

Stakeholder Comments Template
**Integration of Transmission Planning and Generation
 Interconnection Procedures (TPP-GIP Integration)
 Revised Straw Proposal, September 12, 2011**

Submitted by	Company	Date Submitted
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This template is for submission of stakeholder comments on the topics listed below, covered in the TPP-GIP Integration Straw Proposal posted on September 12, 2011, and issues discussed during the stakeholder meeting on September 19, 2011.

Please submit your comments below where indicated. Your comments on any aspect of this initiative are welcome. If you provide a preferred approach for a particular topic, your comments will be most useful if you provide the reasons and business case.

Please submit comments (in MS Word) to TPP-GIP@caiso.com no later than the close of business on September 29, 2011.

Introduction

LSA appreciates the opportunity to file comments on the CAISO’s most recent Straw Proposal (Proposal) in the TPP-GIP Integration initiative. LSA also appreciates the CAISO’s diligent efforts to solve current problems with the planning, financing and construction of network transmission in California. LSA provides comments below on the specific items requested by the CAISO but also has three overarching structural comments that should be addressed.

First, LSA is very concerned about the continuing lack of detail in this Proposal, given the CAISO’s continued resolve to finalize the Proposal by the end of this year. The current Proposal does not answer a majority of questions that were raised by the first Straw Proposal,¹ but rather re-states several of the questions and asks for further comment. Other than stating that the study will continue to be a two-phase study and will not apply to Clusters 3 and 4, the CAISO has not “moved the ball forward” in any significant way, and, in fact, has raised more questions than it has answered.

This Proposal would completely change the way that Network Upgrades (NUs) are financed, allocated, and reimbursed in the CAISO-controlled grid. Therefore, the CAISO should not make those changes without a well-defined and thoughtful plan, and this Proposal is not such a plan.

¹ For example, the Proposal does not describe in detail what happens if project assigned to pay for certain Network Upgrades drops out of the queue after it has signed an LGIA. Rather, it simply poses the question regarding re-study without resolving anything. This is an extremely important issue to generation developers, who require at least a modicum of cost certainty in order to obtain financing for their projects.

For this reason, and because the CAISO has decided not to apply the Proposal to Clusters 3 and 4, the CAISO should delay Board approval and FERC filing until it has sufficiently fleshed out the details and given Stakeholders an opportunity to comment on the resulting proposals.

Our feedback in the remainder of this document assumes that the CAISO will proceed with refinements to the framework laid out in the Proposal. However, we urge the CAISO to consider a more fundamental revamping of the Proposal so that it is more closely aligned with utility procurement processes, in close cooperation with the California Public Utilities Commission (CPUC). The current proposal does not coordinate well with either current CPUC rules or potential future changes to those rules, and that will greatly hamper its ability to accomplish the intended goals.

For example, CPUC procurement-evaluation rules should change to reflect key Proposal elements. Those rules currently consider transmission costs as well as energy bids, under the assumption that ratepayers will ultimately pay those transmission costs (either directly or through the current IC reimbursement provisions). However, the CAISO would create a class of projects with developer-funded transmission; such projects should be evaluated differently from those with ratepayer-funded transmission, and CPUC rules should change accordingly.

LSA understands the CAISO's desire to implement the changes before the start of the Cluster 5 application window. However: (1) the CAISO's own proposal would delay that window until April, allowing at least an additional month for this process; and (2) it would be better to delay the application window rather than start that interconnection-study process with unclear or dysfunctional rules.

In fact, the CAISO should give very serious consideration to the question of whether, if the Proposal provisions would be enforced starting with Cluster 5, the many complexities, disputes, and problems they will cause would really be worth the effort. Given the size of the queue and the advanced state of LSE contracting to reach 33% RPS, it is reasonable to expect that the very large majority of generation that will be built between now and 2020 is already in the queue, and that the new provisions would this apply to only a relatively very small amount of capacity.

Scarce CAISO and stakeholder resources would be better spent improving the current process to ensure that viable generation projects currently in the queue can get access to transmission in a timely manner. Our comments in Section 6(b) below list several areas where CAISO action, alone and in cooperation with the CPUC, could help ensure that the most viable projects already in the queue are able to be successfully constructed and interconnected to the grid, by their contractual CODs and at the lowest cost to the system.

Second, the Proposal still does not address the fundamental problem of the current GIP, i.e., the CAISO's difficulties screening Interconnection Requests (IRs) for commercial viability in its study and planning process. This leads to study results that are often not reflective of the real situation and will skew the study results if they are fed into the revised TPP/Phase 2 studies.

The CAISO must address – in this initiative – how it will resolve the commercial viability issue. As LSA recommended before, the CAISO should state how it will: (1) consider commercial viability when allocating transmission capacity identified in the TPP; and (2) ensure that sufficient capacity is identified in the TPP for California to meet the 33% RPS target by 2020.

Third, in addition to removing cost reimbursement for all transmission funded by Interconnection Customers (ICs) that is not included in the TPP, the Proposal would also retract cost certainty protections that were a major focus of the previous GIP reforms. ICs made numerous concessions in previous GIP initiatives to gain the current level of cost certainty early in the process. Early cost certainty is extremely important even when transmission costs are reimbursable, but it would be even more critical if transmission costs are not reimbursable, since such costs would have a much greater impact on the economic viability of generation projects.

