

Comments of the CPUC Staff

Integration of Transmission Planning and Generator Interconnection Procedures (TPP-GIP Integration)

Draft Final Proposal, posted February 15, 2012

Submitted by	Company	Date Submitted
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Section 1. Overall support for the draft final proposal.

Please select one of the following options to indicate your organization's overall level of support for this proposal: (1) fully support, (2) support with qualification, or (3) oppose. If you choose (2) please describe your qualifications or specific modifications that would allow you to fully support the proposal.

CPUC Staff congratulate and thank California ISO Staff (ISO) for working diligently through several rounds of refinement and stakeholder input to develop important and much needed process reforms. Besides better integrating the generator interconnection procedures (GIP) with the more holistic transmission planning process (TPP), these TPP-GIP integration reforms should facilitate and better utilize coordination between resource and transmission planning. Thus CPUC Staff strongly support the fundamental framework reflected in the draft final proposal (DF Proposal). However, our support must at this time be qualified because certain refinements are still needed as discussed below. One refinement is especially important as discussed under topic 7. However, CPUC Staff-recommended refinements would not upset, and in fact would enhance, the basic new planning paradigm represented by the DF Proposal.

Realistically, we believe that these TPP-GIP integration reforms can and should be implemented in a manner that allows some flexibility to manage complex and varied situations, as long as this flexibility remains within the bounds of an overall structure that is transparent and predictable in order to support:

- ISO needs for planning transmission and managing generator interconnection;
- CPUC needs for administering resource planning and procurement as well as permitting major transmission projects;
- LSE needs for conducting their resource planning and procurement;

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- Generation developer needs for developing business plans and for moving through the procurement, financing and siting processes including the commitments that this entails; and
- Broader stakeholder and ratepayer needs to have both generation and transmission planned and funded in a transparent and efficient manner.

CPUC Staff also emphasize the importance of efficient planning of transmission for *pre-cluster 5 interconnection customers* (ICs) that the ISO has determined should not be subject to the TPP-GIP integration reforms due to concerns regarding fairness and FERC approval if the reforms were to be applied to customers that have already made substantial commitments under the existing process. We believe that the more limited process refinements that the ISO is applying for these earlier ICs are constructive. However, the pre-cluster 5 ICs represent a very large amount of potential generation having a potentially large impact on both transmission planning and resource procurement, which in turn will strongly impact how the TPP-GIP reforms are applied to cluster 5+ ICs.

Therefore, it is essential that transmission be planned (and deliverability over that transmission be reserved) for pre-cluster 5 ICs in an effective manner that balances fairness to these ICs with efficient overall transmission and resource planning. This especially requires making appropriate decisions based on the projected viability of these earlier ICs. Importantly, this includes reserving (“encumbering”) the right amount of transmission for these earlier ICs when assessing the transmission needs and transmission availability for later ICs subject to TPP-GIP reforms (see comments on topic 5). We recognize that the TPP, the GIP and the procurement process all have important roles in informing and balancing such decisions. Thus, appropriate and timely information exchange among these three broad processes (TPP, GIP, procurement) is critical if both pre-cluster 5 planning refinements and the TPP-GIP reforms are to work well individually and especially in combination.

Section 2. Major differences between the 2/15 draft final proposal and the earlier 1/12 second revised straw proposal.

1. In response to stakeholder concerns about the previous proposal that ratepayers would reimburse customers fully for all reliability network upgrades (RNU), the draft final proposal will determine whether a project is eligible for full, partial or no reimbursement in a manner that aligns with the allocation of TP deliverability under this proposal.

CPUC Staff agree with this general principle. However, it should be verified that all ICs ultimately falling *within* each transmission access category (TPP-based or “TP” deliverability, self-funded deliverability and energy only or “EO” access) should receive comparable treatment regarding responsibility for RNU costs.

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2. Projects that submit energy only interconnection requests and do not seek deliverability will be reimbursed for RNU up to a maximum of \$40,000 per MW of generating capacity.

