Commission. In response, the CAISO has revised its competitive solicitation application form to include these requirements: (1) project sponsors must disclose in their application the specific rate incentives they intend to seek from the Commission; and (2) project sponsors that intend to seek incentives must compare the estimated cost of the project with and without incentives. In addition, the CAISO committed to document its analysis of project-specific incentives in its project sponsor selection report to more fully inform ratepayers of the CAISO's consideration of this factor.

### B. Commission Consideration of ROE Incentives

It is uncertain whether there is an optimal time for a project sponsor to submit a request for rate incentives. If a project sponsor submits the request before it has been awarded the project, it risks incurring costs unnecessarily (if it is not the successful bidder). Also, a project sponsor may not want other competitors to know what its proposed cost containment measures are pending a decision by the CAISO, particularly if the CAISO is staging multiple competitive solicitations in a cycle. If a project sponsor submits the request after the CAISO has awarded it the project, the CAISO will not have the benefit of knowing what incentives the sponsor will receive when the CAISO evaluates the application.

The Commission also inquires when an optimal time would be for it to decide on a request for rate incentives. From the CAISO's perspective, the Commission must issue an order in time for the CAISO to consider it in its comparative analysis of project sponsors, which occurs during the "selection" phase of the competitive solicitation process. Following the close of a competitive solicitation bid window, the CAISO can take up to 35 business days to validate the applications and, after validation, the CAISO can take up to 35 business days to qualify the project sponsors.[98] The selection phase begins 70 business days after the close of the bid window. The CAISO has up to 60 business days to conduct its comparative analysis and select an approved project sponsor. To fit within this schedule, if a project sponsor submits a rate incentive request prior to being selected and intends to have the CAISO consider the disposition of the request, the Commission would need to issue an order on rate incentives approximately 70 business days after the bid window closes.

The CAISO offers no opinion on how soon after submitting a comprehensive application to the CAISO project sponsors could file a petition for incentives with the Commission. Also, it would be more beneficial from an apples-to-apples comparative analysis perspective if the Commission could rule on the incentives for **all** project sponsors competing in the solicitation before the CAISO becomes immersed in its comparative analysis.

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[98] Table 2-1 of the Business Practice Manual for the Transmission Planning Process.

Even if the Commission issues no decision on a request for incentives until after the CAISO selects an approved project sponsor, the CAISO believes that it has a fair and reasonable approach to evaluating potential rate incentives for project sponsors in the competitive solicitation process. The CAISO welcomes any targeted guidance the Commission can provide regarding a planning region's consideration of ROE incentives if the Commission has not yet ruled on such incentives.

## PANEL FOUR: INTERREGIONAL TRANSMISSION COORDINATION ISSUES

**Question #1: What factors have contributed to the lack of development of interregional transmission facilities (i.e., a transmission facility that is located in two or more transmission planning regions)? Are there actions the Commission could take to facilitate such development?**

Order No. 1000 was intended to lead to the identification and construction of more efficient or cost effective transmission projects to meet reliability, economic, and public policy needs. However, the CAISO's interregional tariff provisions and the interregional tariff provisions of the other planning regions in the Western Interconnection did not go into effect until October 1, 2015, and the first group of proposed interregional projects were not submitted to the Western Planning Regions until March 31, 2016. Considering that it could take 7 to 10 years to identify, develop, and construct a large scale transmission facility such as an interregional transmission project, there has been insufficient time for the CAISO (or anyone else) to adequately assess the ultimate success or effectiveness of the newly implemented interregional transmission planning process. The interregional coordination process that the Commission approved for the Western Planning Regions spans a **two year** cycle and the CAISO and other Western Planning Regions are only nine months into this interregional coordination cycle. The Western Planning Regions are in the midst of dealing with their first inter-regional transmission project proposals and are becoming more familiar working with each other. Actions taken by the Commission at such an early point in the interregional coordination process before the first planning cycle is even completed could frustrate ongoing efforts to implement interregional coordination in the West.

