Stakeholder Comments Template

Subject: Generation Interconnection Procedures Phase 2 ("GIP 2")

Submitted by	Company	Date Submitted
Sandeep Arora	*LS POWER DEVELOPMENT LLC*	*June 13 2011*

Introduction

LS Power Development, LLC (LS Power) appreciates this opportunity to provide comments on Generation Interconnection Procedures Phase 2. LS Power has been participating in this stakeholder initiative since its inception. LS Power commends CAISO staff for making substantial progress during the stakeholder process. LS Power's comments are limited to a few Sections of the Draft Final proposal, as outlined below.

Comments on topics listed in GIP 2 Draft Final Proposal:

7. **Develop pro forma partial termination provisions to allow an IC to structure its generation project in a sequence of phases.**

   Comments:
   Generation Interconnection Agreement Termination
   LS Power is confused by and concerned with CAISO's interpretation of the current GIP tariff provisions regarding potential Interconnection Agreement termination. CAISO's interpretation is that an Interconnection Agreement can potentially be terminated if a project does not get built up to the full MW volume specified in Phase II of Interconnection study. In the Draft Final Proposal, within Section 7.3.1, CAISO refers to language in Section 2.4.3 of the pro forma GIA related to this topic. LS Power reviewed this language and does not see any reference to GIA termination (and does not interpret GIA termination as a consequence) within this language or elsewhere in the tariff.

   LS Power questions if this termination interpretation has been carried forward for all previously built generation projects that have been processed under the CAISO tariff. There have often been situations where due to technology changes, permitting issues, air quality constraints or actual performance issues, fossil fuel plants after been constructed do not produce up to their full Interconnection Study MW amounts. Has CAISO exercised this tariff interpretation in past for any of these generators and terminated any Interconnection Agreements? If not, this new interpretation of termination provisions discriminates against renewable generation and is a challenge to the Open Access spirit of CAISO policy.

As has been discussed extensively at previous stakeholder/work group meetings, renewable generation developers face numerous uncertainties throughout the entire development process. Unlike a conventional project, a renewable generation project typically comes online in phases over several months/years. On the commercial side, Power Purchase Agreements (PPAs) equal to the full MW amount are essential in ensuring the project gets fully built. For various reasons, PPA amounts may be different from full MW amounts specified in Interconnection Study, and one project may need to secure PPAs with multiple LSEs in order to be fully built. If CAISO has the right to terminate a GIA when, for instance, a 20 MW project builds only up to 18 MW as per a utility PPA, this will undoubtedly impact financing of this and other projects. GIA terminations for situations like these will definitely hinder the development of renewable generation and impede meeting the state's RPS goals. LS Power recommends that CAISO factors in the realities, uncertainties and challenges faced by renewable generators in their decision making on this subject, and offer more flexibility regarding termination.

LS Power appreciates the concern behind stranded transmission; however we would like to point out that these concerns are elsewhere also and not just related to GIP driven transmission upgrades. Through the Annual Transmission Planning process, CAISO and PTOs propose & build several reliability/economic driven transmission upgrades. The need for these upgrades is based on several assumptions made related to weather, economic conditions, and load growth etc. for future years. If these assumptions do not materialize there is an issue of stranded transmission. Also, CAISO is currently involved in planning "policy driven" transmission lines throughout the state and at CAISO BAA boundaries to help meet 33% RPS goals. Transmission needs for a 33% RPS target will be established based on LSEs renewable portfolio assumptions both within and outside of the CAISO BAA. There will no doubt be uncertainties around renewable portfolio assumptions in terms of exactly how much and where the renewable projects will eventually be built in comparison to these assumptions.. LS Power recommends that CAISO gives further consideration to the GIA Termination interpretation and look for other ways to resolve stranded transmission issues, rather than terminating Interconnection Agreements.

Partial Termination Concept

CAISO is currently discussing the concept of Partial GIA Termination for projects such that there are GIA provisions allowing for terminating GIA for a phase(s) of the project, without impacting what has been already built. There is however a very specific criterion currently being proposed by CAISO for this provision to be available to projects. Per this criterion we believe only very limited number of projects in CAISO queue will be eligible to utilize these provisions. Per CAISO's proposal, all of the following requirements must be met for a project to be eligible to elect partial termination provisions.

i. Type of generation project – The generation project is designed to be built in phases with discrete generation units that can be operated independently.
ii. Project size – The full generation project must be no smaller than 200 MW.
iii. Partial Termination size – The project can use Partial Termination for up to 75% of the project size.
iv. Timing differences – The transmission build out to achieve Full Capacity Deliverability Status is planned to occur at least three years after the COD of the project.