CPUC Staff support this principle and although we do not presently comment on the specific magnitude of a reimbursement cap the proposed amount appears plausible. Any reimbursement provisions should be applied equally to ICs that initially seek EO access and those that initially seek TPP-based deliverability but then switch to EO.

Also, to avoid inefficient transmission planning and subsidization of generators, the ISO should consider imposing a cap on RNU cost reimbursement *for ICs receiving TP-based deliverability*. The first line of protection against inefficient transmission planning or subsidization due to excessive reimbursed RNU (or LDNU) costs would fall within the procurement process using appropriate transmission cost information from the GIP, as discussed under topic 4. However, a cap on RNU and LDNU cost reimbursement would provide a useful backstop or *second* line of defense against inefficient planning or subsidization of transmission. Procurement decisions would be made with full cognizance of such a cap.

3. The proposal distinguishes between area delivery network upgrades (ADNU) and local delivery network upgrades (LDNU), where ADNU are generally identified through the TPP to provide deliverability to a targeted MW amount of generation in an area, while LDNU are identified through the GIP studies to provide resource-specific deliverability.

CPUC Staff agrees with this distinction. As expressed by some stakeholders, there may occasionally be ambiguity regarding whether a particular transmission upgrade should be classified as ADNU or LDNU. However, we believe that the distinction will generally be clear in that ADNU will be planned through the TPP whereas LDNU will be identified via the GIP.

4. The process for allocation of TP deliverability will be the key determinant of whether a generation project is required to post security and/or pay for a share of ADNU costs after phase 2. All projects will be required to post security for their shares of RNU and LDNU costs. Eligibility for ratepayer reimbursement of these security postings after commercial operation begins will align with whether the project was allocated TP deliverability and then meets the criteria to retain the allocation.

CPUC Staff agree with the above TPP-GIP reform features. However, we also believe that it will be useful and in the interest of efficient transmission planning and investment that avoids excessive subsidization, to provide a cap on RNU and LDNU cost reimbursement even for generators receiving TPP-based deliverability.

The first line of protection against such inefficiency or excessive subsidization would be through assessment of resource offers in the procurement process. *This requires that information on RNU and LDNU costs be provided to the procurement process in an appropriate and timely manner.* Most fundamentally, RNU and LDNU costs for individual ICs or (as applicable) for

small groups of ICs should be provided to the procurement process, i.e., to the CPUC and the LSEs, both at the end of Phase 1 studies and then updated at the end of Phase 2 studies. Additionally and importantly, this should include sufficiently disaggregated information regarding groups of generators that are in the aggregate being attributed RNU and/or LDNU costs, so that the procurement process has visibility regarding *which ICs are interrelated in this manner* and also regarding the RNU and/or LDNU implications of only *subsets* of such IC groups going forward. For example, if the total RNU/LDNU cost estimate for a group of four proposed generation projects (whose interaction should be identified to the procurement process) is \$15 million, it is essential for the procurement process to know if this cost would be reduced to \$8 million if generator A was omitted and to \$2 million if generators A and B were omitted. Conversely, it is also essential for the procurement process to know that if generator C drops out the *total* network transmission costs would nevertheless remain essentially unchanged, such that the network transmission cost responsibilities for each of the other three projects would increase proportionately.

5. The allocation of TP deliverability to generation projects under this proposal will occur for the first time at the end of the GIP phase 2 study process for cluster 5, i.e., during the first quarter of 2014. Before the ISO allocates TP deliverability to any cluster 5 projects, the ISO will first determine how much of the TP deliverability provided by the most recent transmission plan must be encumbered by projects in the existing queue (serial through cluster 4) that are in good standing with respect to their PPAs and GIAs, any expansion of MIC that was addressed in the TPP, and any deliverability for distributed generation (DG) allocated to regulatory authorities under the DG Deliverability initiative in progress. After accounting for these encumbrances, the remaining amount of TP deliverability will be available for qualified projects in cluster 5.

