Stakeholder Comments Template

Integration of Transmission Planning and Generation Interconnection Procedures (TPP-GIP Integration) Second Revised Straw Proposal, posted January 12, 2012

Please submit comments (in MS Word) to TPP-GIP@caiso.com no later than the close of business on January 31, 2012.

Submitted by	Company	Date Submitted
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This template is for submission of stakeholder comments on the topics listed below, which were discussed in the TPP-GIP Integration Second Revised Straw Proposal posted on January 12, 2012, and during the stakeholder meeting on January 19, 2012.

Please use the list of topics and questions below to structure most of your comments. At the end of the document you may offer comments on any aspect of this initiative not covered by the topics listed. When you state a preference for a particular approach on a topic or issue, your response will be most helpful if you clearly explain the reasoning and business case for your preference.

Section 1. High-level structure of the TPP-GIP Integration proposal. (Please use section 2 below to comment on the details of each element.)

1. The process as described in the January 12 paper and outlined below reflects the proposed process for projects in GIP cluster 5 and later. The process for existing queue projects (serial through cluster 4) will proceed according to the ISO's January 10, 2012 revised discussion paper.

2. After GIP Phase 1, each generation project advancing to GIP Phase 2 must elect either (A) – project requires TPP-based deliverability; or (B) – project is willing to pay for delivery network upgrades.

3. The requirement for customer-funding of network upgrades (option (B)) would apply only to delivery network upgrades (DNU); posting and reimbursement for reliability network upgrades (RNU) for all projects would remain as today.

4. The allocation of TPP-based deliverability to generation projects would occur after GIP Phase 2, rather than after Phase 1 as in the previous proposal.

5. Allocation of TPP-based deliverability – and project's ability to retain allocation – will depend on the project's completion of significant development milestones that demonstrate high confidence in attaining COD. (Specification of appropriate milestones is covered in the next section.) *See comments below.*

6. The allocation of TPP-based deliverability should achieve the following objectives as far as possible: (a) select projects with high probability of completion; (b) limit ability of non-viable projects to retain the allocation; (c) provide sufficient certainty to enable financing of viable projects; (d) objectivity and transparency. *See comments below.*

Section 2. Details of individual elements of the proposal.

GIP Phase 1

7. For extremely large cluster groups compared to the amount of "TP deliverability" (the amount supported by existing grid plus all approved upgrades to date), GIP phase 1 will study deliverability in each area up to the amount of TP deliverability plus a reasonable margin. The intent is to avoid excessive DNU costs that can result from extremely large clusters, while providing useful information on needed DNU and associated costs if generation development exceeds grid capacity.

8. Phase 1 will study RNU for all projects in the cluster.

9. As a result of Phase 1 each project will know its RNU and associated costs, and these results will establish cost caps for RNU as they do today.

10. The DNU and associated costs resulting from phase 1 will be advisory. The only formal use of Phase 1 DNU costs in the TPP-GIP process will be to establish posting requirements for projects advancing to phase 2 under option (B), as described below.

Project's Decision to Enter Phase 2 and Implications of Decision

11. After GIP Phase 1, each generation project advancing to GIP Phase 2 must elect either (A) – project requires TPP-based deliverability; or (B) – project is willing to pay for delivery network upgrades. Once a project chooses and the deadline for phase 2 is passed, the project cannot switch to the other option.

    It was not clear to us why Option A projects should not be permitted to subsequently elect to be Option B projects rather than default to energy only.

12. A project choosing (A) will have to post for its RNU under today's rules, but not for DNU.

13. A project choosing (B) will have to post for both RNU and DNU. Its DNU posting amount will use phase 1 results for the project's study area, converted to a DNU rate ($ per MW of deliverability) = (cost of incremental DNU)/(deliverability MW studied above TP deliverability amount). The posting amount will = rate x (project MW), where project MW

reflects how the project is modeled in the deliverability study depending on the resource type, would typically be less than nameplate for renewables.

14. A project choosing (B) will be eligible for TPP-based deliverability if available, but should expect very low probability of obtaining it and should plan to fully fund its needed DNU.

GIP Phase 2

15. ISO will perform a baseline re-study at the start of each phase 2 study process. The re-study will assess impacts of status changes – project drop-outs or revised COD, new transmission expansion approvals, etc. As a result, the RNU or DNU for some projects may be modified and their GIAs revised.

