



California ISO
Shaping a Renewed Future

Straw Proposal

Approval of Transmission Elements Under \$50 Million

May 31, 2012

Market & Infrastructure Development

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1 Background

The current ISO tariff, Section 24.4.10, provides for ISO management to approve transmission projects that are expected to cost less than \$50 million and are identified as needed in the annual transmission planning process. Such management approval for less costly projects, which predated the current competitive solicitation framework for economic and policy-driven transmission elements, enables the ISO to move forward on accelerated timelines in situations where the annual approval process through the Board of Governors could create problematic delays.

In developing the Revised Transmission Planning Process (RTPP) filing during 2010, the ISO introduced a distinction between transmission “projects” versus transmission “elements” identified as needed in the comprehensive transmission plan. The former term – “project” – includes both a specification of needed transmission facilities as well as identification of a specific entity that will build and own the facilities, whereas the latter term – “element” – includes only the specification of needed facilities, based on the principle that builder-owner would be determined through the competitive solicitation process. At that time, the ISO did not review the existing management approval tariff provision to consider its interaction with the “project” versus “element” distinction, and as a result the provision was not extended to include policy-driven or economically-driven transmission elements under \$50 million.

Since that time, however, the ISO has recognized that the “project” versus “element” distinction could unnecessarily limit the applicability of the management approval provision, and that situations may arise where it is appropriate to allow ISO management to approve transmission elements of less than \$50 million that would then proceed to a competitive solicitation process to determine who shall build and own such transmission elements. In particular, given the relatively rapid pace of negotiation of bilateral contracts for renewable energy to meet the state’s 33 percent RPS mandate, earlier definitive approval of certain needed transmission upgrades can be critical to the commercial viability of some proposed renewable generating facilities. Moreover, subsequent to the ISO’s RTPP filing, FERC approved tariff provisions that potentially enable some reliability-driven transmission facilities to now be classified as “elements” for the sake of competitive solicitation, in which case earlier approval and completion of the competitive solicitation may be

warranted. These developments have led the ISO to consider extending the applicability of the management approval provision to include transmission elements as well as projects.¹

Therefore, to ensure that smaller and required projects and elements can be advanced more quickly than the annual process set out in the tariff, the ISO intends to amend the tariff to:

1. Enable ISO management approval of transmission elements (including reliability, policy-driven, economic and long-term CRR feasibility elements) that are estimated to cost less than \$50 million.
2. Enable a separate competitive solicitation process for eligible elements less than \$50 million to proceed ahead of the timelines set out in the tariff for the annual competitive solicitation process, which would generally follow Board approval of comprehensive transmission plan.

2 Proposed Stakeholder Process and Timetable

The schedule below sets out the proposed timetable developed by the ISO for the tariff changes contemplated.

May 31	Post Straw Proposal with draft tariff language
June 7	Stakeholder Call
June 14	Stakeholder Comments Due
June 18	Post Draft Final Proposal with draft tariff language
June 25	Stakeholder Call
July 2	Stakeholder Comments Due
July 12 & 13	Board of Governors Meeting
July 16	File Tariff changes

¹ In compliance filings submitted on December 2, 2011 and February 16, 2012 in ER10-1401-000 *et. seq.*, the ISO modified sections 24.4.6.2 and 24.4.6.4 such that reliability projects or projects needed to maintain the feasibility of long term CRRs that provide policy-driven benefits or a certain level of economic benefits will be subject to the competitive solicitation process. This tariff change creates the possibility that under \$50 million transmission upgrades and additions that would have automatically had project sponsors and been eligible as “projects” for accelerated ISO management approval would now be classified as “elements” to be subject to competitive solicitation, and as such would no longer be eligible for ISO management approval under the current tariff wording.

3 Reasons for the Proposed Tariff Amendment

As noted above, section 24.4.10 contains a carry-over provision from the transmission planning process as it existed prior to RTPP that allowed “projects” under \$50 million to be approved by ISO management and proceed to construction prior to Board approval of the Transmission Plan. Although the RTPP introduced the distinction between “projects” and “elements,” this tariff language was not revised.