CPUC Staff emphasize (and we expect that ISO and others also recognize) that determining how much TP deliverability is encumbered and thus unavailable for allocation is one of the most important steps under the proposed TPP-GIP integration reforms. Excessive encumbrance will excessively limit or delay ability to accommodate (or attract) new generation until the excessive encumbrance is eventually rectified. On the other hand, insufficient encumbrance could result in assigning more deliverability (via interconnection agreements) than can be supported by approved transmission. This could lead to extended annual NQC derates for some generators and possibly to expansion of TP deliverability in a less holistic and transparent (more GIP-driven) manner than is desirable, which may pose risks for economic efficiency and for permitting.

Thus how TP deliverability is encumbered for purposes of the TPP-GIP integration reforms is a critical focal point for the relationship between transmission planning for pre-cluster 5 versus cluster 5+ ICs (or, after 2014, for current versus earlier queue clusters). While agreeing with the proposal to assume that transmission required for deliverability of earlier-queued ICs having GIAs and PPAs in good standing should be treated as “encumbered” and thus unavailable for a queue cluster currently being studied, CPUC Staff believe that efforts should be made to identify a portion of the earlier-queued projects that is unlikely to come on-line such that the transmission it would utilize could be made available to the current queue cluster (but without

prejudicing the *actual* allocation of transmission to the earlier-queued projects should they actually succeed.)

More broadly and importantly, this encumbrance step represents allocation of transmission not only among different cohorts of ICs, but also among broader classes of resources, including imports (via planned MIC levels) and distributed generation (DG). Thus, CPUC Staff agree with the proposal to include an annually updated “encumbrance” step in the TPP-GIP reforms. How and when DG deliverability feeds into this step should reflect the ultimate design of DG deliverability process reforms currently ongoing. We emphasize that resource priorities and decisions informing this encumbrance step must ultimately be determined outside of the GIP and TPP on a policy and resource planning level, but must take into account essential and timely information from the GIP and TPP. We also recognized the importance of having a structured, transparent and predictable structure within the GIP for expressing the allocation of limited transmission among different classes and cohorts of resources.

6. If there is some TP deliverability available for allocation to projects in the current cluster and to option (A) projects in the prior cluster that opted to park for a year, such projects must at least meet the minimum threshold criteria of being included on an active LSE short list and having submitted the necessary permit applications in order to be eligible for the allocation of TP deliverability.

CPUC Staff have some concerns that this is a very low bar, and in particular, that shortlisting has sometimes persisted for a lengthy period. However, we believe that this proposed low bar for threshold eligibility would be workable as long as the following occur, at least by 2014 when the first TP deliverability allocation under the new process would occur.

- a. The ultimate allocation criteria (in the event that MW of eligible ICs exceeds the MW of TP deliverability) must be sufficiently stringent, and in particular, are revised as described under topic 7.
 - b. Anticipated and ongoing procurement process reforms should result in proposed generation projects being unable to remain shortlisted without resolution (withdrawal or PPA) longer than a year.
 - c. Deliverability retention criteria (topic 8) are consistent with CPUC Staff recommendations, and are also consistent with CPUC Staff-recommended revisions to the ultimate allocation of deliverability as discussed under topic 7.
 - d. Generation projects entering procurement through bilateral negotiations without a shortlist process would have to have an executed PPA to be eligible for consideration of deliverability allocation.
7. If the volume of projects that meet the threshold exceeds the amount of TP deliverability available, the ISO will calculate a numerical score for each project based on the criteria and point values presented in the proposal, and will allocate deliverability to the highest scoring projects without regard to whether the project chose option (A) or (B).

This is the main area where CPUC Staff request major revisions to the proposal. The criteria for ultimately allocating TP deliverability among eligible ICs (i.e., their projects) passing the minimum threshold criteria (topic 6 above) should be procurement-based for the following reasons.