16. Phase 2 will study RNU for all projects in phase 2.

17. Phase 2 study will assume that all TP deliverability is used up by (A) projects and existing queue, and then will model (B) projects at requested deliverability status to assess their incremental DNU needs.

Allocation of TPP-based Deliverability

18. Once phase 2 results are completed and provided to the projects, the 120-day period for negotiating and executing the GIA begins. Option (A) projects that demonstrate completion of certain milestones within this period will be able to execute GIAs at their requested deliverability status, with no cost responsibility for DNU. Option (B) projects that complete the same milestones would be eligible for TPP-based deliverability, but would receive an allocation only if capacity is available.

    We do not understand the need to tie the deadline for satisfying milestones for allocation of TPP based deliverability to the date targeted for execution of GIAs. We note that execution of GIAs often requires longer than 120 days to accomplish, in many cases for reasons beyond the interconnection customer's control. GIAs could be drafted to make clear that deliverability of a project will depend on a project's either timely meeting TPP-based deliverability milestones (Option A projects), or satisfaction of an interconnection customer's DNU funding obligations (Option B projects), and in the alternative that energy only interconnection service would be available. We also note that, using the milestones proposed by CAISO for vesting of TPP-based deliverability (i.e, completion of permitting and either PUC approval of PPA or committed project financing) very few, if any, projects will ever meet these requirements within 120 days after initial receipt of their Phase II interconnection study reports. We propose that instead of the 120-day deadline proposed, that a 180-day deadline be imposed, corresponding to the deadline for the second posting of Interconnection Financial Security, and that, as described below, the milestones for qualifying for TPP based deliverability be appropriately chosen so that interconnection customers have a reasonable prospect of being able to meet them in the initial GIP cycle. Milestones tied to action of public agencies or procurement of lender commitments will not work well for this purpose.

19. The proposed milestones required are (a) completion of all permitting required to begin project construction, and (b) either a PPA approved by buyer's regulatory authority or demonstration of committed project financing. PLEASE COMMENT on whether these milestones are appropriate, or if not, what milestones would be preferable and explain why. Please keep in mind the objective that milestones must provide a high confidence that the project will meet its planned COD.

The suggested milestones are not practical insofar as they depend on the actions of third parties that in practice do not occur until fairly late in the development process, well beyond the date Phase II interconnection study reports are first received. We do not believe that many (if any) projects will be able to meet these milestones within 120 days (or even 180 days, as proposed above) following receipt of their Phase II interconnection study reports. Furthermore, lenders will not typically enter into binding commitments to lend money subject to satisfaction of conditions that are not expected to occur for significant or uncertain periods. Therefore, meaningful project financing commitments are generally not available prior to receipt of all permits and CPUC approval, and may not be available to Option A projects prior to their qualifying for TPP-based deliverability. For these reasons, we propose that the CAISO consider imposition of milestones for initial vesting of TPP-based deliverability which are less susceptible to the actions of third parties (such as public agencies or intervenors in public proceedings) and realistically capable of satisfaction prior to the deadline date identified. This would allow interconnection customers a reasonable prospect of vesting their entitlement to TPP-based deliverability prior to the specified deadline and avoid having to wait until the next GIP cycle. To address the risk of projects initially meeting such milestones and later becoming non-viable (for example, due to a rejection of a permit application or CPUC rejection of a power purchase agreement), we propose imposition of conditions for loss of previously vested TPP-based deliverability rights which would be tripped upon occurrence of events which very likely indicate that a project is no longer viable.

Specifically, we propose the following milestones for initial vesting of TPP-based deliverability:

(1) execution (but not necessarily CPUC approval) of a PPA for the generating resource;

(2) receipt of confirmation from the lead federal, state, or local primary permitting agency that its permit application for the generating resource has been accepted for review under the applicable NEPA and/or CEQA application requirements (but without the need to have received yet the actual permits); and

(3) demonstration of possession of actual (i.e., not established through posting of a bond) control over the main project site (but not including land rights relating to ancillary facilities such as gen-tie lines or gas pipelines, which are often acquired later in the development process).

We believe that such milestones can realistically be achieved prior to the deadline for second posting of Interconnection Financial Security, and achievement of such objective milestones would adequately demonstrate a project's commercial viability and likelihood of achieving commercial operation so that an allocation of available TPP-based deliverability would be warranted.