The Western Planning Regions collaboratively worked together to reach consensus and developed joint tariff language that established the framework for evaluating interregional projects. The CAISO believes the process is adequate to consider the need for and, if appropriate, approve interregional projects. At a minimum, the Commission should wait until after the current coordination cycle is completed, and possibly until after next coordination cycle is completed, before taking any actions to modify the interregional coordination requirements of Order No. 1000. There has not been sufficient experience for planning regions to even conduct internal lessons learned assessments of the interregional planning process.

**<u>Question #2:</u> What would be the advantages and disadvantages to the use of common models and assumptions by public utility transmission providers in regions in their interregional coordination processes? Are there problems that such an approach would solve or create? If such common models and assumptions could be developed, how should they be developed and by which entity or entities?**

The best approach to answer this question is to address "models" and "assumptions" separately. First, models are already "common" across the western interconnection. WECC's Annual Study Program ("Study Program") provides base cases for WECC members, staff, and stakeholders that facilitate the use of common model information in reliability, risk, and economic assessments of the western interconnected electric system as it is planned over a traditional ten year planning horizon. Further, the technical data and information that define the models of the electrical network is the backbone component of the power flow and production cost cases that WECC and its stakeholders utilize in their analysis. WECC and its stakeholders have long ascribed to the fact that coordinating technical data and information among all WECC members plays a significant role in ensuring that the models in the power flow and production cost programs are consistent across all WECC datasets. Through the Study Program, WECC follows long-established data protocols for collecting, coordinating, validating, and disseminating model data from its Data Submitters, defined as NERC Registered Entities (*i.e.,* Balancing Authorities (BA), Transmission Planners (TP) and/or Planning Coordinators (PC)) in the U.S. and by other entities in Canada and Mexico (or their designees), to submit their data to WECC. The CAISO supports WECC's Study Program and believes it is a critical component of a coordination process that ensures common models are incorporated in data sets used in regional planning studies.

The consideration of "common assumptions," however, is more complex because it is closely related to certain geographic variables that must be considered in how assumptions are determined. Although "models" should reflect the specific electrical parameters of an electrical network and should be kept consistent throughout many studies, "assumptions" reflect the specific characteristics of a planning region that must be considered in any planning region's reliability assessment. Assumptions, by definition, reflect specific characteristics of a particular study or region conducting the study and are more regional. Examples include a planning region's need to assess certain load levels, generator patterns, or summer/winter peaking needs that occur within its region, but not necessarily in other planning regions. The CAISO does not believe that requiring common assumptions across the Western Planning Regions follows existing planning and operating study methodologies that, when followed, should reflect the specific characteristics of the region performing the study.

Formation of the Western Planning Regions under Order No. 1000 created a new "class" of stakeholder within WECC. Under Order No. 1000, the Western Planning Regions have certain obligations to coordinate their data in their regional planning processes through interregional coordination. Therefore, although WECC intends to continue its Study Program, the Western Planning

Regions coordinate planning data and information in their respective planning regions, and they cannot cede that responsibility to WECC.

However, the Western Planning Regions recognize the importance of WECC's Study Program and its data protocols for collecting, coordinating, validating, and disseminating model data from Data Submitters within the Western Planning Regions. Beginning in the latter part of 2015, the Western Planning Regions considered the relationship of their Order No. 1000 planning data and information coordination obligations to WECC's Study Program to determine if there was an opportunity to jointly work with WECC to develop a model coordination protocol that would allow the Western Planning Regions to take advantage of WECC's existing Study Program processes, while maintaining their coordination responsibilities under Order No. 1000.

Beginning in January 2016, the Western Planning Regions proposed that WECC create a Western Planning Region focused data set called the Anchor Data Set. The Western Planning Regions proposed the concept of the Anchor Data Set to reflect the results of their regional transmission plans in a single data set, coordinated by WECC, to be used by the Western Planning Regions in developing their future planning cases as part of their ongoing, cyclic processes. The Western Planning Regions believed that collaboratively working with WECC to bring the Anchor Data Set to reality could facilitate the Western Planning Regions data collection and coordination efforts and the Western Planning Regions, WECC, and stakeholders would have access to an accurate data set that reflected all of the regional plans that could develop their planning cases on an ongoing basis.  The CAISO supports development of the Anchor Data Set as an integral part of WECC's Study Program.  The development of the Anchor Data Set is included in WECC's "Joint PCC-TEPPC Review Task Force (JPRRTF) Report and Recommendation (Proposal)"[99] that will be considered for approval by the WECC Board of Directors in December 2016.  Developing the Anchor Data Set will ensure the coordination of all planning data and information across the Western Planning Regions.

