

Stakeholder Comments Template

**Integration of Transmission Planning and Generation Interconnection Procedures
(TPP-GIP Integration)
Straw Proposal, July 21, 2011**

Submitted by	Company	Date Submitted
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I. Introduction

The Large-scale Solar Association (LSA) generally supports the ISO's attempt to further integrate the Generation Interconnection Process (GIP) with the Transmission Planning Process (TPP) in order to create a comprehensive and cohesive planning process for California, but LSA cannot support the current Straw Proposal (Proposal) without significant revision and additional specificity. As detailed below, there is an overarching issue that needs to be addressed before the Proposal has any chance of success; namely, the ISO must link the planning and cost allocation process to the procurement process for it to function properly. Additionally, there are numerous and significant details that have yet to be fleshed out, which makes it difficult to provide meaningful comment on several aspects of the Proposal.

- A. **Coordination with Procurement Process** - The most glaring deficiency with the Proposal is that it does not address the fundamental problem that the current queue is too large to perform any meaningful planning unless the ISO coordinates its planning and cost allocation process with the procurement process. If ratepayer funded transmission is to be capped at the levels needed to support the 33% renewables portfolio standard (RPS) goals, then there needs to be a clear, financeable path for those resources selected to meet the policy objectives to access this transmission capacity.

Until such a path is outlined, it is difficult to engage in detailed or meaningful discussions about the reform effort. This is especially true where the reform would create a distinct set of winners and losers in transmission access with a strong potential for misalignment with the RPS procurement outcome. Several of LSA's comments propose ways in which the ISO could take procurement decisions into account in this reform effort, and LSA's conditional support of certain aspects of the Proposal is contingent on these elements being incorporated into the Proposal.

One of the objectives of the Proposal must be to support and complement the procurement effort of Load Serving Entities (LSEs) in California. Transmission planning to interconnect generation cannot be conducted in a vacuum without recognition of the commercial considerations that underpin the need for such transmission. In order for a generation project to succeed, it should not have to win two “competitions” – i.e., a competition for obtaining a power purchase agreement (PPA) wherein 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.

The procurement process, led by the LSEs and the California Public Utilities Commission (CPUC), is currently the most rigorous and efficient evaluation of project viability and thus the best guarantor that ratepayer interests will be served. While a generation project theoretically can be financed and constructed without a PPA, market realities require the certainty provided by both a PPA and an interconnection agreement in order for a project to move forward. Accordingly, the allocation of transmission resources should mirror the outcome of the procurement process to ensure that scarce transmission resources are allocated to the “least-cost, best-fit” projects. As long as the two processes are disconnected and uncoordinated, significant inefficiencies will result and ratepayer and developer risk will be significantly higher. Higher risk leads to higher overall cost to achieve the RPS.

- B. **Lack of Detail** - LSA is concerned that the Proposal for revamping the planning for and funding of transmission to serve California generation is less than 18 pages with considerable background and very little detail about how the proposal would actually be implemented. The ISO must provide far more detail to LSA and the other stakeholders before we are able to evaluate the proposal in any meaningful way. It is not sufficient to provide an “end-state” without detailing the steps that will lead to the end state, particularly where there are approximately 65,000 MWs of renewable generation in the existing queue and there is no clear path for projects with PPAs to obtain access to the transmission that will be constructed.

The Proposal also fails to explain how it will interact with the numerous other ISO initiatives related to transmission planning and generation interconnection, including the forthcoming proposal to move the serial queue forward, the 2011/2012 Transmission Planning process and development of appropriate resource portfolios, the proposed change to the Cluster 4 methodology, and the current GIP reform. Each of these initiatives will affect how the Proposal is implemented, and the ISO must carefully consider the interplay among the various initiatives. The ISO should take a holistic view and develop an overarching plan to address the

objectives of this Proposal. While LSA understands that ISO is eager to complete this process quickly, LSA cautions the ISO not to compromise the quality and potential effectiveness of the Proposal for speed.

II. Response to Specific Questions

1. The ISO has laid out several objectives for this initiative. 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.

While LSA will not comment separately on each stated objective, LSA believes that the goals set forth in the Proposal are generally appropriate and worthy. LSA requests addition and modification of the goals as set forth below. Moreover, LSA notes that while it supports the goals, it does not necessarily agree that the ISO's proposed solution will accomplish the stated objectives.