1. Among the most important objectives and expected benefits of TPP-GIP reforms as well as process refinements for pre-cluster 5 ICs is to improve coordination and consistency between transmission planning and resource planning, including facilitation and better utilization of information exchange. This should in turn support transmission permitting.
2. Manifest procurement milestones including shortlisting, PPA execution and PPA approval are not only very useful indicators of progress and viability in themselves; they also encapsulate the underlying rational and careful weighing of a variety of individual criteria for each project such as regarding project value, permitting, site control, financing, developer experience and commercial operation date (COD) – where such weighing occurs in a more *detailed and holistic* manner than could be done for each individual project using any GIP scoring system.
3. Contract terms include milestones for which deficiencies are specifically and legally defined and assessed, along with an appropriate regulator approved opportunity for cure of deficiencies after which there is a clear, unmistakable bottom line indicator of insufficient progress – contract cancellation (which has in fact occurred on numerous occasions).
4. In contrast, the proposed scoring system could produce results inconsistent with valuation and progress of projects in the resource planning and procurement process, since a project that is only short-listed could end up scoring ahead of one that has an approved PPA and is meeting all PPA requirements. Furthermore, it is essential to recognize that it is ratepayer funded deliverability that is being allocated, the purpose of which is to provide RA-qualifying capacity to be *procured by LSEs* to meet their requirements. Therefore, it is critical to give allocation priority to generation projects showing the best evidence of procurement by LSEs. If an IC wants its generation project to move ahead without such PPA progress it can interconnect on an EO basis, or, if wishing to sell RA capacity on a *merchant* basis, it can correspondingly pay for the transmission needed for deliverability, on a *merchant* basis.
5. Finally, the proposed scoring system produces the unavoidable prospect of complexity, contention, and counterintuitive results. This is not particularly the fault of the ISO's design of a multi-factor scoring system, but is inherent in the use of *any* such system given the complex interconnection situations being addressed. For example, why should having an approved PPA in good standing produce 4 additional scoring points relative to only being shortlisted, while having a final permit produces 5 additional scoring points relative to only having a draft

environmental report? Why should permitting progress be worth the same maximum points (10) as procurement plus financing progress? Is not permitting or land acquisition status a more critical indicator for certain kinds of projects or locations than for others? We do not wish to argue such issues, or to encourage their extended debate among others. We also do not wish such issues to be the subject of ongoing contention and adjustments *after* any scoring system is instituted. Rather, as discussed under point 2 above, the weighting and balancing of value and viability indicators does, and should occur more appropriately, comprehensively and sensitively within the *procurement* process. This culminates in procurement milestones and contractual requirements that are useful, and should be used, for allocating TP (ratepayer funded) deliverability.

Therefore, CPUC Staff advocate use of the following criteria for allocating TP deliverability to eligible projects.

- a. Among eligible projects, TP deliverability would be allocated first to projects having *approved* PPAs in good standing. For projects contracting with non-CPUC jurisdictional LSEs, an equivalent status would have to be defined.
 - b. Remaining TP deliverability would then be allocated to projects having *executed* PPAs in good standing, with their approval pending. If these projects are NOT ultimately approved then they will fail “retention criteria” (topic 8 below) and have deliverability withdrawn, most likely by the next annual deliverability allocation a year later.
 - c. If the above sequence of allocation leaves any “ties” for receiving the last increment of available TP deliverability, then the project with the earlier COD would obtain the allocation.
 - d. If any IC is in line to be allocated deliverability based on achieving only the minimum threshold eligibility status of shortlisting because there is insufficient competition from projects more advanced in procurement (which is unlikely), then deliverability allocation to such a shortlisted IC should be provisional, to be withdrawn if the IC has not progressed to at least an executed PPA by the next annual cycle.
8. A project that is allocated TP deliverability under the proposed approach will be required to demonstrate annually that it meets the criteria for retaining the allocation; i.e., (i) no regression with respect to criteria on which it received the allocation; (ii) executed GIA is in good standing (no ISO notification of breach); (iii) no delay of COD unless for reasons beyond customer’s control. If a project loses its allocation, it must either withdraw from the queue or convert to energy only deliverability status.