**Question #3:  Should the Commission revisit Order No. 1000's requirement that an interregional transmission facility be selected in the regional transmission plan of all transmission planning regions where the facility will be located before it is eligible for interregional cost allocation?  Why or why not?**

The Commission should not revisit Order No 1000's requirement that an interregional transmission facility must be selected in the regional transmission plans of all transmission planning regions where the facility will be located. Customers in a planning region should not be required to pay any costs of an interregional project that the planning region does not find needed and does not include in its transmission plan.  Absent such a requirement, parties could build an interregional line not needed by a region to meet its requirements and then attempt to pass on some costs of the line to others to defray the cost impact on customers in the region(s) where it is needed.  Any involuntary allocation of the costs of an interregional project is unreasonable and inappropriate.

[99] https://www.wecc.biz/Reliability/JPTRTF%20Proposal.pdf?Web=1

Individual planning regions still retain the ability in their regional planning process to approve projects that extend into other planning regions and provide benefits to their regions. In its regional planning process the CAISO approved the Harry Allen–Eldorado transmission line (within WestConnect in Nevada) and the Delaney-Colorado transmission line (within WestConnect in Arizona and California).

**Question #4: What reforms, if any, could the Commission adopt to facilitate the identification of shared interregional transmission needs?**

An individual planning region still retains the ability in its regional planning process to approve projects that extend into other planning regions. The CAISO does not see a need for the Commission to adopt new or additional reforms to facilitate the identification of shared interregional transmission needs. As the CAISO has alluded to earlier, the interregional planning process in the Western Interconnection is still in the middle of the first year of a two-year cycle. The Western Planning Regions have insufficient experience under the existing interregional planning process to credibly and comprehensively assess it. The Commission should allow existing process to perform, and for planning regions to gain experience with them, before assessing or ordering changes to the process.

**<u>Question #5:</u> Do interregional cost allocation methods accepted by the Commission, such as the "avoided cost only" method, impede interregional transmission coordination? If so, are there alternative cost allocation methods that could better facilitate interregional transmission development? Would those methods be consistent with interregional transmission coordination processes or would the interregional transmission coordination processes need to change to accommodate such alternative cost allocation methods?**

Because the purpose of interregional coordination is to determine whether an interregional project might displace one or more projects in a regional transmission plan, the cost of the displaced project(s) represents a reasonable measure of the benefits of the interregional project for cost allocation purposes.

The CAISO notes that the Western Planning Regions agreed to a common cost allocation methodology in the joint tariff language. Based on its experience, the CAISO does not believe that cost allocation has impeded interregional coordination.

**PANEL FIVE; REGIONAL TRASNMISISON PLANNING AND OTHER TRANSMISSION DEVELOPMENT ISSUES**

**<u>Question #1</u>: To maximize the benefits of competition, should the Commission broaden or narrow the type of transmission facilities that must be selected through competitive transmission development processes? If so, how?**

Under the CAISO tariff, all regional transmission facilities are subject to competitive solicitation except upgrades to existing transmission facilities. The Commission should allow regions to remove from competitive bidding projects that involve constructing both transmission and distribution facilities at a new substation connected both to the transmission system and the distribution system. Distribution system upgrades are not subject to the Commission's jurisdiction. Completing a project of this nature requires significant coordination and negotiation between the entity building the transmission upgrades at the station and the entity building the distribution upgrades, to the extent they are different entities. A project of this nature also raises issues regarding acquiring land sufficient to accommodate both the transmission facilities and the distribution facilities and the environmental permitting for the two yards. It would be much more efficient, and less costly to have one entity handle both the transmission upgrades and the distribution upgrades at the new substation.