LS Power recommends that CAISO revisit the Partial Termination provisions and offers the following comments in this regard. We fear that as currently proposed, these provisions will allow only a select few projects to make use of the provisions. Also the qualifying criteria is built on a "one size fit all" approach and will fail to meet the downsizing flexibility required by projects that are smaller in size than 200 MW, and/or projects that have not defined 'phases'.

Furthermore, clarification is needed as to whether these provisions are applicable to (or are even needed for) Energy Only projects or for Full Capacity projects that do not require Delivery Network upgrades. It was evident at the stakeholder discussions and in reading the Draft Final Proposal that if a project does not build to its full LGIA amount, CAISO's main concern is the stranded transmission related to Delivery Network upgrades. These upgrades may be required only for Full Capacity projects; therefore we believe that projects that do not require Delivery Network upgrades should not be lumped into the same termination provisions. Further clarification is needed as to what CAISO is proposing for GIA termination interpretation and Partial Termination provisions for these projects.

We believe CAISO should be more accommodating to allow downsizing projects that require only Reliability Network upgrades. Most of the Reliability Network upgrades, such as the need to build a new bay position within a substation to interconnect a new project, are needed regardless of whether a project gets fully built to its studied MW amount or not. CAISO should consider these situations prior to finalizing policy on this topic. In addition, a $ threshold should be taken into account. If a 150MW project is built on a 175MW GIA that had $5 million in Network Upgrade costs, does CAISO intend that it should have a right to terminate the GIA and disconnect the 150MW facility? If CAISO takes that position, that project could not secure financing.

LS Power believes Partial Termination is needed for all projects. A project 20 MW in size can have similar challenges in getting fully built to those of a project 200 MW in size, and therefore need downsizing flexibility as well. Lastly, LS Power requests CAISO to clarify if Partial Termination issues, as currently being discussed, will be available to new projects only or will Partial Termination also be made available to all currently-in-process generation projects.

8. Reduction in project size for permitting or other extenuating circumstances

Comments:

Notwithstanding LS Power's disagreement and opposition to CAISO interpretation that GIA's may be terminated if project do not reach full capacity output, LS Power recommends, if a permitting threshold is implemented, that the threshold for permitted downsizing should be increased to at least 10% for all project sizes and to 25% for projects that were formally classified as small generators (less than or equal to 20 MW).

CAISO's current proposal states that:

"..The ISO and PTO would permit project modifications reducing the MW size of the generating facility for any reason that may occur between the execution date of the LGIA and the COD of the project, without triggering a breach of the LGIA. The greatest permissible project reduction would be 5% of the project size…and the need to downsize above 5% must be due to environmental or other permitting restrictions not foreseen at the time of LGIA execution and that cannot be mitigated by the IC through reasonable economic means and will be reviewed by the ISO on a case by case basis…"

LS Power recommends that at least 10% downsizing should be allowed and that smaller projects should be allowed to downsize by up to 25%. Even 10% is a low threshold, but we understand CAISO's intent in trying to strike a balance here, therefore we are recommending 10% for Large projects (>20 MW) and 25% for Small Projects. As discussed at the Work Group meetings, there are often circumstances which present the need for providing downsizing flexibility to IC, due to environmental, land, permitting and other issues. A 5% threshold for permitted downsizing for these issues is too low of a threshold and will likely not be enough, if needed to be used for most "beyond the IC control" type situations. This could lead to potential GIA terminations, for reasons beyond IC control, which will definitely not be in the interest of state RPS goals.

New Topics since straw proposal

26. **Comments on the LS Power issue raised in their comments submitted May 9, 2011 – Re. Conforming ISO tariff language to the FERC 2003-C LGIA on the treatment of transmission credits in Section 11.4 of Appendix Z.**

<u>Comments:</u>
LS Power appreciates CAISO staff in addressing this issue. As stated in our previous comments, we recommend that CAISO pro forma LGIA language be matched with latest version of FERC's 2003-C LGIA on this topic of reimbursement.