We discuss below the conditions under which we suggest interconnection customers satisfying the above milestones and receiving entitlement to TPP-based deliverability would forfeit such rights.

20. PLEASE COMMENT on what could constitute evidence of committed project financing as an alternative to regulator-approved PPA for item (b) above.

We believe that evidence of committed project financing would require some documentary evidence demonstrating that an interconnection customer has received a binding commitment from creditworthy parties to provide sufficient funds, together with financial resources demonstrated to be available to the interconnection customer, to construct the project, subject only to conditions precedent which have already been satisfied or waived, or which are reasonably expected to be satisfied in the ordinary course within a reasonable time period (and not later than the date needed to meet the specified commercial operation date) and there is no expectation of any events or conditions that will allow committed financing parties to avoid such obligation. Care would have to be taken to avoid "double counting" of funds on hand to allow an interconnection customer to satisfy this requirement for multiple projects using the same funds and financing commitment. Such documentation may be in the form of a certification from the interconnection customer, together with audited financials or other documentary evidence of assets (such as bank account statements), which would have to be redelivered from time to time to show continuing satisfaction of this condition.

21. All option (A) projects that meet the milestones by the time required would be able to execute FC GIAs at this time, even if the total amount exceeds the TP deliverability available. In that case, the ISO would expand the TPP planning portfolio in that area for the next TPP cycle, to provide sufficient deliverability.

The approach outlined below takes a slightly different tack, proposing that interconnection customers not be given a GIA which recites full deliverability, but is yet subject to potential future reductions in NQC, but rather to identify exactly how much capacity of an interconnection customer's project has qualified for full deliverability, and therefore is not subject to NQC reduction, and how much capacity has not.

22. Any project that obtains TPP-based deliverability would have additional milestones in its GIA which track progress toward COD. Failure to meet one of these milestones would cause the project to lose its deliverability allocation, but would not necessarily terminate its GIA if the project wishes to continue as EO.

Once an interconnection customer has qualified for available TPP-based deliverability, there should be only clearly defined and limited circumstances under which such rights can be lost. Specifically, we propose that the only way interconnection customers that have qualified for such rights should later become subject to their loss are:

(1) Their PPA is terminated or is rejected by the CPUC without rights of appeal;

(2) A material permit for the project is rejected without rights of appeal;

(3) The GIA is terminated for interconnection customer default or the interconnection customer otherwise loses its interconnection queue position due to material violation of

the interconnection requirements of the tariff; or

(4) Loss of control over the main project site.

In the event any of such criteria for loss of deliverability rights are triggered, interconnection customers should be given a right to cure within a reasonable period, such as 120 days, before final loss of such rights.

We believe that any project that becomes non-viable would within a limited period trip one of the above conditions, allowing TPP-based deliverability to be freed up and made available once again.

23. An option (A) project that does not meet the milestones by the time required would have an opportunity again in the next GIP phase 2 cycle, one year later. If it does not qualify by the end of the next year's 120-day GIA period, it must either withdraw from the queue or continue under an Energy Only (EO) GIA.

    We are not in disagreement with this approach, provided that the conditions for initial vesting of entitlement to TPP-based deliverability are such that there is a reasonable prospect of their being satisfied within the first GIP cycle. As explained, we do not think that the proposed conditions for TPP-based deliverability meet this standard.

24. An option (B) project that does not obtain TPP-based deliverability in the current cluster cycle (120 days from phase 2 results to GIA execution) will no longer be eligible for TPP-based deliverability and must proceed to GIA that includes full self-funding of its DNU.

25. If a (B) project drops out after phase 2 instead of executing a GIA that includes self-funding of its DNU, it loses a portion of its posting. PLEASE COMMENT on how much of the posting should be forfeited, and explain your logic.

Other Proposal Elements

26. DNU paid for by an interconnection customer would fall under the merchant transmission provisions of the ISO tariff and would be eligible for allocation of congestion revenue rights commensurate with the capacity added to the ISO grid. The customer would be able to select a non-incumbent PTO to build the project, provided it is a "green field" project and the builder meets qualifications specified in the ISO tariff.

27. If a (B) project funds DNU that provide more capacity for deliverability than the project needs, the funding party or parties would need to fully pay for the DNU, but would receive reimbursement for the excess deliverability from later projects that are able to use it.