**Question #2: Has the introduction of competition into the regional transmission planning processes led public utility transmission providers to focus more on developing local transmission facilities or other transmission facilities not subject to competitive transmission development processes?**

Based on the CAISO's experience, introducing competition into the regional transmission planning process has not led to a focus on developing local transmission facilities or other transmission facilities not subject to competitive transmission processes. Unlike many planning regions, the CAISO's transmission planning process applies to all transmission upgrades to and expansions of the CAISO controlled grid including local transmission facilities whose costs are not allocated regionally but, instead, are recovered through the Local Access Charge.[100] Although the Commission stated in Order No. 1000-A

[100] Pursuant to the CAISO Transmission Control Agreement, the CAISO does all of the transmission planning with respect to the facilities of its participating transmission owners with very limited exceptions (*i.e.,* facilities that do not affect the CAISO grid). Further, all network transmission expansions of the CAISO's participating transmission owners are subject to CAISO operational control unless the CAISO determines that they are not necessary to perform its responsibilities under the tariff. Thus, the CAISO essentially does both the local transmission planning and the regional transmission planning, as those terms are defined in Order No. 1000,

that it "do[es] not require that the transmission facilities in a public utility transmission provider's local transmission plan be subject to approval at the regional or interregional level, unless that public utility transmission provider seeks to have any of those facilities selected in the regional transmission plan for purposes of cost allocation,"[101] CAISO participating transmission owners cannot opt out of the CAISO transmission planning process for their local network transmission facilities. In its transmission planning process, the CAISO, an independent entity, determines the need for and approves all new network transmission facilities whether the costs are allocated regionally or locally.

The result of the CAISO's planning process is a comprehensive plan that ensures reliable service to CAISO's ratepayers and enables achievement of state policy goals in a coordinated, efficient, and cost-effective manner. Also, it ensures that individual transmission owners cannot favor local projects over regional ones to avoid competitive transmission processes.

The CAISO also cautions the Commission not to assume that planning regions are approving upgrades to existing facilities (which are not subject to competitive solicitation) instead of new greenfield projects simply to avoid conducting competitive processes. Planning regions must consider several factors in determining the solution to meet an identified need, including, but not limited to, the urgency of the need and the time required to complete alternative

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for its participating transmission owners. Individual transmission owners do not undertake the planning of local network facilities and then roll them into a larger CAISO transmission plan. Instead, the CAISO plans both the local facilities and the regional facilities and reflects them in a single annual transmission plan.

[101] Order No. 1000-A at P 190.

solutions, the cost effectiveness and efficiency of the solution, applicable siting laws and policies, and the abandonment risk a potential alternative presents (including regulatory and route risks).

If a planning region identifies an immediate reliability need, it must focus first on solutions with a short lead time and can address the need in a timely manner. This was the case when the CAISO experienced the unexpected retirement of the San Onofre Nuclear Generating Station. The CAISO not only needed long term solutions, it needed solutions to meet near-term reliability needs. To address Southern California reliability, the CAISO developed this three-track strategy: (1) first pursue transmission solutions that reduce local capacity requirements, utilize existing facilities and rights of way, and minimize the permitting risk and timing of permitting; (2) initiate a longer term analysis to assess the need for projects strengthening the LA Basin/San Diego connection (*i.e.*, optimizing use of the corridors in the combined area); and (3) explore new transmission lines into the LA Basin/San Diego area.[102]

Planning regions must also be mindful that they do not have siting authority. They depend wholly on state (and other) regulatory authorities to approve and site projects. In evaluating alternative transmission solutions, planning regions must consider applicable laws and siting agency processes, preferences, policies, and decisions to minimize regulatory and abandonment risk. As discussed *supra,* California law and policy encourages (1) utilizing existing rights-of-way by upgrading existing transmission facilities instead of

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102 *See* CAISO 2013-2014 Transmission Plan at 27, 95-108.

building new transmission facilities, (2) expanding existing rights-of-way, and (3) creating new rights-of-way, in that order.[103] Project sponsors seeking certificates of public convenience and necessity from the California Public Utilities Commission face close scrutiny regarding the cost and environmental impacts of their project and the feasibility and impacts of alternative solutions. Failure by the CAISO to consider these matters during the transmission planning and competitive solicitation processes -- and in particular to diligently identify and fully vet possible alternatives before recommending a solution -- can increase regulatory risk and the risk of project abandonment for projects it approves. This can cause abandoned plant filings with the Commission, ratepayers bearing unnecessary costs, and potentially detrimental delays in completing the solutions to meet identified needs.