LSA understands the CAISO's desire to place additional cost responsibility on ICs that trigger transmission upgrades not included in the TPP. However, it is not reasonable for the CAISO to shift the risk to individual developers for inaccurate Phase I cost estimates, queue dropouts, and/or cost overruns for reasons beyond the IC's control. Moreover, if developer costs can increase with CAISO re-studies for queue drop-outs, LSA is concerned that this will re-introduce the same problems as under the prior serial-study process, which most would agree had very serious problems.

Instead, the Proposal should retain "hard" Phase I Study cost caps, even for transmission constructed outside the TPP. Like today, the PTOs should fund any difference between those estimates and actual costs, and cover any costs from generation-project drop-outs, with the same 100% abandoned plant protection included in the GIP-2 initiative. Continued PTO performance of this "backstop" role is the only realistic way to provide that critical early cost certainty.

This would strike the appropriate balance between additional cost responsibility on ICs (because they would not be reimbursed for any transmission not included in the TPP) and firm and early cost estimates early so that they can obtain financing for their projects (because ICs would retain the hard cost cap protection from the study process). Without that protection, there is little incentive for PTOs to make accurate cost estimates, constant re-studies will be needed, ICs will have serious problems obtaining financing, and the Proposal will not accomplish its objectives.

1. Section 4 of the paper laid out several objectives for this initiative, including four previously-identified GIP issues to be included in scope. Please indicate whether your organization believes these objectives are appropriate and complete. If your organization believes the list to be incomplete, please specify what additional objectives the ISO should include.

LSA has significant concerns about the objectives for this initiative – both those that are missing from the CAISO's list and several that are included.

Key missing objectives: LSA recommends adding two objectives: (1) Coordination with Load-Serving Entity (LSE) procurement processes; and (2) early and definitive Network Upgrade cost certainty.

- **Coordination with LSE procurement processes:** As explained at length in LSA's earlier comments, transmission planning must support and complement LSE procurement efforts. Transmission planning to interconnect generation cannot be conducted in a vacuum, without recognizing the commercial considerations that underpin the need for such transmission. There should be a clear path for generation projects with PPAs to connect to the grid and use transmission upgrades that will accommodate RPS policy objectives.

As mentioned by several stakeholders, the CPUC already requires jurisdictional Investor-Owned Utilities (IOUs) to include Transmission Adders in short-listing generation projects in the renewable-resource bidding process. The Transmission Adders are specific to the resource bid and are developed from the Transmission Ranking Cost Report (TRCR) produced by the investor-owned utilities (IOUs) ahead of the resource bidding² (as set forth in CPUC Decisions 04-06-013 and 05-07-040) or, if available, from the cost estimates in the project interconnection studies.

The IOUs' PPAs with winning bidders are subject to review by the Independent Evaluator and the Project Review Group, and approval by the CPUC. Projects with PPAs have likely already been determined through the CPUC process to be the most cost-effective renewable resources, considering transmission upgrade costs. The Proposal would re-assess only the part of least cost, best fit that concerns transmission upgrades, and is therefore not a comprehensive approach.

Furthermore, in order for a generation project to succeed, it should not have to win two "competitions" – i.e., a competition to obtain a PPA, where ratepayer funded transmission costs are considered in overall cost and another for accessing the same ratepayer funded transmission. This type of mismatch between procurement and transmission could lead to the failure of all or most of the projects that require transmission.

- **Early and definitive Network Upgrade (NU) cost certainty:** As noted in the Introduction, all parties recognized throughout the GIP reform processes that early and definitive cost certainty for ICs is extremely important, so developers can obtain financing for their projects and can undertake other significant development activities (e.g., RFO submittals, environmental studies, permitting applications) knowing the worst-case economics for their projects.

The Proposal would simply eliminate the critical "hard" Network Upgrade cost cap, with no explanation of the need or rationale for this major change. Effectively, developers would not know until after both the TPP and the Phase II Study (and perhaps even later if other projects drop out or IC cost responsibility is based on actual costs (see below)) – far too late in the interconnection study process – what the actual cost exposure for their projects would be.

This uncertainty will increase the cost and reduce the feasibility of financing, which will in turn increase cost to consumers. Moreover, as described below, the removal of the Phase I cap would be completely unworkable and unfair without strict controls on PTO cost estimation and/or IC ability to build Network Upgrades.

The proposed cost-sharing mechanism would provide developers with the least protection when they need it the most – when cost overruns (which are beyond their control) are extremely high – since they would be responsible for nearly all cost increases between Phase I and Phase II cost estimates over 125% of estimated costs. This situation would be further exacerbated by:

² CPUC D.04-06-013, Attachment A, contains a detailed description of the methodology for development and consideration of transmission costs in initial RPS procurement.

- SCE’s proposal to treat IC-funded transmission like Interconnection Facilities, where the developer would be responsible for actual costs, even above those stated in the Generator Interconnection Agreement (GIA); and
- The concept in the Proposal that the cost cap could be “overridden,” if restudies performed when projects drop out of the queue, costs allocated to remaining projects could not only increase (even above the level in the GIA).

The importance of this GIP feature was reflected in the most recent GIP-3 reform package. In that process, developers strongly supported SCE’s proposal to provide presumptive abandoned-plant protection for GIP-identified upgrades (e.g., where generation projects drop out or costs exceed Phase I cost cap levels).