Integration with Procurement Decisions - LSA agrees with the ISO that it makes sense to rely more on TPP and less on GIP as the venue to identify and approve new rate-based transmission. As stated above, one of the primary goals of the GIP-TPP integration must be to wed transmission planning with procurement decisions so that any transmission planned and constructed can be used to the benefit of ratepayers. Without this recognition, no plan can succeed, because it's likely there will be a mismatch between the projects with access to transmission and the projects with PPAs.

Ratepayer Protection - While ratepayer protection is a paramount goal, the ISO must look at 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 and the people of California (through the laws and adopted policies of the State) want a reliable electric supply that meets the state's environmental objectives at the lowest possible overall cost. The ISO 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 light of the considerable uncertainty over which generation projects will be most viable, it is impossible at this time to know exactly where the optimal mix of resources will be located. The cost of transmission is only a small component of the overall cost of delivered electricity and because transmission is a long-lived asset that is extremely difficult to permit and construct, the transmission system may need to be somewhat oversized and, potentially, somewhat "underutilized" to ensure the optimal overall portfolio. Moreover, it is faulty to assume that transmission lines constructed largely to serve mostly intermittent or energy-limited resources can be "fully utilized," so there must be some planning margin above the targeted goal. Otherwise, the planning process will build in severe curtailments, which may result in higher costs to ratepayers.

A transmission system that is sized to just meet 33% RPS will necessarily pick winners and losers in the procurement process. Once some projects fail, remaining project holders may possess an unfair advantage (market power). Failure to view transmission as an “enabling” technology that facilitates competition and optionality may lead to a failure to meet 33% and will certainly lead to higher overall costs for consumers.

With this principle in mind, LSA recommends a modification to the ISO’s objective #4 which states that an objective of TPP-GIP is to “[l]imit potential ratepayer exposure to costs for under-utilized or excessive transmission upgrades.” Proposal at 6.

Recognizing that in the future more transmission decisions will be made in the TPP and less in the GIP, facilitate the identification of a transmission plan that provides a high assurance of meeting state policy objectives at the lowest overall cost of delivered electricity which meets the state’s policy goals.

At the stakeholder meeting, ISO staff stated that the objective of creating a TPP that facilitates optionality or generator competition may be appropriate but is an objective of TPP and not this “integration” initiative. LSA disagrees. The ISO is proposing to fundamentally change the cost allocation of transmission by limiting the reimbursability of network upgrades unless such upgrades are adopted in the TPP. This would increase the cost of transmission to interconnecting generators, without allocating transmission to more viable projects (i.e., those with PPAs and meeting certain milestones). With the stakes dramatically altered, it is appropriate and necessary for the ISO to recognize a goal of preserving flexibility and competition.

Unless the ISO expressly recognizes in this initiative the need for optionality and creating a transmission margin to facilitate generator competition, the results could be as undesirable as the problem it is trying to fix. In other words, the ISO may replace a process that identifies seemingly expensive upgrades reimbursed by ratepayers with a process that results in a smaller transmission system saddled with inadequate renewable resources at a higher overall average cost.

LSA notes that the concept of planning for uncertainty by providing a margin to allow for uncertainty with respect to project location was recognized by the Renewable Energy Transmission Initiative (RETI) when it developed its transmission portfolios to meet a 40% RPS, even though the state Administration’s goal at that time was 33%.

Coordination with the CPUC – LSA agrees with the goal of providing more certainty to developers that the CPUC will grant siting authority for transmission resulting from the TPP. And LSA supports the ISO’s collaboration with the CPUC on portfolio development and the TPP study process to support the need for the upgrades. However, the Proposal does not explain how the ISO would ensure that such transmission projects will be more likely to receive the necessary construction

authorizations. In fact, at the Stakeholder meeting, a representative from the CPUC stated that transmission identified in a Generator Interconnection Agreement (GIA) would not be guaranteed necessary permits by the CPUC. The ISO should provide specific detail about how this proposal, if implemented, would make the CPUC more likely to permit projects identified in the TPP.