**Question #4: What types of information (please be specific) could be used to measure the impact of the Order No. 1000 reforms on transmission development? For example, what information could be used to evaluate whether the more efficient or cost-effective transmission facilities are being selected within and between transmission planning regions? How should that information be tracked and reported or posted? Should common metrics be developed for evaluation of the information?**

The CAISO submits that "evaluating whether the more efficient or cost-effective transmission facilities are being selected within and between transmission planning regions" will not provide a valid measure of the benefits of Order No. 1000. Prior to Order No. 1000, the CAISO's tariff and business

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[103] *See* California Public Utilities Code, Section 1005.1; Senate Bill 2431, Stats. 1988, Ch. 1457 (the so-called "Garamendi Principles"); Senate Bill 1059, Chapter 638, Statutes of 2006 (Transmission Corridor Designation).

practice manual already required the CAISO to select the most cost-effective transmission solutions.[104] Such a metric may indicate how planning regions are complying with Order No. 1000, but it will not show the benefits of Order No. 1000, at least for the CAISO.

Further, the CAISO believes that it may be difficult to adopt common metrics for all planning regions because planning regions have implemented Order No. 1000 differently. Some have sponsorship models; others conduct competitive solicitations; and there are various hybrids and permutations of both. Some planning regions utilize request windows; others do not. Further, the information requirements for stakeholders proposing transmission (and non-transmission) solutions can vary significantly between regions.

For entities like the CAISO, metrics demonstrating the benefits of Order No. 1000 would be those that show the benefits of conducting a competitive solicitation. These metrics might include (1) comparing the planning cost estimate of the transmission solution to the construction cost cap proposed by the approved project sponsor, and (2) listing any other binding cost containment measures proposed by the approved project sponsor. The CAISO could track the information and post it annually on its website.

The CAISO also submits that finding meaningful, straightforward, and understandable metrics is not as simple as merely comparing the cost of one solution to the cost of another. Different solutions may (1) provide different levels of operational flexibility, efficiency, expandability, or safety, (2) use materials of a

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[104] *See, e.g., Transmission Technology Solutions, LLC et al. v. California Independent System Operator Corporation*, 135 FERC ¶ 61,077 (2011).

different quality, (3) result in different levels of losses, (4) present different siting and permitting challenges, (5) pose different levels of environmental risk, (6) present different route or abandonment risks, (7) meet a different number of needs, (8) be more or less suited to meeting a shorter-term need; (9) provide different levels of reliability, or (9) have different schedule risks. To show it selected the most cost-effective or efficient alternative, a planning region could have to provide an extensive, detailed analysis and explanation. That goes far beyond a mere metric that is easily trackable. Any tracking of metrics should be clear, straightforward, and not unduly increase the burdens on planning regions.

Also, there is a risk in evaluating "whether the more efficient or cost-effective transmission facilities are being selected" because counter-factual outcomes can become the basis for comparison. However, the counterfactual does not get built; so, planning regions will not know what it would have cost to construct, operate, and maintain the counterfactual compared to what it cost to construct, operate, and maintain the solution approved in the planning region's transmission plan. Excessive time and resources should not be diverted to assess what the (unverifiable) costs might have ultimately been for a project not selected in the planning process.

The Commission also must be mindful that it is still early in the Order No. 1000 implementation process. Although the CAISO has conducted nine competitive solicitations, no project has even commenced construction. Other planning regions have even less experience. Ultimately any final assessment must consider the total costs of the project placed in service and reflected in transmission rates, including O&M cost levels.