Generally speaking, it seems impossible for developers to get any cost certainty early in the process unless the PTO retains this backstop role (with abandoned-plant protection) even for developer-funded upgrades. Thus, the CAISO should retain the interrelated Phase I “hard” cost cap, PTO backstop role, and abandoned-plant treatment for developer-funded transmission upgrades, as well as TPP ratepayer-funded upgrades.

- **Cost control commensurate with cost responsibility:** The CAISO cannot confer an obligation on developers to pay for transmission facilities with no commensurate right to control costs. Developers cannot be asked to write a blank check.

As LSA stated in its prior comments, if ICs are expected to pay NU costs without reimbursement, the Proposal must give developers more control over upgrade costs and assurance of their reasonableness. The CAISO can do this by addressing the GIA “option to build” provisions and the PTO right of first refusal, which is addressed in the Federal Energy Regulatory Commission’s Order 1000, requiring PTOs to backstop their estimates within a specified range (i.e., + or – 20%), and other methods.

Currently, PTOs build virtually all transmission upgrades for generator interconnections. However, if the new regime requires ICs to pay for – without reimbursement – certain transmission facilities, then the ICs should be able to choose whether the PTO or a qualified third-party contractor constructs those facilities wherever possible.

This choice should apply to all NUs, regardless of whether they are new facilities or part of the PTO’s existing facilities. Generation developers may be able to negotiate both lower costs and better commercial terms with third-party transmission developers, such as project cost caps, that are not currently available from the PTOs.

If developers are not given the right to choose third parties to build these facilities, and/or the nature of the upgrades makes that choice problematic (e.g., re-conductoring of current PTO transmission lines or certain modifications to PTO substations), then the CAISO should conduct additional cost benchmarking and/or impose cost controls on the PTOs, and allow developers more input into the appropriate plan of service for facilities they must pay for.

Comments on objectives included

- **Objective #4 - Limit the potential exposure of transmission ratepayers to the costs of building transmission additions and upgrades that are inefficient or under-utilized.** As LSA explained in its prior comments on this same objective, while ratepayer protection is a paramount goal, the CAISO must consider this goal in a more holistic manner. A process that focuses only on cost of transmission, while ignoring overall cost of power to ratepayers, does not make sense.

Thus, asset utilization and cost reduction goals should not be limited to transmission. Consumers (as reflected in state law and adopted policies) want a reliable electric supply that meets the state's environmental objectives at the lowest possible overall cost. The CAISO should not design a transmission process that disadvantages "least cost, best fit" projects chosen in the procurement process to save a few dollars (in relative terms) on transmission.

In any case, "utilization" of transmission has not been clearly defined and vetted. Based on prior discussions, "utilization" seems to be measured by the amount of energy that flows through a transmission facility over a period of time under normal (all facilities in service) conditions compared to its thermal rating. If so, this is not a definitive measure.

As mentioned before, transmission facilities are required to meet Applicable Reliability Standards under contingency (loss of one or more facilities) conditions, which hopefully would be of low probability. As such, loading on transmission facilities in the system would likely have to be kept low in energy transfer in anticipation of a contingency event, which is contrary to "high utilization."

The CAISO should thus modify this objective to say: "Identify a transmission plan that will help meet state policy objectives at the lowest overall cost of delivered electricity."

- **Objective #5 - Provide greater certainty to developers of new generation resources that the network upgrades they need will be approved for siting by the CPUC or other siting authorities:** The CAISO explained at the September 19th stakeholder meeting that this goal would be accomplished by using the CPUC "Discounted Core" project mix and Long-Term Procurement Proceeding (LTPP) portfolios to develop the TPP transmission plan identifying the upgrades needed to reach 33% RPS.

However, not all the resource portfolios currently include all resources with PPAs, because the Discounted Core is a subset of resources with PPAs. The resulting transmission plan may, therefore, not result in enough transmission capacity to accommodate the resources that are part of the renewable portfolio of the LSEs.

By ignoring resources with more certainty (i.e., with PPAs), the proposed process assumes in the portfolios other resources that may not be commercially viable, further adding to the problem. Aligning the TPP base case with the PPAs will go a long way to resolve this issue.

The CAISO and the CPUC should also develop together a process for the CPUC to grant "substantial weight" or a rebuttable presumption that a transmission project identified as a policy-driven upgrade in the CAISO's TPP is "needed" for the purpose of obtaining a certificate of public convenience and necessity (CPCN) or other applicable permits. This would be similar to the current treatment of other transmission projects.

This approach would achieve the streamlining that the CAISO properly has included in the objectives of this Proposal, and extending that policy to transmission projects in executed GIAs would extend that streamlining process to IC-funded transmission projects as well.

It would be appropriate for the CPUC to grant the TPP decisions substantial weight in CPCN proceedings because of the CPUC's expanded collaborative role in the transmission planning process. Once the CPUC and CAISO agree on such a provision, the CPUC could write the policy into its permitting standards and/or could advocate for legislation to enable it.

- **Objective #7 - Resolve several previously identified GIP issues:** LSA understands that this Proposal does not include all the details that will appear in later versions. However, the CAISO has proposed a very quick timeline for implementation, and the current Proposal does not appear to resolve any of these issues. In fact, at least one new detail provided would undermine progress made in the past in GIP reform processes.