LSA recommends that the ISO and the CPUC work together to include a provision in the Proposal that the CPUC will grant “substantial weight” or a rebuttable presumption that a transmission project is “needed” for the purpose of obtaining a certificate of public convenience and necessity (CPCN) or other applicable permits, if that project is identified in the ISO’s TPP under this new process. This approach would achieve the streamlining that the ISO properly has included in the objectives of this Proposal. Because of the CPUC’s expanded collaborative role in the transmission planning process, it is appropriate for the CPUC to grant the TPP decisions substantial weight in the CPCN proceedings. Once the CPUC and ISO agree on such a provision, the CPUC could write the policy into its permitting standards and/or could advocate for legislation to achieve the desired result.

2. At the end of the Objectives section (section 4) of the straw proposal, the ISO lists seven previously identified GIP issues that may be addressed within the scope of this initiative.
 - a. Please indicate whether your organization agrees with any or all of the identified topics as in scope. If not, please indicate why not.

LSA agrees that all seven of these issues need to be addressed prior to the Proposal being finalized. LSA reserves the right to raise other issues that must be addressed, but the ISO, at a minimum, must address these seven topics.

Posting Requirements and Disposition of Funds – LSA is uncertain under the new proposal how the GIP financial security posting mechanisms will continue to function. LSA does support keeping some posting requirements in place, and would like to continue to explore the appropriate amounts as the Proposal progresses. LSA would support the retention of some financial security posting at the end of the Phase I and/or Phase II (if retained) studies to minimize speculative projects in the TPP.

That said, the ISO should consider alternative financial security arrangements, such as reduced requirements for interconnection customers (ICs) that have PPAs and meet certain development milestones.

Additionally, if an IC drops out of the process because it cannot obtain transmission capacity through the TPP, the IC should be refunded all costs not incurred or committed to be incurred. An IC should not be required to subsidize

ratepayer-funded transmission if it does not have the opportunity to use that transmission.

Moreover, if an IC chooses to pay for transmission that is not included in the TPP and then later drops out of the queue, it should be refunded all deposits not already spent or committed, if the upgrade is not needed to serve other projects. An IC should not be required to pay for transmission that it does not need and will not have the opportunity to use, and is otherwise not needed by other transmission users.

LSA also agrees there must be a “re-study” process, that development milestones should be substituted – to an extent – for IC financial postings, and that the ISO and PTOs need to develop a better methodology to yield more meaningful results and reasonable cost caps for projects in Phase I. However, until the Proposal contains more detail, LSA will refrain from providing specific comments on these aspects of the Proposal. For example, the ISO has not explained how it will avoid the need for perpetual re-study when other projects drop out, while still ensuring that developers that have to pay for transmission without reimbursement will only be responsible for upgrades directly attributable to their projects. LSA reserves the right to comment on these issues as more information is made available on how the GIP and TPP will be altered through this integration process.

- b. Please identify any other unresolved GIP issues not on this list that should be in scope, and explain why.

The GIP process should provide the LSEs and ICs with sufficient transmission and interconnection information to inform the solicitation processes, so the LSEs can procure a “least-cost, best-fit” portfolio, taking transmission into account. Therefore, consistent with the remainder of LSA’s comments herein, the GIP timeline – including study reports, security deposits, transmission cost information, and ATC determinations – must support and be coordinated with the LSE procurement process. Developers have experienced problems where significant financial security postings were due prior to LSEs’ procurement decisions, so the timing of the various processes must be coordinated.

The GIP also must include a process for clearing the ISO interconnection queue of projects that have been in the queue for years without progressing. The proposed process will fail if the limited transmission capacity identified in the TPP continues to first be allocated to projects with no chance of success. If the ISO implements this process without a parallel plan to allocate such transmission to parties with PPAs, it will cause the failure of later-queued, but otherwise-viable, projects that are assigned high-cost, non-reimbursable transmission upgrades that are not really needed. While the available capacity might be re-allocated when the non-viable projects fail, viable projects also will fail due to uncertainty of access and high, non-reimbursable transmission cost allocations in the first

instance. The ISO is making some efforts in this area, but it should be prepared to go further in requiring progress milestones or additional financial-security postings from these projects if its current efforts are not sufficient.