**<u>Question #5:</u> How do the sponsorship model and competitive bidding model, respectively, and variations on these models, capture the benefits of competition, such as increased innovation and selection of the more efficient or cost-effective transmission facilities? What are the positive features and drawbacks of each model? How can their drawbacks be addressed?**

### A. Sponsorship Models vs. Collaborative Models With A Competitive Solicitation

The CAISO employs a collaborative transmission planning process in which it works with stakeholders to identify transmission and non-transmission solutions that meet identified needs in the "more efficient or cost-effective" manner. If a solution ultimately selected by the CAISO and reflected in the annual transmission plan is a regional transmission solution, the CAISO then conducts a competitive solicitation -- open to all interested entities -- to select an approved project sponsor to construct, own, operate, and maintain the needed solution.

The CAISO's planning process is a collaborative effort; every stakeholder can suggest solutions to meet identified needs or modifications to other potential solutions identified in the planning process. A diverse group of stakeholders actively participate in the CAISO"s planning process and contribute to identifying potential solutions to meet needs -- investor owned utilities, municipal utilities, neighboring balancing authority areas, end users, consumer groups, state agencies, environmental groups, independent transmission developers, storage and demand response providers, generation developers including renewable generation developers, and advanced technology and energy efficiency advocates.

The CAISO's model allows it to first identify the most efficient or cost-effective solution and then obtain further cost savings by bidding such solution out in a competitive solicitation.[105] This same model also allowed the CAISO to respond promptly, comprehensively, and effectively to address the huge gap and system impacts created by the unexpected closure of the San Onofre Nuclear Generating Station. The collaborative process resulted in adoption of several innovative near-term and longer-term transmission and non-transmission[106] solutions. The CAISO was able to maintain reliability and support achievement of the California's policy goals despite this significant, unexpected change in system topology.

The CAISO strongly disagrees with the claims some have made that competitive bidding models do not promote innovation or creativity.[107] Participation in the CAISO's transmission planning process has been robust. Not only has the CAISO seen a broad spectrum of stakeholder interests actively participating in its transmission planning process, it has seen increased

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105 The competitive solicitation process also provides an opportunity for innovation and alternatives. The general project requirements established by the CAISO do not preclude project sponsors from proposing to use more efficient conductors and equipment, advanced technologies that meet the needs of the project, different tower structures, different physical designs, and alternative structure configurations, including existing system reconfigurations.

106 For example, the Huntington Beach 3 and 4 generators were converted into two 140 Mvar synchronous condensers.

107 Interestingly, many of the persons making these claims are the same persons pointing first and foremost to the outcomes of the CAISO's competitive solicitation process as primary evidence that the benefits of Order No. 1000 are being seen and that Order No. 1000 is working as intended.

participation by non-traditional stakeholder participants and strong and innovative proposals from a multitude of stakeholders. Stakeholders have identified a broad range of solutions including, but not limited to, AC-to-DC conversions, underwater transmission lines (including oceanic and trans-bay), overhead and underground transmission lines, storage, demand response, generation solutions, generation conversions to synchronous condensers, reactive power devices, out-of-state transmission lines, pumped storage, energy efficiency, proposals that combine multiple technologies in an integrated approach, environmentally friendly alternatives that reduce losses and GHG emissions, and advanced technology solutions. The CAISO's experience also shows that transmission developers have identified projects they would like to build, and they actively participate in the CAISO's transmission planning process, including submitting economic study requests seeking to have the CAISO identify a need for such projects.[108]

The CAISO's collaborative planning model encourages all stakeholders, not just transmission developers, to recommend solutions or modifications to solutions to meet identified needs.[109] The CAISO's experience shows that the

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108 For example, in the CAISO's transmission planning process, LS Power identified a new Harry Allen-Eldorado transmission line, located in Nevada, as a solution that would provide economic benefits to CAISO ratepayers. This project was an extension of an existing line that LS Power had constructed in Nevada.

109 For example, under the CAISO's model, participating transmission owners submit suggested solutions (either transmission or alternatives to transmission) to identified reliability needs via a request window. CAISO tariff section 24.4.3. The tariff provides that the California Energy Commission, CPUC, and all other interested stakeholders can submit potential reliability solutions (either transmission or alternatives to transmission) after the deadline for the participating transmission owners. *Id.* The BPM gives them up to 60 days after the participating transmission owners submit their proposed reliability solutions. This allows all stakeholders to review the solutions submitted by participating transmission owners and either suggest their own alternative solutions or recommend improvements to the solutions identified by the transmission

CAISO and its stakeholders identify multiple solutions and alternatives for most identified needs. Alternatives are identified even for smaller projects below $50 million that CAISO management may approve.