28. Some projects that go forward under these new provisions could be subject to reduction in annual net qualifying capacity (NQC) for one or more years. This could occur if transmission capacity in an area must be expanded through the TPP to accommodate the amount of deliverable capacity that achieves COD in that area. Consistent with the ISO's January 10 discussion paper on cluster 1-2 approach, "existing" projects would not be subject to the reduction, but "new" projects would be. "New" would include all cluster

5 and later projects that elect option (A).

We would propose a more flexible definition of "existing" that would allow even cluster 5 and later projects to qualify as "existing" so long as there is TPP-based deliverability available in the area that project is in and that project is able to meet the criteria for allocation of TPP based deliverability by the specified deadline. Moreover, we would propose that subsequent increases in TPP-based deliverability and NQC reductions be allocated on a priority basis that rewards those projects qualifying for TPP-based deliverability sooner.

Based on our understanding of the straw proposal, at the beginning of any GIP cycle, if TPP-based deliverability is available from a specified area, then all projects in that area qualifying in prior GIP cycles for TPP-based deliverability should no longer be at risk for subsequent reduction in annual NQC, and therefore are "existing" as to their full capacities. In any GIP cycle at the beginning of which there is TPP-based deliverability available in an area, there is a risk that projects in such area with an aggregate capacity in excess of available TPP-based deliverability may satisfy the milestones for receipt of available TPP-based deliverability. In such event, we propose that those projects' GIAs reflect a pro rata reduction in their TPP-based deliverability, such reduction to be proportionate to such projects' requested interconnection capacity, such that the oversubscription is eliminated. In subsequent GIP cycles, projects from such oversubscribed areas meeting the milestones for allocation of available TPP-based deliverability would receive no allocation until TPP-based deliverability became available.

Based on this approach, all projects in an area qualifying for TPP-based deliverability in a GIP cycle at the end of which there was not an oversubscription of TPP-based deliverability would be 100% deliverable and, therefore, "existing" in full and subject to no future NQC reductions. Projects qualifying for TPP-based deliverability in a GIP cycle during which TPP-based deliverability first became oversubscribed and in subsequent GIP cycles would be considered "existing" to the extent they receive an allocation of available TPP-based deliverability, and "new" to the extent of their remaining need for TPP-based deliverability. As between "new" projects, as TPP-based deliverability becomes available (whether as a result of other projects losing their entitlement to TPP-based deliverability, construction of improvements increasing deliverability, or studies otherwise showing an increase in TPP-based deliverability), we would propose that such deliverability be allocated to projects qualifying for TPP-based deliverability in the earliest GIP cycle first, then the next earliest and so on, thereby giving priority based on which projects qualified for TPP-based deliverability first. Such increases would be reflected in their GIAs through amendments.

"New" projects could be 100% deliverable, depending on annual NQC assessments, but would be subject to possible annual NQC reductions. Such reductions would not be below the amount of TPP-based deliverability allocated to them (i.e., capacity as to which they are deemed "existing"). We propose that such NQC reductions be allocated based on a reverse GIP cycle priority, so that the "new" projects qualifying for TPP-based deliverability in the most recent GIP cycle would see their NQC reduced first, then "new" projects first qualifying in the next most recent GIP cycle, and so on. Within GIP cycles, "new" projects would see their NQC reduced proportionately based on the amounts of their capacities treated as "new."

Assuming there is good information publicly available as to the extent of available TPP-

based deliverability in an area and the amount of queued generation under development in the relevant area which has not yet qualified for TPP-based deliverability, we believe that the above process should allow interconnection customers, LSEs and the CPUC to assess which projects are the most exposed to significant risk of NQC curtailment and contract accordingly.

29. It was suggested by some stakeholders at the January 19 meeting that as an alternative to applying NQC reductions if the need arises, the ISO should allow the new projects to count fully for resource adequacy without any NQC reduction so that the projects and the LSE buyers are insulated from any direct impacts, and then make up for any resulting shortfall in resource adequacy capacity via ISO backstop capacity purchases. PLEASE COMMENT on this proposal.

    It is unclear to us exactly how this would work, but we believe that any approach that might avoid or mitigate potential NQC reductions without imposing uncertain future costs on project owners would be beneficial.

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