- a. **Clarify how an IC's funding and posting requirements will be affected when transmission additions/upgrades approved under the TPP provide some or all of its interconnection needs or GIP-driven upgrades are modified through the TPP.**

For upgrades included in the TPP, the Proposal appears to retain the earlier proposal that developers need not post Interconnection Financial Security (IFS) beyond the first posting, although this was not clear for the option where the LSE allocates that transmission to generation projects. The Proposal does not address funding/posting requirements when GIP-identified upgrades are modified in the TPP.

- b. **Allow for a plan of service re-study process whereby network upgrade needs can be re-evaluated when earlier ICs drop out of the queue. A related issue is whether the GIP Phase 1 cost cap for an IC should be over-ridden in cases where the re-study results in increased cost of network upgrades.**

The Proposal does not include any proposals on how NUs would be re-studied or otherwise modified to account for project drop-outs. As noted above, and in further remarks on the "soft cap" below, financing of generation projects would be significantly impaired or rendered impossible if developers face the prospect of potential significant transmission-cost increases late in the development process, particularly if those increases are not refundable later.

Moreover, the CAISO rejected the idea of continuous re-studies when it moved from the Serial Queue process to the Cluster process. Experience has shown that a methodology requiring constant re-study does not work well for any of the stakeholders and simply raises developer uncertainty and consumer costs.

Early and definitive cost certainty is a critical GIP reform principle that cannot be undermined in the current process without significant harm to ICs and ratepayers. LSA generally supports revising plans of service when generators drop out of the queue in order to "right size" upgrades, which typically should result in fewer and smaller/less expensive upgrades; however, it cannot support a policy where such revision could increase developer costs above those identified in the Phase I study (if a GIA has not yet been executed) or in the GIA (if a GIA has been executed).

Rather, as long as the developer continues to fund its assigned cost responsibility, any amounts above that estimate should be funded by the PTOs, with 100% abandoned plant treatment for any such funding. (If the Proposal makes the IC the transmission backstop, there will be no reason for the 100% abandoned plant treatment for the PTOs.) This solution would strike the right balance between providing cost certainty to generation developers and protecting ratepayers.

c. Design a study process that will yield meaningful results (particularly Phase 1 cost caps) when the volume of MW in the cluster is drastically excessive.

Several options were discussed at the meeting, largely through suggestions by generators (e.g., basing GIP studies on the generation assumed for each area in the latest TPP), but this issue is not addressed in the Proposal. LSA believes that application of the process that will be followed for the Cluster 4 Phase I Study, applied to both Delivery NUs and (unlike the Cluster 4 methodology) non-project-specific Reliability NUs, should be adopted for Phase I Studies in the future.

LSA suggests that instead of publishing the TPP results after Phase 1 and before Phase 2 of Cluster N, the ISO should publish the TPP before the open window of Phase 1 or Cluster N. This will provide information for ICs to determine whether to submit an IR, and, the location(s) of the IR(s) should they be submitted. This will serve to limit the size of the Cluster by eliminating unrealistic submittals in Phase 1.

Further, the TPP should be revised to provide information on available transmission capacity at various points of interconnection (POIs), similar to the TRCR, with sensitivity studies based on the different resource portfolios that the CAISO uses to determine “least regrets” transmission upgrades. ICs can use this information to determine the location and structure of their IRs and bids. The LSEs can use the same information in bid evaluation.

Once LSEs select generation projects for “short-listing,” they can inform the CAISO and PTOs, who can determine transmission needed to accommodate the winning bidders. This process will help to integrate the TPP, GIP and procurement processes.

d. Consider whether to allow additional opportunities in the new TPP-GIP process for ICs to downsize their projects before executing the generation interconnection agreement (GIA).

This issue was not addressed in the Proposal. LSA believes that there should be additional opportunities for ICs to downsize projects, both before and after executing the GIA.

2. The revised straw proposal presents a timeline describing how the new TPP-GIP process would work. Please comment on the overall process design in terms of how well it meets the objectives of this initiative and how workable it is from a practical perspective. If you see ways it can be improved please offer concrete suggestions.

There are several problems with the proposed timeline and sequencing, described below. Generally speaking, under the Proposal, developers will not have sufficient or definitive cost and timing information available to assess project viability in order to make required commitments.

- **Coordination with CPUC/LSE procurement process:** As we have noted with other Proposal elements, the timeline should reflect the major procurement-process decision points. ICs must have information about both interconnection costs/timeline and its commercial prospects (via a PPA) to make reasoned decisions about whether to make the substantial financial commitments to continue in the GIP. Therefore, major elements of the LSE procurement process needs to be mapped on the timeline and reflected in the Proposal. These procurement-process elements include bid deadlines, short-listing dates, and expected range of times for PPA execution.
- **Initial IFS Posting:** If the Initial IFS Posting is still due 90 days after issuance of the Phase I Study, the “soft cap” mechanism would leave developers with insufficient information to decide whether to make that posting and proceed into Phase II, because they would not yet know their maximum cost responsibility. The current process offers a minimum level of certainty by providing developers with worst-case cost estimates (even though many developers believe that these estimates are inflated), but the proposed process would not provide even that level of assurance. If the CAISO retains the “soft cap” provision, it must provide for greater refundability of the IFS Posting, so that developers have an opportunity to drop out of the queue if their cost responsibility in Phase II is higher.
- **TPP sequencing:** LSA can see some advantages to having updated TPP information before the Phase II Study. However, knowledge of how much transmission capability the TPP would accommodate in the area of a particular generation project would likely not give a developer any certainty or useful information unless that amount is more than needed to accommodate all the generation in the study cluster there (in which case the developer would know that the TPP would cover all the generation in the cluster, absent later changes from re-studies – see above for problems with that concept).