3. Stage 1 of the ISO’s proposal offers two options for conducting the GIP cluster studies and transitioning the results into TPP.
 - a. Which option, Option 1A or Option 1B, best achieves the objectives of this initiative, and why? Are there other options the ISO should consider for structuring the GIP study process?

LSA cannot provide a decisive answer at this time without more detail on this specific proposal. LSA supports a faster timeline, but notes that speed cannot be a substitute for accuracy and effectiveness. LSA is concerned that only one GIP study may not achieve the desired effect. For example, at the Stakeholder meeting, Southern California Edison noted that combining the GIP Phase II study with the TPP might not save substantial time because the TPP study would be far more complex and include issues that are not now considered in the TPP. It is therefore unclear how the revised TPP study process could be performed in the current TPP timelines.

Moreover, a two-phase study process that continues to require financial security postings may assist in culling non-viable projects out of the queue. For example, there are currently significant dropouts once the initial security posting is due.

However, if the ISO adopts LSA’s proposal and allocates the transmission identified in the TPP to projects with PPAs that meet certain milestones, then shrinking the queue will not be as vital. That is, many generators can participate (i.e., greater resource competition), but the transmission funded by ratepayers will be allocated to those projects that already have been selected in the procurement process designed to choose the “least-cost, best-fit” projects for the benefit of ratepayers. While LSA likely would support some financial security posting, projects with PPAs should not be burdened with excessive interconnection deposits, particularly because those developers are required to make substantial security deposits under the PPAs.

LSA requests that the ISO explain in more detail in the next draft proposal how one study would include all of the necessary inputs, tasks, etc. required under the two phase study approach and/or why those inputs or tasks would no longer be necessary. LSA encourages the ISO to flesh this proposal out and provide the Stakeholders with more detail about how the different options would work in practice and the timing differences between the two.

- b. What, if any, modifications to the GIP study process might be needed?

As already noted, LSA requires more detail about the Proposal before it can provide specific comments about changes in the study process that are required. The GIP II reform now provides for draft study reports, and these draft reports – and the ability to correct errors and changes to the plan of service – will be increasingly important where an interconnection customer is responsible for paying for transmission upgrades without reimbursement.

4. Stage 2 of the straw proposal adds a step to the end of the TPP cycle, in which the ISO identifies and estimates the costs of additional network upgrades to meet the interconnection needs of the cluster. Please offer comments and suggestions for how to make this step produce the most accurate and useful results.

LSA has no comments at this time, but reserves the right to make additional comments once the Proposal is fleshed out. Currently, the Proposal does not have sufficient detail for any comment to be useful, and LSA has numerous questions that have yet to be resolved. For example, which study year(s) would the ISO use to compare the costs of additional network upgrades? How would upgrades be treated if certain upgrades identified in the GIP were found to be needed in the TPP in some study years, but not in others? These and many other questions will need to be answered before LSA can provide additional comments.

5. Stage 3 of the straw proposal identifies three options for allocating ratepayer funded upgrades to interconnection customers in over-subscribed areas.
 - a. Please identify which option, Option 3A, 3B, or 3C, your organization prefers and why. Are there other options the ISO should consider?

LSA does not support any of these options but provides an alternative option below for the ISO's consideration. The ISO has not provided sufficient detail about how the options would be implemented, and LSA sees significant problems with each of the options. Moreover, none of these options supports the LSE procurement process, and each presents significant risk that transmission allocation will be misaligned with LSE procurement decisions made. LSA's alternate proposal would allocate available transmission capacity under the TPP to projects that have PPAs and that can meet certain progress milestones.

First-Come, First Served Approach - The "first-come, first-served" option is not attractive for several reasons. Initially, the ISO has not explained at what point in the interconnection process a developer would be deemed the "first comer." This is a vital detail, because project pricing and the ability to obtain financing are both contingent on access to transmission. A developer is unlikely to be able to construct a project (i.e., be the first-comer) without prior assurance that the transmission will be available when it comes in service. But if there is no pre-allocation of the transmission, developers cannot know whether it will be available when needed or whether other developers will jump ahead and be the "first comer" by building their projects more quickly. While some aspects of

timing are within a developer's control, many are not (i.e., permitting decisions, etc.). The "first-come, first-served" approach also looks very similar to the serial study approach, which was abandoned because of its complexity and endless re-study issues. For these reasons, this approach is not workable.