Others have claimed that a competitive bidding model only provides value "around the edges." They claim there are a few construction companies and suppliers with equipment available and construction costs will be similar. They state there is only so far that returns on equity can be reduced and large savings cannot result from a competitive bidding model.

As an initial matter, these claims are based on the flawed premise that a sponsorship model attempts to find the most cost effective solution, but a competitive bidding model does not. This ignores that under the CAISO's competitive bidding model, the CAISO first undertakes a robust process to identify the most efficient or cost effective solution. However, unlike a sponsorship model, a competitive bidding model goes a step further and bids out the more efficient or cost-effective solution to competition obtaining additional cost savings. A competitive bidding model such as the CAISO's offers two levels of competition and potential cost optimization, not just one --- one with the stakeholders and the CAISO seeking to identify the more efficient or cost-

owners. CAISO transmission planners also independently evaluate and identify potential alternative solutions to identified reliability needs. This approach maximizes participation in determining the more cost effective or efficient solutions (both transmission and non-transmission) to meet such needs. The CAISO's planning process provides other opportunities for stakeholders to recommend solutions, including economic planning study requests, written comments during the stakeholder process, and at stakeholder meetings. In addition, the CAISO studies possible alternatives to meeting all identified needs and identifies appropriate technical studies. For example, CAISO tariff section 24.3.2 (g) requires that the transmission planning Study Plan provide "[t]o the maximum extent practicable, and where applicable, sensitivity analyses, including project solution alternatives, to be performed as part of the technical studies."

effective solution, and a second with potential project sponsors bidding to construct, operate, and maintain the more efficient or cost-effective solution.

Contrary to the suggestions of some that project sponsors' costs will be comparable, the CAISO's experience with competitive solicitations shows that the range of proposed construction cost caps between can vary greatly; we have seen as much as a fifty percent difference from the lowest cost cap for a project proposal to the highest cost cap for a different proposal to build the same project. The CAISO has seen proposed construction cost caps over 25 percent below the planning cost estimate for the project. In addition, the CAISO has seen robust caps on ROE,[110] debt, and the equity in the capital structure. Project sponsors have also committed to forgo ROE incentives, cap their O&M for specified periods of time, and agree to "penalties" if the project is not constructed on schedule. Not only does the CAISO believe that it has selected the most cost-effective transmission solution for all projects that have been subject to competitive solicitation, its solicitations have invited these additional cost benefits for ratepayers – benefits that amount to more than just "nibbling around the edges."

Competitive solicitations force project sponsors to "sharpen their pencils" and propose cost containment measures that will deliver the most cost-effective transmission solutions in a manner that maximizes benefits to ratepayers. That might mean that transmission developers must assume more risk, accept lower

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[110] For example, in the Harry Allen-Eldorado competitive solicitation, the approved project sponsor agreed to a ROE cap of 9.8 percent (inclusive of any incentive adders) for the life of the project.

returns on equity control costs, or forgo rate incentives to win a project. It is uncertain whether a sponsorship model will generate all of the additional savings or cost containment measures identified above because the focus is on project sponsors trying to identify what they think is the most cost effective set of facilities to meet the identified need, not on delivering the most cost-effective set of facilities at the lowest cost. The CAISO believes that a collaborative transmission planning process with robust and diverse participation followed up with a competitive solicitation can maximize the benefits for ratepayers.[111]

The CAISO also notes that not every identified need requires a creative, innovative, or "out-of-the-box" solution. Usually, identified needs can be resolved with straightforward solutions that are readily identifiable. Under those circumstances, if project sponsors only focus on identifying the more cost effective or efficient solution without also proposing robust construction cost

