



CALIFORNIA ISO

Competitive Solicitation For Valley Rainbow Transmission Project

Presentation
to
CAISO Governing Board

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Background

At the May 25 ISO Governing Board meeting the Board:

- Approved San Diego Gas & Electric Company's (SDG&E's) proposed Valley-Rainbow 500 kV transmission project (Valley-Rainbow Project);
- Directed SDG&E to proceed with the development of the project;
- Approved, "application of a competitive solicitation process to allow non-wires alternatives to compete with the Valley-Rainbow 500 kV Project to mitigate the identified reliability problems; and
- Directed Management to define the "parameters and the process of the solicitation" and to make a recommendation on these matters at the Board's next meeting.



Background

Development of Parameters and Process:

- Solicited the comments of Market Participants (July 11 memo) - received comments from SDG&E, Edison and Otay Mesa Generating Company LLC.
- Revisited and evaluated the ISO's experience with the Tri-Valley competitive solicitation



Parameters and Process

Issues Raised

- General concerns regarding timing of process (too short) and transparency of evaluation process
- Specific concerns regarding the ISO's policy on paying a "locational incentive"
- Thoughts and concerns regarding the "deferral" versus "displacement" issue
- Concerns/questions on recovery of non-wires project costs



The Process

Proposes Timeline

- **August 11** ISO issues RFP;
- **September 1** Due date for letters of intent to respond to the RFP;
- **November 10** Due date for responses to the Valley-Rainbow RFP;
- **November -January** ISO Management evaluates the responses.
- **February 2001** ISO Governing Board determines whether to proceed with the development of the Valley-Rainbow Project or to select a non-wires alternative.



The Parameters

Details of RFP:

- RFP will explicitly identify reliability requirement
- Payments to non-wires projects will be structured around individual bids (not “locational incentive”)
- RFP will not assume “deferral” or “displacement” of the transmission project (based on individual bids)
- ISO will perform “qualitative” as well as “quantitative” assessment of bids
- Assign costs of non-wires projects to PTO (SDG&E)



Other Considerations

- **Facilitating a Competitive Market** – The Valley-Rainbow project is but the first link in a regional expansion plan designed not only to ensure reliability but also to facilitate interregional transfers of Energy and access to regional and sub-regional markets. We have concerns regarding whether it is reasonable to proceed down a path where we pit generation *against* transmission.
- **Net Benefits** – Although non-wires project could potentially defer or displace the Valley-Rainbow project, the total net benefits of such projects are unclear. Certain projects could potentially displace the Valley-Rainbow project but not add to the load serving capability in the area.