

June 10, 2011

To: CAISO Staff

RE: Comments of the Independent Energy Producers Association on the CAISO Generator Interconnection Procedures Phase 2 stakeholder meeting convened June 3, 2011.

The Independent Energy Producers Association (IEP) appreciates the opportunity to comment on the CAISO Generator Interconnection Procedures Phase 2 (GIP2) stakeholder workshop process. IEP represents over 26,000 MWs of independently owned generation resources in California. In light of the proposals discussed to date and the goal of refining the CAISO queue, IEP recommends creating a mechanism to allow existing projects in Transition Clusters 1 and 2 to adapt to the current phased procurement process through a one-time election to reduce their project size. This mechanism will ensure a more efficient, cost effective, and less disruptive process for reforming the queue. IEP discusses this proposal in greater detail below.

Issue:

The CAISO generator interconnection process (“GIP”) currently contains interconnection projects that entered the study queue as early as 2007. Renewable projects entering the queue as early as 2007 had the reasonable expectation that their full project capacity, as defined in their interconnection request, could be purchased in full to meet the statewide RPS requirement. Renewable procurement in the intervening years has progressed to the point that some estimates indicate that sufficient contracts currently exist to meet the full 33% renewable energy requirement in 2020. Meanwhile, the total capacity in the queue far exceeds the statewide RPS requirement. On a going-forward basis, the current reality is that the incremental renewable needs of CA load serving entities, on a least cost basis, may result in the purchase of only a fraction of the capacity of a project’s interconnection request, at least in the near term to meet current RPS requirements. In light of the significant changes being implemented by the CAISO to reform its interconnection process, consideration should be given to help projects align their interconnection requests to the new commercial realities and the changes being implemented in the GIP.

Background:

Currently, the CAISO queues contain over 35,000MW of capacity which is primarily associated with eligible renewable facilities. Even when accounting for an expanded 33% RPS goal, the bulk of these resources will not be needed and, thus, are not likely to be fully developed. In spite of this reality, the CAISO study process assumes that all capacity in a cluster is built when

defining the network upgrades required for full deliverability of the nameplate capacity of the cluster. This results in a very inefficient interconnection process – studying projects that will never be built resulting in upgrades that far exceed the need/benefit while simultaneously imposing costs that may not be necessary.

CAISO Proposal:

The CAISO's proposed solution to this situation is to force the developer to 1) assume greater risk in funding network upgrades without full contracting of their project in the hope that the full project will someday be completed and the network upgrades fully refunded, all the while bearing the increased carrying cost of the upgrades, or 2) to simply withdraw the entire project from the queue and re-enter the queue with a project that matches the ultimate sales quantity (an option which is inconsistent with the terms of the PPA and likely the timing of the LSE's RPS requirement).

Specifically, to address the circumstances of bloated interconnection queues and stranded network upgrade costs, the CAISO proposes in GIP2 to use the provisions of the LGIA contract to withhold repayment of network upgrade costs for projects not completing their project milestones including building the full capacity associated with their interconnection requests. The CAISO has also proposed a phasing option for a very narrow selection of projects. This option would allow projects to fix their stranded cost exposure by making an upfront payment of the costs in the event that they do not build the full project capacity. Though adequate to address discrete fossil plant additions, this process does not provide flexibility for smaller incremental purchases of renewable capacity from a larger resource site.

The CAISO's proposed approach imposes an additional risk of network upgrade cost recovery by performing a cost/benefit analysis of network upgrades in association with the CAISO transmission planning process, with the ultimate objective of assigning uneconomic upgrade costs directly to interconnecting customers. This approach risks impairing the financibility of the projects; likely will increase costs for CA consumers; and, ultimately, will jeopardize load's ability to meet the states renewable requirement on a timely basis. Furthermore, this situation is untenable from a developer perspective: developers will not know how much of the network upgrade cost will be assigned to the project, and will be therefore unable to include these costs in their proposed project costs.

Alternative Proposal:

IEP recommends creating a mechanism to allow existing projects in the Transition Cluster, Cluster 1 and Cluster 2 queues to adapt to the current phased procurement process through a one-time election to reduce their project size. Unlike Clusters 3 and 4, which would have the opportunity to downsize and phase their projects to limit partial termination option costs following Phase 1 studies, the Transition Cluster, Cluster 1 and Cluster 2 projects are currently

in Phase 2 of the process without the ability to respond to the CAISO's new initiative to limit stranded network costs by more efficiently matching the interconnection request with expectations of project build-out over time and expectations of commercial sales. Given the significant impact on the CAISO stranded cost proposal and the need for a transition for current queue projects, these projects should also have the ability to utilize the partial termination option without or with less restrictive limits than proposed by the CAISO.

Under these circumstances, making a one-time, voluntary election available to projects within these clusters is warranted. Furthermore, this mechanism will provide a more efficient, lower cost, and less disruptive process for reforming the queue. The election provides the CAISO with a clearer signal as to the near term viability of the project capacity remaining in the queue and likely to continue through the queue process, rather than waiting for the projects to ultimately drop out of the queue after opting not to sign the LGIA (given the significant risks involved). This early determination will reduce the network upgrades required; the customer stranded cost, and therefore the costs of renewable procurement generally.

IEP believes that this concept can be easily integrated into the current, ongoing discussions of the GIP2 Working Group #3, addressing non-conforming provisions and partial termination.

Impact to Interconnection Study Process:

Downsizing projects within these clusters should result in a new base case with potentially different network upgrade cost exposure, but this will be a more viable "base case" and should be the goal of the CAISO. However, in recognition of this potential outcome, the CAISO should pursue implementation of the election as soon as possible. Generators with existing LGIAs would have the option of amending their LGIAs if the new network costs are lower.

Conclusion

The CAISO should consider a one-time election for generators to downsize their projects to allow existing projects in the Transition Cluster, Cluster 1 and Cluster 2 to adapt to the proposed phased interconnection process. Allowing this option will provide a more efficient, lower cost, and less disruptive process for reforming the queue.

IEP thanks the CAISO for this opportunity to comment on the Generator Interconnection Procedures Phase 2 stakeholder meeting.

Respectfully submitted,

A handwritten signature in black ink that reads "Steven Kelly". The signature is written in a cursive, slightly slanted style.

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