If the amount of TPP transmission in that area is less than the generation in the study cluster, developers would still have no indication of their ultimate costs, because: (1) they would not know which projects will not make the Initial IFS Posting and drop out of the queue; and (2) the “soft cap” would render the Phase I Study results nearly meaningless, i.e., costs could well be significantly higher after the Phase II Study.

Since the TPP information would not be any more useful after the Phase I Study than before it, LSA recommends that the CAISO sequence the TPP before the Phase I Study, so developers can use that information in formulating their Interconnection Requests.

- **Second and Third IFS Postings:** Developers may not have sufficient information even after the Phase II Study to decide about further IFS Postings for non-TPP transmission projects. This uncertainty could result from potential imposition of significant additional costs to developers later, perhaps years after interconnection studies and GIAs are complete, especially if the CAISO incorporates into the Proposal either: (1) SCE’s suggestion that developers be responsible for actual NU costs; or (2) the CAISO’s suggestion that developers costs could be increased through re-studies when earlier-queued projects drop out.

3. Please comment on the following specific aspects of the design of the proposed new TPP-GIP process, and offer concrete suggestions for improvement where needed.

a. The study assumptions proposed for each of the two GIP study phases.

LSA agrees with commenters at the stakeholder meeting that the Phase I Study methodology under the new process should be similar to that proposed for the Cluster 4 Phase I Study, e.g., assume the larger of the generation capacity in the TPP portfolios or that making the Initial IFS Posting for the prior cluster. This study – the purpose of which was originally stated as determination of “proxy” costs – should recognize that a large portion of the projects submitted in Phase I usually drop out, and this seems like a reasonable means to do that.

LSA disagrees with suggestions that IC-funded transmission upgrades should be eliminated from the studies, for the reasons described below.

- First, to maintain the rationality of the study process, removing IC-funded projects because the generation they would serve is more likely to be non-viable would logically require also removing the generation projects served by those upgrades. That would raise the question about how to treat any TPP capacity that those projects would have been assigned and how to determine the locations and amounts of the replacement resources, which may not be as viable as the projects being removed.
- Second, if those upgrades are eliminated from later studies, they could be triggered again in those studies, and effectively end up in multiple GIAs and/or be covered multiple times in IFS postings.

b. The information available to interconnection customers at each decision point in the process.

As noted above, the proposed significant deferral of maximum cost responsibility certainty until after the Phase II Study would mean that developers would not have enough information to decide on whether to make the Initial IFS Posting. If the Proposal provides for post-Phase II cost increases, developers would not have enough information to decide on whether to make the Second or Third IFS Postings.

c. The “soft” nature of the GIP cost caps, whereby interconnection customers and ratepayers will have shared responsibility for upgrade costs that exceed the cost cap. Comment on both (i) the appropriateness of sharing this cost responsibility, and (ii) the ISO’s specific proposal for how the costs would be shared.

As noted in the Introduction, this is a key issue and perhaps the most problematic issue in the Proposal. Our comments above explain the potential harm to both developers and ratepayers of delaying certainty regarding cost allocation to after the Phase II Study, combined with removal of cost reimbursement for NUs not included in the TPP.

The “soft” cost cap would not be a cap at all, but rather a cost sharing mechanism for overruns. As discussed extensively above:

- The CAISO has not justified this major change to the current policy; and
- The benefits of retaining a “hard” Phase I Study cap, and the PTO backstop role with 100% abandoned-plant treatment, far exceed any drawbacks to doing so.

The lack of protection may actually be much more acute than described in the Proposal. Phase II Study NU costs can increase from Phase I Study NU costs due to changes in the mix of NUs for the project or cluster and/or the cost of each NU indicated in both studies. The current cost cap applies to the total NU cost, i.e., regardless of the mix of NUs in the two studies and netting cost decreases for some facilities against cost increases for others. Effectively, under the current approach:

- Developers can be responsible for 100% of the cost increases for some facilities (or for 100% of the cost of facilities added in Phase II), where those increases are offset by cost decreases for other facilities, or facilities dropped, in Phase II.
- Developers may be responsible for none of the cost increases for some facilities (or for none of the cost of facilities added in Phase II), if those additional costs are not offset by cost decreases or facilities dropped in Phase II.

The proposed “soft” cost cap would convert this overall NU cost cap into a facility-specific cost cap, where developer cost responsibility would be determined by the Phase I-to-Phase II cost changes for each facility. Aside from being unfair and effectively removing cost protection overall, as discussed above, this proposal is impractical. For example:

- Would this eliminate total cost caps for the NUs themselves? For example, would there be any cost cap at all on facilities added in Phase II that were not identified in Phase I?
- What if the plan of service for the NUs changes and the specific facilities identified in one of the studies is no longer necessary? Would the “soft” cap apply, if at all? Additionally, does the Proposal reduce incentives to scale back the plan of service, where appropriate?