Pro-Rata Approach - The *pro rata* approach also 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 an allocation in the TPP of 150 MWs if the developer has an executed PPA requiring it to deliver 250 MW. Under the ISO's proposed approach, the project either could not interconnect (if additional reliability upgrades needed) or would not be fully deliverable (if additional delivery upgrades needed) until new transmission was 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 ISO has not addressed 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 numerous questions about what would happen to the remaining capacity if there are queue dropouts, etc.

Auction Approach - LSA would like more detail on this approach, but has 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, without reimbursement, additional network upgrades.

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 ISO pursues an auction approach, it must align the auction with the procurement process (see below). If it does not, 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 transmission through the auction.

While projects with PPAs could just bid higher and/or procure the rights from otherwise non-viable projects that obtain transmission allocations, this approach

could very well increase overall costs to ratepayers and would require the ISO to allow bilateral trades of such allocations. It is 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.

LSA Proposed Option: PPAs and Milestones – Rather than any of the approaches set forth in the Proposal, LSA urges the ISO to consider an approach that would serve the overarching goal of ensuring that transmission is available to projects that were selected in the procurement process, to ensure that California meets its renewable energy targets. Under this approach, projects with PPAs that meet certain development milestones would be allocated the transmission capacity available under the TPP.

One potential approach would be to model these milestones on those set forth in GIAs where the PTO agreed to upfront fund contingent on the interconnection customer meeting certain development milestones. Since the same concept is being applied here, the ISO 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 the ISO could use an auction mechanism to allocate the capacity among the interconnection customers who continue to meet these requirements. However, if that does occur, then that is a strong signal that the transmission plan may be deficient. The transmission plan should support procurement such that if more transmission to an area is needed, the TPP should be updated. Additionally, the resource portfolio scenarios used should include all generation projects that hold PPAs and meet certain milestones.

- b. If Option 3A is selected, what are appropriate milestones to determine which projects are the “first comers?”

See above for discussion.

- c. If Option 3B is selected, what is the appropriate methodology for determining pro rata cost shares?

See above for discussion.

- d. If Option 3C is selected, how should such an auction be conducted and what should be done with the auction proceeds from the winning bidders?

See above for discussion.

6. The straw proposal describes how the merchant transmission model in the current ISO tariff could apply to network upgrades that are paid for by an interconnection customer and not reimbursed by transmission ratepayers. Do you agree that the merchant transmission model is the appropriate tariff treatment of such upgrades, or should other approaches be considered? If you propose another approach, please describe the business case for why such approach is preferable.

Again, LSA requires additional detail about the funding mechanisms and the Proposal as a whole before taking a position on this issue. The merchant transmission model, wherein the transmission developer receives CRRs, will not compensate the interconnection customer sufficiently for the transmission it constructs, because the very act of adding the transmission will relieve the congestion that provides revenue for the CRRs. Moreover, the transmission that is constructed will be open to use by all transmission customers, and it is unfair to place the burden of constructing transmission that will benefit all ratepayers on the back of only a few generation interconnection customers.

Based on the complications described above, the ISO should consider a proposal that would provide the IC the possibility – but no guarantee - of recovering refunds for transmission that is ultimately built and later found to benefit ratepayers, in addition to reimbursement by later-queued generators that later use the transmission. This would protect ratepayers from speculative projects, but would not unduly penalize generators who build transmission that is used and useful for the benefit of ratepayers.

The Proposal must also address the GIA “option to build” provisions and the right of first refusal, which is addressed in the Federal Energy Regulatory Commission’s Order 1000. Currently, the PTOs build virtually all transmission upgrades associated with generator interconnections. Even under the new approach identified in the ISO’s RTPP, the ISO would choose the entity that builds economic and policy upgrades, and those transmission owners would be reimbursed by ratepayers. However, if the new regime requires interconnection customers to pay for – without reimbursement – certain transmission facilities, then they should be able to choose whether the PTO or a qualified third-party contractor constructs those facilities.