The RTPP was implemented during the 2010/2011 transmission planning cycle. Since that time, there have been several new developments:

1. The ISO has determined that although there could be a need for smaller (*i.e.*, less than \$50 million in capital cost) policy driven projects to be advanced more quickly than the annual transmission plan schedule, the tariff use of the term “project” does not permit transmission “elements” to be approved by management prior to Board approval of the Transmission Plan even if their cost is less than \$50 million. This issue has also arisen in the context of the renewable portfolio development for the current 2012/2013 cycle when the ISO received a revised base case and alternative scenarios on May 16, 2012, under cover of a letter from the California Public Utilities Commission (CPUC) and the California Energy Commission (CEC). This letter contained further recommendations to the ISO regarding access to resources inside the Imperial Irrigation District for purposes of meeting the State’s 33 percent RPS goal, and limitations which may stand in the way of development of the resources already included in previous transmission plans. The letter from the CPUC and the CEC suggests an advanced timeline for consideration of these infrastructure needs. This is one concrete example of where specific policy actions may require a more accelerated timeframe for approval of policy-driven elements.
2. The ISO tariff now provides that if reliability projects or projects needed to maintain the feasibility of CRRs have economic or policy-driven benefits, they will be subject to the competitive solicitation process (Sections 24.4.6.2 and 24.4.6.4). Thus, smaller reliability “projects” that would have been eligible for approval acceleration under Section 24.4.10 could actually be “elements” which, if approved on an accelerated basis, would not have project sponsors until after the competitive solicitation. Under the current tariff language, a small reliability project with policy-driven benefits would not qualify for accelerated treatment because it would be an “element” if it had policy-driven benefits.

4 ISO Proposal

The ISO proposal is:

1. To amend section 24.4.10 (Transmission Plan Approval Process) to expand ISO management approval authority for capital costs of \$50 million or less to include transmission elements as well as projects.
2. To amend section 24.5.1 to provide for a separate and advanced competitive solicitation process for management approved elements (under \$50 million) ahead of the schedule set out for the annual competitive solicitation process following Board approval of the annual comprehensive transmission plan.

Proposed tariff language is set forth below. In addition, the ISO will propose modifications to the Business Planning Manual for Transmission Planning to address the schedule for the accelerated competitive solicitation process and other stakeholder activities. Once implemented, the ISO intends to follow a similar stakeholder process currently used for smaller projects that are eligible for accelerated management approval. The ISO will identify such transmission elements at an earlier point during Phase 2 and will present these elements to stakeholders during the second stakeholder meeting, typically held in September or early October. Stakeholders may provide comments following the meeting, and the ISO will consider these comments prior to presenting the identified element to management for approval.

If the element is approved by management, the ISO will open the two month project solicitation window described in section 24.5.1. The rest of the schedule for project sponsor selection and results postings will be provided to stakeholders by market notice. There are no other proposed changes to the transmission planning process.

5 Proposed Tariff Language

24.4.10 Transmission Plan Approval Process

The revised draft comprehensive Transmission Plan, along with the stakeholder comments, will be presented to the CAISO Governing Board for consideration and approval. Upon approval of the plan, all needed transmission addition and upgrade projects and elements, net of all transmission and non-transmission alternatives considered in developing the comprehensive Transmission Plan,

will be deemed approved by the CAISO Governing Board. Transmission upgrade and addition projects and elements with capital costs of \$50 million or less can be approved by CAISO management ~~and~~. Such CAISO management approved projects may proceed to permitting and construction prior to Governing Board approval of the plan. Such CAISO management approved elements may be subject to a competitive solicitation process, consistent with Section 24.5, on an accelerated schedule that will allow the approved Project Sponsor to proceed to permitting and construction prior to Governing Board approval of the plan. Following Governing Board approval, the CAISO will post the final comprehensive Transmission Plan to the CAISO website.

24.5.1 Project Submissions

According to the schedule set forth in the Business Practice Manual, in the month following CAISO Governing Board approval of the comprehensive Transmission Plan, the CAISO will initiate a period of at least two (2) months that will provide an opportunity for Project Sponsors to submit specific transmission project proposals to finance, own, and construct the transmission elements identified in the comprehensive Transmission Plan. For elements with capital costs of less than \$50 million that were approved by CAISO management before Governing Board approval of the comprehensive Transmission Plan, the two month period will be initiated following management approval of the element, and the Project Sponsor selection process will follow an accelerated schedule described in the Business Practice Manual. Such project proposals must include plan of service details and supporting information as set forth in the Business Practice Manual sufficient to enable the CAISO to determine whether the proposal meets the criteria specified in section 24.5.2.1 and 24.5.2.4. The project proposal will identify the authorized governmental body from which the Project Sponsor will seek siting approval for the project.