Finally, the experience of some large LSEs with imposing open-ended economic curtailment costs on generation projects should give the CAISO some pause. LSEs that tried to impose such costs on generators found that developers would not and could not agree to such terms, because their lenders (and their project economics) would simply not tolerate that kind of unbounded financial risk.

Similarly, imposition of effectively unbounded transmission cost risk on developers, and the delay or complete lack of definitive cost-allocation information for IC-funded upgrades, would likely render projects with any degree of IC funding non-viable in today’s markets. If this integration proceeding does not coordinate interconnection and transmission with procurement decisions, as recommended by LSA, otherwise-viable projects will not be able to get financing because transmission costs are not certain. A hard cap, early in the process, is necessary for IC financing.

4. In the revised straw proposal, the ISO identifies four options by which allocation of ratepayer funded upgrades could be allocated.

- a. Please rank the options, Option 3A, 3B, 3C, or 3F, from 1 (most appropriate) to 4 (least appropriate) your organization believes to be the most appropriate means for determining the allocation of ratepayer funded upgrades. Please explain the reasons for your preference? If there other options the ISO should consider, please describe them and explain why they could be superior to the other options.**

As stated in its earlier comments and discussed below, LSA does not support Options 3B or 3C, because neither of those options supports the LSE procurement process, and each presents significant risk that transmission allocation will be misaligned with LSE procurement decisions.

Option 3A is closest to the alternate proposal in LSA's prior comments, and (pending provision of additional information) LSA may be able to support it. Similarly, as noted below, there may be some merit to the CAISO's proposal to allow LSEs to allocate TPP transmission between projects; however, there is insufficient detail for a valid assessment of this option, including how developers would be protected if LSEs are allowed to change allocations late in the process. Although the CAISO noted that the existence of a PPA itself may not be sufficient to assure project viability, LSA has pointed out that additional milestones such as demonstration of site control, permitting progress, and other milestones can be used to support allocating transmission to projects that have sufficiently progressed. However, the existence of a PPA, while perhaps not sufficient, is a key factor to determine viability in today's markets.

Option 3F would only be workable if the CPUC concurrently changed its rules to consider the impact on procurement contracting. Again, CAISO-CPUC coordination of the entire process is critical to ensuring a coherent process that supports overall least-cost procurement. LSA requires more detail on Option 3F before it can comment further.

- b. Based on stakeholder feedback during the September 19 stakeholder meeting, many parties stated the ISO would likely need to use more than one of the identified options. Please provide comment regarding what combination of these options will best facilitate efficient allocation of ratepayer funded transmission. Provide as much detail as possible.**

As noted in (c) below, a combination of Options 3A and 3C could be used.

- c. If Option 3A is selected, what are appropriate milestones to determine which projects are the "first comers?" In particular, some stakeholders have suggested that only projects with signed PPA should be allowed to qualify. Please comment on the appropriateness of this criterion and any others that might be needed.**

As noted above, this proposal is the closest to the alternate approach recommended in LSA's prior comments, and we may be able to support it. PPAs and site control are the most relevant milestones for generation projects, as mentioned in the Proposal.

However the process timing is both unclear and critical. Generators must enter the queue during early project development due to the ever-lengthening transmission development timelines. Therefore under this proposal, the CAISO queue will continue to be clogged with early stage projects requesting Full Capacity Deliverability that will likely not know whether they have a PPA until some later time when they are more mature.

As the procurement process favors more advanced projects, it is unclear whether the PPA process will be sufficiently timely to support GIP decision making about whether an IC qualifies for an allocation of a policy upgrades before going into Phase II. Such synchronization is both difficult and critical.

Additional milestones could be derived from those set forth in GIAs where the PTO agreed to upfront fund contingent on the IC meeting certain development milestones. Since the same concept is being applied here, the CAISO could use the milestones in those agreements as a starting point, and work with stakeholders to modify them appropriately. The GIA milestones should be modified to reflect commercial realities related to the timing at which various development activities generally occur.

If there are more projects in the queue that have PPAs and meet the established milestones than there is available transmission capacity under the TPP, then it may seem logical for the CAISO to use an auction mechanism (Option 3C) to allocate the capacity among the interconnection customers who continue to meet these requirements.

However, it is more appropriate to understand why this would occur, and to use an effective remedy to fix the problem. This would, in effect, be a strong signal that the transmission plan may be deficient, because the transmission plan should support procurement such that if more transmission to an area is needed, the TPP should be updated.

This failure to link viable commercial interest in an area that exceeds the level assumed in the TPP is a key deficiency of the Proposal. The TPP portfolios represent only an educated guess about where generation might locate – an important reason why those portfolios should include all generation projects that hold PPAs and meet certain milestones. The TPP can be wrong in those assumptions, and there must be a mechanism for correcting that error before it can cause the withdrawal of otherwise-viable generation in promising areas.

d. If Option 3B is selected, what is the appropriate metric and methodology upon which pro rata shares should be determined?

The pro-rata approach is not workable from a commercial perspective, particularly where the funding for any additional needed upgrades is non-reimbursable. It is not very useful for developers to have a TPP allocation of 150 MW if the developer has an executed PPA requiring it to deliver 250 MW.

Under Option 3B, the project either could not interconnect (if additional reliability upgrades are needed) or would not be fully deliverable (if additional delivery upgrades are needed) until new transmission is built and paid for by the developer or a group of developers. Under this approach, a developer could obtain a pro rata allocation of transmission but still be prevented from coming on-line or being deliverable until another significant investment was made. This is problematic for both project cost and timing.