This point is critical, because under the new proposed regime, developers will have an even greater incentive to control costs, and many entities believe that PTO construction is unduly expensive and inefficient. Moreover, generation developers may be able to negotiate 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, the ISO should consider cost controls on the PTOs and allowing developers more input into the appropriate plan of service for facilities they must pay for.

In sum, the ISO cannot confer an obligation on generators to pay for transmission facilities with no commensurate right to control costs. Generators cannot be asked to write a blank check.

7. Stage 3 of the proposal also addresses the situation where an IC pays for a network upgrade and later ICs benefit from these network upgrades.
 - a. Should the ISO's role in this case be limited to allocating option CRRs to the IC that paid for the upgrades?

No. As noted above, CRRs are not a valuable substitute for cash compensation by subsequent generators and/or ratepayers that later benefit from Network Upgrades paid for by an interconnection customer.

- b. Should the ISO include provisions for later ICs that benefit from network upgrades to compensate the earlier ICs that paid for the upgrades?

Yes. 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 ISO require a latecomer to compensate the initial IC(s), but the ISO 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.

8. In order to transition from the current framework to the new framework, the ISO proposes Clusters 1 and 2 proceed under the original structure, Cluster 5 would proceed using the new rules, and Clusters 3 and 4 would be given an option to continue under the new rules after they receive the results their GIP Phase 1 studies.

- a. Please indicate whether you agree with this transition plan or would prefer a different approach. If you propose an alternative, please describe fully the reasons why your approach is preferable.

At this time, LSA provides several observations about the transition but cannot take an official position until it understands exactly how the Proposal will be implemented and how any transition will occur. For example, if the ISO agrees with LSA and integrates this Proposal with the LSE procurement process, then LSA might be able to support transitioning already-existing clusters to the new system. If, however, the allocation decisions will be made without taking procurement decisions into account, then LSA likely would strongly oppose any of the current clusters being transitioned to the new plan.

In any event, LSA believes that if either Cluster 3 or Cluster 4 is included in the transition plan, the ISO will need to compensate generators that choose not to proceed under the new rules. At a minimum, those generators should be entitled to reimbursement of all financial security posted before the changes are approved.

In addition, significant commercial decisions have been made for many of these projects, and compensation limited to financial security refunds is unlikely to be sufficient. The ISO also may need to consider reimbursement for consultant costs and, for projects with PPAs, lost profits if the new cost allocation undermined the PPA's viability.

Moreover, Cluster 3 has already gone through a Phase I study and received its cost caps. The Proposal contemplates that the Cluster 3/Cluster 4 Phase II study will be delayed if the Proposal is pursued. While the ISO only anticipates a few months' delay at this time, LSA is skeptical that the ISO can finalize all the details, make a FERC filing and get a final ruling on this massive undertaking by March of next year. Thus, it is likely that the studies will be delayed even further. In order to minimize the negative impact on Cluster 3, the ISO, at a minimum, should not require Cluster 3 to make any financial-security postings until it determines whether Cluster 3 will be a part of the TPP-GIP integration transition. In fact, whether or not Cluster 3 is included in the transition, the initial Cluster 3 financial-security posting should be made at the same time as the initial Cluster 4 posting, since the new Cluster 4 Phase I Study methodology does not require knowledge of Cluster 3 drop-outs to construct the base case for that study.

Thus, while LSA is not advocating any one transition plan, unless there is a specific and clear path in the final proposal that would give priority to projects that have PPAs and meet certain milestones, LSA cannot support inclusion of Cluster 3 & 4 in the transition plan.

- b. If the straw proposal for the transition treatment of clusters 3 and 4 is adopted and a project in cluster 3 or 4 drops out instead of proceeding

under the new rules, should the ISO provide any refunds or other compensation to such projects? If so, please indicate what compensation should be provided and why.

