

# Memorandum

**To:** ISO Board of Governors  
**From:** Keith Casey, Vice President of Market & Infrastructure Development  
**Date:** July 5, 2012  
**Re:** **Decision on Approval of Transmission Elements less than \$50 Million**

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***This memorandum requires Board action.***

## EXECUTIVE SUMMARY

To enable smaller transmission projects and elements that are identified through ISO studies as urgently needed to be advanced more quickly than the annual process set out in the tariff, Management is proposing that the Board approve a new category of projects that would be eligible for Management approval. Currently, the ISO tariff grants Management the authority to approve transmission projects needed for reliability that are anticipated to cost less than \$50 million and that are identified as needed during the annual transmission planning process. Management seeks to expand the current authority to include policy-and economically-driven projects as well as projects needed for long-term feasibility of congestion revenue rights. Under the tariff these types of project are considered “elements” subject to competitive solicitation, and Management proposes that the competitive solicitation process would apply to these Management-approved elements under \$50 million as well, but on a different timeline than competitive solicitations conducted for larger projects.

Accordingly, Management proposes the following motion.

***Moved, that the ISO Board of Governors approves the proposed policy change regarding approval of transmission elements estimated to cost less than \$50 million, as described in the memorandum dated July 5, 2012; and***

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

## DISCUSSION AND ANALYSIS

In developing the revised transmission planning process filing during 2010, the ISO introduced a distinction between transmission “projects” and 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. The latter term – “element” – includes only the specification of needed facilities, based on the principle that the builder-owner would be determined through the newly-developed competitive solicitation process. At that time, the ISO did not review the tariff provision allowing Management approval of transmission projects under \$50 million to evaluate whether a similar framework for transmission “elements” should be developed for Management approval.

Since that time, however, the ISO has recognized that situations may arise where it is desirable to allow Management to approve transmission elements of less than \$50 million that would then proceed to a competitive solicitation process to determine who would build and own these transmission elements. In particular, given the relatively rapid pace of negotiation of bilateral contracts for renewable energy to meet the state’s 33 percent renewable portfolio standard mandate, earlier definitive approval of certain needed transmission upgrades could be critical to the commercial viability of some proposed renewable generating facilities. While the need for such elements would generally be determined through the ISO annual transmission planning studies, such needs could also arise from special ISO planning studies triggered by changed circumstances or external factors.

In addition, subsequent to the revised transmission planning process 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 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.<sup>1</sup>

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<sup>1</sup> 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 congestion revenue rights 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 management approval would, going forward, be classified as “elements” to be subject to competitive solicitation, and as such would no longer be eligible for Management approval under the current tariff wording.

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

1. Enable Management approval of transmission elements (including reliability, policy-driven, economic and long-term congestion revenue rights feasibility elements) that are estimated to cost less than \$50 million.
2. Enable a separate competitive solicitation process for eligible elements that are estimated to cost 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 the comprehensive transmission plan.

## **POSITIONS OF THE PARTIES**

Several stakeholders submitted comments calling for additional details regarding how the ISO would consult with stakeholders regarding the specifics of the proposed transmission additions or upgrades, prior to Management approving them. The ISO agrees that stakeholder consultation prior to Management approval is necessary and appropriate, and will use the existing transmission planning stakeholder process to provide opportunities for stakeholder review and comment.

More fundamentally, it is important to emphasize that the ISO expects to use these new provisions infrequently, and only under limited circumstances. In particular, for an upgrade or addition to be advanced ahead of the rest of the annual comprehensive transmission plan:

- The need must be urgent for the approval to be advanced;
- There must be a high degree of certainty and comfort with the nature of the upgrades from a planning and engineering perspective, such that the upgrades could not conflict with other projects or alternatives being considered in the comprehensive plan. If, for example, the ISO could not demonstrate that the upgrades can be advanced without creating a possible conflict with the rest of the transmission plan, the ISO would not propose to accelerate the approval process; and
- The scope of the upgrades or additions is limited by the \$50 million cost ceiling.

Given the limitations stated above and the expectation that the new provisions would be used infrequently, the ISO would provide general guidelines for stakeholder consultation in the Transmission Planning Process Business Practices Manual, so that in any given

situation the ISO would have the flexibility to conduct a stakeholder consultation that best fits the nature of the facilities needed and the factors driving the need. The ISO also proposes to include details about the accelerated competitive solicitation process in the Business Practice Manual.

## **MANAGEMENT RECOMMENDATION**

Management requests Board approval of the proposed policy change regarding approval of transmission elements with an estimated cost of less than \$50 million as described in this memorandum. The modifications will ensure that smaller and required projects and elements that are urgent can be advanced more quickly than through the annual process. Therefore, Management proposes to amend the tariff to:

1. Enable management approval of transmission elements (including reliability, policy-driven, economic and long-term congestion revenue rights feasibility elements) that are estimated to cost less than \$50 million; and
2. Enable a separate competitive solicitation process for eligible elements that are estimated to cost 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 the annual comprehensive transmission plan.