Moreover, because of potential queue drop-outs, a pro rata allocation would make it difficult for projects that come on-line before other projects to assess the share of TPP upgrades that they would ultimately be granted. The Proposal does not address what would happen if another IC that was allocated transmission doesn't come on-line in a timely fashion but does not formally drop out of the queue.

Finally, from a policy perspective, it does not make sense to allocate a scarce resource (i.e., transmission capacity) to projects that will ultimately be unsuccessful. There are also numerous questions about what would happen to the remaining capacity if there are queue dropouts, etc.

e. If Option 3C is selected, then how should such an auction be conducted? Specifically, the ISO seeks comments regarding whether an auction should be an open bid or closed bid and held in a single round or an iterative bidding process? Please provide as much detail as possible

LSA wants more detail on this approach, but we have concerns about whether it would resolve the problem its intended to solve, or whether it might just result in a continuation of the problems currently facing the queue.

LSA's understanding is that the auction method would allow developers essentially to upfront fund the cost of a TPP upgrade, which would then be repaid upon commercial operation. Although there would be a bidding component, it is likely that developers would make maximum bids in order to avoid having to pay for additional network upgrades without reimbursement.

In any event, as noted above, LSA also does not believe that there should be two separate and unrelated competitions (i.e., procurement and transmission) for a generation project to be successful. Rather, if the CAISO pursues an auction approach, it must align the auction with the procurement process (see below). If the present disconnect between the procurement and transmission processes is not addressed, the risk is too high that there will be a mismatch between those projects selected in the LSEs' procurement processes and the projects that get access to ratepayer-funded transmission through the auction.

While projects with PPAs could just bid higher and/or procure rights from otherwise non-viable projects with transmission allocations, this approach could very well increase overall costs to ratepayers and would require the CAISO to allow bilateral trades of such allocations. It is also unclear whether the right to sell transmission allocations would work from a technical and commercial perspective, since transmission needed for different projects may not be the same.

Finally, since the utilities take transmission costs into account in their procurement processes, the auction approach would have to be coordinated and timed with those processes in order to serve as an appropriate price signal and to avoid double counting the associated transmission costs.

1. Should the ISO conduct separate auctions for large projects and small projects? If so, how should the ISO determine how much transmission capacity should be available in each auction?

No. The CAISO provided no justification for this idea, and there is no fair way to split the available TPP capacity between large and small projects to facilitate such an auction.

f. If Option 3F is selected, how shall transmission capacity be allocated to the LSEs? In particular, is the existing methodology for allocating import capacity to LSEs for RA (tariff section 40.4.6.2) applicable in the present context? If not, how should it be adapted?

This proposal offers the best opportunity to align the procurement process with the CAISO GIP and TPP. However, this is only one component, and more development is needed to reflect how this component fits into the overall GIP, TPP, LSE procurement, and generator project development processes. For example, we need more information about:

- **At what point the LSE would make the allocation decision.** Developers must know upfront whether the LSEs will allocate the available transmission capacity included in the TPP to their project(s).
- **Provision and timing of transmission information to support generation siting and resource evaluation.** With the Deliverability Assessment moved out of the GIP, the method and timing of providing this information must support developer decision-making in for project siting and the LSE in resource evaluation.
- **Coordination with the CPUC procurement process.** Under this option, the responsibility for securing RA deliverability would be moved from the Seller (developer) to the Buyer (LSE). This will require changes in the CPUC procurement process and the pro-forma Power Purchase Agreements, and perhaps to the IFS posting requirements and other elements of the CAISO process as well. Thus, implementation will require a high level of cooperation and coordination with the CPUC.
- **Whether or how the allocation could change.** For example, if the LSE allocates transmission to a project for which it has a PPA, but that PPA is later terminated, can the LSE allocate to another project, or would the transmission allocation be open to any LSE with a PPA in the area? Would the LSE be allowed to withdraw the allocation from a project after it is awarded?

g. All of the options provided could create opportunities to buy/sell allocations of capacity created by ratepayer funded projects. Is there a need for the ISO to set up rules to prohibit or manage such sales?

No. The CAISO should allow the new structure to be flexible by providing for bilateral trades for such rights.

5. In cases where an IC pays for a network upgrade and later ICs benefit from these network upgrades, the ISO has proposed two options, Options 3E and 3G to resolve the “first mover-late comer” problem.

LSA supports Option 3G of the Proposal, for the reasons set forth below. If an IC connects and benefits from network upgrades built by a previous IC or a group of ICs, then the initial IC(s) must be reimbursed through cash compensation. Any other result would be unfair and would exacerbate the “free rider” problem that is likely to occur in any event.

Under any of these approaches, it is likely that developers will wait for others to take on the risk of financing a transmission project so that they can take advantage of excess capacity. Thus, not only should the CAISO require a latecomer to compensate the initial IC(s), but the CAISO should consider requiring that any latecomer pay incentive interest rates to the IC(s) that built the facilities (i.e., a higher interest rate commensurate with the utilities return on equity on transmission facilities). This approach might allow ICs to obtain financing that they could not otherwise obtain if subsequent ICs only had to pay the FERC interest rate for facilities that they ultimately utilize.