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111 The CAISO believes that its transmission planning process has more open participation because there is no ownership of an idea. It avoids a situation where transmission developers and public utilities are reluctant to discuss their ideas or provide any information. The CAISO believes that it is better to have an open dialog all the way through the planning process so that ideas can be collaboratively refined to come up with the best solution. The CAISO does not want its participating transmission owners and planning process participants to hold back information. Rather, the CAISO wants participants to openly share suggestions so the CAISO can identify the best solutions that will then be subject to competitive solicitation. During the planning process, the CAISO identifies general requirements for the solution (*see* tariff section 24.4.7) but does not dictate the specific materials, manufacturers, or equipment that project sponsors must use. For example the CAISO will not dictate the specific conductor a sponsor must use, but would allow the sponsor, during the solicitation to propose to use an advanced technology or a more (or less) efficient conductor. This allows stakeholders, including potential project sponsors, to suggest generic solutions during the planning process, while enabling project sponsors to propose specific designs, equipment, and configurations in their applications.

The CAISO also notes that the focus on collaboration carries over to the competitive solicitation process. The CAISO tariff expressly facilitates collaboration between multiple transmission developers. CAISO tariff section 24.5.2.1. There has been extensive collaboration between project sponsor sponsors in the competitive solicitations the CAISO has conducted, and consortiums have won three of the nine competitive solicitations. Collaboration can strengthen proposals by combining the strengths of the individual transmission developers.

caps, ROE caps, or other cost containment measures, then ratepayers will be denied potential benefits for many projects.

Finally, complying with the California Environmental Quality Act, requires developers seeking a certificate of public convenience and necessity ("CPCN") to identify multiple alternatives to the project identified in the transmission plan, awarded under a competitive solicitation. In the CPCN process, the California Public Utilities Commission and intervenors closely scrutinize proposals and analyze numerous alternatives to determine the best solution from both an environmental perspective and cost perspective. Given the significant scrutiny proposed solutions face, the CAISO and its stakeholders necessarily must carefully evaluate alternatives and identify the best solution from both the ratepayer and an overall societal perspective.

### B. Potential Enhancements To Competitive Transmission Processes

The CAISO conducts "lessons learned" reviews after each cycle of competitive solicitations and has sought to continually improve its competitive solicitations and make them more transparent. The CAISO urges the Commission to forbear from directing specific changes to existing processes that are working effectively, spurring competition and cost containment, and promoting the goals of Order No. 1000. Rather, the Commission should allow planning regions to work with their stakeholders to assess "lessons learned" and identify appropriate process enhancements.

Also the CAISO urges the Commission not to require use of pre-established weights or formulaic calculations, or require that least-cost drive all project sponsor selection decisions. That will only embed a level of arbitrariness into the selection process or focus selection decisions on a single criterion that could lead to inappropriate and problematic results. As the CAISO stated at the technical conference, competitive transmission, just like cost allocation, "is not a matter for the slide rule."

The CAISO knows that some planning regions that utilize a competitive bidding model award a specified number of points -- either five or ten percent of the total points -- to the competing project sponsor that identified the project up for competitive solicitation during the transmission planning process. The CAISO strongly urges the Commission not to impose such a feature on planning regions that do not follow that approach. The CAISO believes that such approach provides an unfair advantage that is unrelated to a project sponsor's capabilities or cost containment measures. This could adversely affect ratepayers by causing a planning region to award a project to a sponsor that did not submit the best proposal from a cost containment perspective or whose proposal poses increased risk compared to other proposals regarding schedule, potential default, or permitting, or has other material disadvantages.

The CAISO is already seeing healthy participation in its transmission planning process, the process is identifying alternative solutions, and the CAISO is confident that it has selected the more efficient or cost effective solution for all identified needs. The CAISO does not see a further need to incent ideas in the planning process, especially when it could inappropriately skew the outcomes of competitive solicitations. Project sponsors who identified the transmission solution that is the subject of the competitive solicitation typically already have a head start in the competitive solicitation process. They should not receive an added "push" in bonus points. The CAISO's approach ensures that the approved project sponsor the CAISO selects demonstrated the strongest proposal from both a cost containment and capabilities perspective.

Respectfully submitted,

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## CERTIFICATE OF SERVICE

I certify that I have served the foregoing document upon the parties listed on the official service list in the captioned proceedings, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, California this 3rd day of October, 2016.

*/s/ Martha Sedgley*
Martha Sedgley