Yes. Assuming the Proposal goes forward and Clusters 3 & 4 are included in the new regime, the ISO and stakeholders will have to consider further what appropriate compensation will be. At a minimum, developers that do not go forward should be reimbursed all costs that have not been incurred (and perhaps even study costs that have been incurred). Additionally, at least some developers have already entered into PPAs for the projects in Clusters 3 & 4, so there should be additional discussion about compensation for direct and indirect damages caused by the change.

9. Some stakeholders have expressed a need for the ISO to re-study the need for and costs of network upgrades when projects drop out of the queue. The ISO seeks comment on when and restudies should be conducted, in the context of the proposed new TPP-GIP framework.

LSA agrees generally that generators should only be responsible for building transmission that is actually needed and that re-studies will be necessary when projects drop out of the queue. This would be particularly important for transmission projects paid for – and not reimbursed – by the interconnection customer. That said, the Proposal lacks sufficient detail for LSA to comment on this issue any further at this time, and LSA reserves the right to comment at a later time once the Proposal is further fleshed out.

10. Some stakeholders have suggested that there may be benefits of conducting TPP first and then have developers submit their projects to the GIP based on the TPP results. Does your organization believe that conducting the process in such a manner is useful and reasonable?

LSA does not have an official position at this time, but does note that the developer community needs more information on the TPP and where transmission is likely to be sited before interconnection requests are submitted. Additional information would help developers locate projects where transmission capacity will likely be built and available under the TPP before a significant investment has been made in performing studies that will not lead to any transmission being constructed. Moreover, when there is a strong market response to any such information, there must be a meaningful process to allocate the transmission capacity in each area in a manner that supports the commercial development process.

11. Please comment below on any other aspects of this initiative that were not covered in the questions above.

Concern about Use of Midwest ISO (MISO) Methodology

LSA has an overarching concern that the ISO is relying too heavily on the MISO's methodology without fully understanding or explaining whether that methodology works for California. LSA's understanding is that the MISO methodology was developed as a way to deal with serious concerns in MISO of cross-subsidies between states. That problem does not exist in the ISO, so the ISO must explain why it is appropriate to use MISO's approach as a model. In addition, MISO also just recently implemented its current methodology, and substantial revision may be necessary before the approach works smoothly.

ISO staff was unable to answer many stakeholder questions about the details of the MISO model and its applicability in California. The ISO committed to learning more about the process, and it should follow up and provide the stakeholders with additional information on whether this is a proper model for California and, if so, why. Either way, it would be prudent for the ISO to wait to see how the MISO model works in practice before relying on it too heavily.

Changes to TPP and GIP Methodology Aren't Addressed

The Proposal does not discuss how the TPP is developed and what changes will be required for this integration. LSA has numerous technical and policy questions related to study assumptions and methodology, and there is practically no detail about how the studies will be done or how the resource portfolio(s) from the CPUC will translate into the models in the transmission planning studies. Without these details, it is impossible to determine if the approach is reasonable.

For example, under the current modeling processes, GIP and TPP may identify different upgrades to serve the same purpose. Normally, GIP-identified upgrades are dependent on project location, while the Proposal seems to suggest utilizing aggregate resource data from the resource portfolios that do not have specific locational information for the projects they contain.

Suppose the TPP-developed transmission plan, based on the relevant resource portfolio(s), identifies five transmission lines in Category 1, and the GIP identifies 5 different lines based on the point of interconnection of the various projects in the queue. Does it mean that the ratepayers will pay for the 5 lines that few developers can potentially use, and most of the developers would pay for a different set of lines? Or, would the ISO abandon the lines identified in the TPP and go with the GIP-identified lines instead? Or does the ISO plan to change the entire methodology so that this problem does not occur after the integration?

This is just one example of many of details that must be understood before LSA can take a firm position. Based on the discussion above, LSA would like the ISO to flesh out the major policy and structural issues before it dives into the weeds to provide detailed technical comments.

Conclusion

LSA reiterates that it appreciates the ISO's efforts to resolve a difficult set of issues facing transmission planning and interconnection in the state of California. LSA supports pursuing a solution to these problems, but cannot support the current Proposal for all of the reasons stated in the body of these comments. LSA looks forward to continuing to work with the ISO to establish a structure that will ensure that sufficient transmission is constructed in a timely fashion to help California meet its renewable energy goals.