Finally, there should be a mechanism for reimbursement of ICs where upgrades that they fund provide benefits to ratepayers (e.g., congestion relief).

a. Does the ISO need to select one of these options or should both be implemented? If both, please explain or give an example of how the two could work together.

LSA does not understand how both proposals could be selected. Either the ICs must fund the excess capacity and be reimbursed by later ICs (3E), or ratepayers will fund the excess capacity and be reimbursed by later ICs (3G) – these proposals appear to be mutually exclusive.

b. If only one option is to be chosen, which option does your organization favor and why?

LSA supports Option 3G. It would be inappropriate for ICs be the financiers for future ICs that may or may not materialize by having them fund capacity in excess of their needs.

Under Option 3G, if the CAISO determines that a larger set of upgrades is necessary to “right size” the project and/or because the cluster does not utilize all of a particular upgrade, the ratepayers should fund the excess. Moreover, as discussed many times before, requiring developers to finance transmission will be more costly to ratepayers in the long run.

It is unfair to require a particular developer or group of developers to take the risk that excess capacity will not be used. Thus, the CAISO should either scale the project so that it only provides the needed capacity for the group or institute Option 3G.

c. In option 3G, should the “late comer” be responsible for paying back ratepayers for the portion of the network upgrades already covered by ratepayers or simply take over paying for the portion of the network upgrades covered by ratepayers moving forward?

Although this question is unclear, LSA believes that any late-comer must pay ratepayers for NUs not included in the TPP on the same basis that earlier ICs were responsible for paying for the NUs required to support their projects.

6. In order to transition from the current framework to the new framework, the ISO proposes that the entire existing queue including Clusters 3 and 4 proceed under the original structure, and that Cluster 5 would proceed using the new rules.

a. Does your organization support this transition approach? If not, please indicate how it should be modified and provide the justification for your proposal.

Yes – generally speaking, LSA does not favor retroactive rule changes. However, as noted in the Introduction, we strongly question whether the significant and difficult rule changes in the Proposal are really worth the effort, given the CAISO’s decision not to apply the Proposal to Clusters 3 and 4. It appears that the very large majority of the capacity to fulfill the state’s RPS mandates would have already been processed under the existing rules, and we are skeptical that there would be much benefit to changing the rules from Cluster 5 and beyond. Instead, as noted below, there are a number of near-term high-priority issues that deserve the CAISO’s attention.

b. Given the potential size of clusters 3 and 4, if these clusters proceed under the existing rules is there a need to create new rules that would strengthen the incentives for less viable projects to drop out of the queue rather than proceed into the GIP phase 2 study process? If so, please offer concrete suggestions and explain why your suggestions would be effective and reasonable.

Given the recent LSE RFO short-listing process and the already-strong incentives to drop out provided by the IFS posting requirements, the generation in those clusters will likely decline significantly without further rule changes. LSA strongly opposes any limitations on PTO flexibility to fund transmission upgrades and believes that such funding both lowers ultimate ratepayer costs and helps facilitate financing by viable generation projects.

Any attempt by the CAISO to limit PTO flexibility to upfront fund would be contrary to Order 2003 and legally indefensible. Moreover, the CAISO has consistently stated that it will not insert itself into PTO decisions about whether to upfront fund facilities, and there is no reason that it should do so now.

Instead of imposing additional requirements on Clusters 3 and 4, or seeking significant rule changes for Cluster 5 and beyond, the CAISO would benefit the overall process far more by concentrating its limited resources on:

- ***Working with the CPUC to streamline permitting for TPP and GIP-identified transmission upgrades***, as described above;
- ***“Queue-clearing” efforts***, including increasing the transparency of those efforts. The CAISO has taken a reasonable first step in those efforts by reviewing whether projects which have failed to progress are still in compliance with the rules in effect when they entered the queue. While this may result in some withdrawal of non-viable projects, those earlier rules may not be sufficient to remove what is obviously a large amount of capacity that simply has not progressed.

The CAISO should consider additional measures that might be needed, similar to the treatment of the LGIP Transition Cluster in the early GIP reforms. Those projects were required to submit additional deposit money to remain in the queue, and similar measures could be considered here. Voluntary buy-outs could also be considered, in light of the savings that would be realized from reducing the need to build transmission for more-viable later-queued projects.

- ***Determining how the withdrawal of those earlier, non-viable projects can be reflected in the transmission upgrades, and associated cost responsibility, of later-queued projects.*** As non-viable projects are withdrawn, that withdrawal should be reflected through reductions of transmission needed (and financed) by later-queued projects. The CAISO should work with stakeholders to develop a feasible way to perform this analysis, short of re-doing numerous already-completed studies.

7. Some stakeholders expressed interest in determining only the reliability upgrades and costs in the GIP studies and to consider the need for delivery upgrades in the TPP. The ISO seeks comment regarding the feasibility/desirability of separating the assessment of reliability and delivery upgrades in this manner. In particular, how would this approach improve the process of identifying delivery upgrades that ICs would be required to pay for?

LSA does not see how this approach would be compatible with the LSE procurement process, since developers would have no information at all about the cost of Delivery Network Upgrades until the end of the TPP. More information is needed on this approach before we can offer additional feedback.

- 1. Please offer any other comments on the revised straw proposal, including any suggestions for improvement of the proposal or other issues your organization believes the ISO must address in this initiative.**

Please see the Introduction.