CPUC Staff agree with this proposal *as long as the criteria for ultimate deliverability allocation are revised as recommended under topic 7*. It is important that retention criteria be sufficiently rigorous to avoid prolonged reservation or encumbrance of deliverability that would most productively and appropriately be made available to other generation projects. As discussed under topic 7, we believe that the most useful and in practice the most likely basis for withdrawing previously allocated TP deliverability would be failure to achieve required progress in the procurement process, including failure to cure deficiencies or resolve amendments, regarding contract terms. As stated under topic 7, any IC in line to receive TP deliverability but having only the minimum procurement progress of shortlisting should only receive a provisional allocation of deliverability to be withdrawn in the next annual cycle if that IC has not progressed at least to an executed PPA.

9. An option (A) project that does not receive TP deliverability after parking for one year must either withdraw from the queue or execute an energy only GIA. To allow parking for a longer period would complicate the GIP study process by maintaining a backlog of projects to be studied for RNU and LDNU that may not be making progress but have little incentive to withdraw.

CPUC Staff agree with this limitation of “parking” to one year. We note that after having parked for one year and not getting TP deliverability, an IC could elect EO deliverability and then could subsequently seek available deliverability by requesting to be studied under the Annual Full Capacity Deliverability Option.¹ Such an option is presumably (and in any event should be) available to DG, for which the associated studies should be performed in a manner that is compatible and consistent with the DG deliverability streamlining initiative that is still in progress. If RA deliverability of an EO generator, and perhaps other nearby EO generators, was subsequently determined to be valuable and in the interest of ratepayers, the TPP could plan additional deliverability in that area.

10. An option (B) project that does not receive TP deliverability within the allocation process immediately following its phase 2 study results must either withdraw from the queue or execute a GIA committing it to pay its share for all required network upgrades without ratepayer reimbursement.

CPUC Staff agree with this proposal. Such a project should not be allowed to switch to EO since it has indicated willingness to pay for DNU. Furthermore, the project should not be reimbursed for RNU or LDNU. For comparability, if this project were allowed to select EO then it should have the same reimbursement terms as all other projects interconnecting as EO. However, since it is not allowed to select EO, such comparability of reimbursement is not required. If an IC believes that its project will need only limited transmission upgrades and is willing to upfront fund its cost with ultimate reimbursement, then it should select the option A path.

11. Projects that withdraw from queue after the phase 2 study results may be eligible for partial refund of their first financial security postings in accordance with existing tariff provisions, as expanded by the following new eligibility conditions: (1) An (A) project will

¹ Section 8.2 of Generator Interconnection Procedures (“GIP”) in Appendix Y of the ISO tariff.

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be eligible if it fails to be allocated TP deliverability; the period for “early” withdrawal under this condition will be 18 months from phase 2 study results. (2) A (B) project will be eligible if its phase 2 cost estimate for ADNU exceeds its phase 1 estimate by the smaller of 20 percent or \$20 million. The “early” withdrawal period will be 180 days from phase 2 study results.

CPUC Staff agree with this proposal, subject to reimbursement caps as discussed under topics 2 and 4.

12. The ISO will maintain the March 31, 2012 closing date for the cluster 5 request window, in contrast to April 30 as stated in the previous proposal. In recognition of the possibility that FERC’s order may significantly modify the proposal that the ISO Board rules on in March and the ISO files shortly thereafter, the ISO’s filing will include a provision to allow parties to withdraw requests up to 10 days after the FERC order without any penalty applied to the refund of their initial study deposits.

CPUC Staff agree with this proposal.

Section 3. Please provide any additional comments on major structural components of the proposal.

13. GIP Phase 1
14. Transition from Phase 1 to Phase 2
15. GIP Phase 2
16. Allocation of TP Deliverability Post Phase 2
17. Subsequent to the Allocation Process

Section 4. Please use the space below to offer comments on any other aspect of the proposal not covered above.

CPUC Staff again thank the ISO Staff for the considerable and worthwhile effort expended on this TPP-GIP integration reform process. We again emphasize the critical importance of coordination and consistency among processes within both transmission and resource planning, such as in determining “encumbered” deliverability. This includes appropriate and timely information exchange with the resource planning and procurement processes, which is critical if these reforms are to work effectively.