

## Comments of Pacific Gas & Electric Co. TPP-GIP Integration Second Revised Straw Proposal

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

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

PG&E supports the overall structure of the proposal, using defined milestones as the basis for the initial allocation of deliverability capacity. These milestones should be divided into two sets: a small set of initial eligibility criteria that a project would have to meet before even being considered for TPP-deliverability, and another more comprehensive set embodied in the GIA that a project would have to meet to retain the initial allocation of deliverability. This approach would provide an enforceable mechanism for continual queue management.

However, while PG&E supports this structure, more work is needed in defining these milestones, particularly the GIA milestones, to ensure that the hurdles create the right level of stringency at the appropriate times in the process. For example, including permitting as a basic eligibility criterion is too stringent. The CAISO must strike a balance between creating a mechanism to remove non-viable projects from the interconnection queue while avoiding the creation of unnecessary barriers to commercial development.

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

PG&E supports this aspect of the proposal. Asking an IC to make this decision will help avoid the queue management issues that the CAISO is trying to address for clusters 1-4. By requiring that generators make this choice, the CAISO will be able to manage the queue upfront through the eligibility criteria it sets for TPP-based deliverability. ICs that aren't able to meet these criteria will be compelled to exit the queue, which will allow transmission planners to plan ratepayer-funded upgrades to accommodate only the most viable generators.

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

PG&E supports this aspect of the proposal. Because RNUs are typically project-specific, and would only be reimbursed if the project necessitating them actually comes online, there is little risk that ratepayers will be saddled with unnecessary costs.

Some stakeholders made the point that RNUs are costly when added together (even if no single upgrade is prohibitive) and that the need for some RNUs is obviated when specific projects drop out. There are also instances where RNUs are not project-specific, and may be obviated when a subset of projects drop out that were initially contributing to the need. PG&E agrees that the CAISO should examine under what circumstance it makes sense to eliminate project-specific RNUs that have been identified with projects that drop out.

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

PG&E supports this aspect of the proposal.

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

PG&E supports the overarching goal of making sure that scarce deliverability capacity gets allocated to the most viable projects that are most likely to achieve commercial operation. However, as many stakeholders raised at the meeting on 1/19, the upfront eligibility criteria should not be overly stringent to the point where good projects are being shut out of the process. In particular, the permitting requirements are unlikely to be achievable at such an early stage, and should not be part of these basic eligibility requirements.

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

PG&E supports these objectives. If the CAISO incorporates the proposed milestones approach into its final proposal, any allocation of deliverability capacity should be considered “initial” or “preliminary” until the project has achieved its COD. The initial allocation should be revocable if a generator misses its GIA milestones. This will help ensure that only projects that are making progress towards commercial operation are able to retain their allocation of deliverability capacity.

## **Section 2. Details of individual elements of the proposal.**

### **GIP Phase 1**

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

The CAISO should clarify what it means by a “reasonable margin”.

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

No comment at this time.

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

No comment at this time.

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

PG&E strongly supports this aspect of the proposal. As the CAISO attempts to make policy changes that will help the Phase 1 studies provide more realistic results, it makes sense to shift the role that the Phase 1 results play. Given that the studies are based on estimates of how many MW will exist in each area (instead of actual numbers based on real projects in the queue), it makes sense that the results should not serve as a cost cap on specific upgrades that are identified later in the process.

### **Project’s Decision to Enter Phase 2 and Implications of Decision**

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

PG&E supports this proposal. The clarity established when a project chooses either Option A or B is a big part of the value of this aspect of the proposal. Allowing projects to switch will prevent this clarity.

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

PG&E supports this proposal. Given that projects choosing Option A will face no DNU costs (since they will have expressed their dependence on TP-transmission), it makes sense that they should not need to post. This will provide an incentive for projects to choose this option when TP upgrades are truly required for them to be viable.

13. A project choosing (B) will have to post for both RNU and DNU. Its DNU posting amount will use phase 1 results for the project's study area, converted to a DNU rate (\$ per MW of deliverability) = (cost of incremental DNU)/(deliverability MW studied above TP deliverability amount). The posting amount will = rate x (project MW), where project MW reflects how the project is modeled in the deliverability study depending on the resource type, would typically be less than nameplate for renewables.

No comment at this time.

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

Projects choosing option (A) are the only ones that should be eligible for ratepayer-funded DNUs. If there was unclaimed "leftover" deliverability after all (A) projects have been given an allocation, it could be used by (A) projects in future clusters that meet the eligibility criteria at that point instead of being allocated to (B) projects, or it could be assigned to DG that LSEs are required to procure.

It is unclear to PG&E why (B) projects should have any chance of obtaining ratepayer-funded DNUs, even on an "if available" basis. By giving (B) projects the opportunity to receive TP-deliverability, the CAISO would introduce a risk for gaming. Projects which aren't able to meet the eligibility criteria simply opt for (B) as a gamble, hoping there will be extra TP-deliverability for them. Assuming the eligibility criteria are changed to requiring a signed PPA or committed financing (i.e. permitting constraints are no longer a basic eligibility requirement), a project selecting (B) would be a project that no LSE is interested in procuring from, or that isn't viable enough to get financing to support the merchant model. Such a project could remain in the queue even though it isn't viable, and hope that it gets an allocation for some of this "leftover" deliverability. It could then try to retain this free deliverability for as long as it could (several years or more), preventing (A) projects in the next cycle from using it, which is the very problem the CAISO is trying to solve with this whole initiative.

## **GIP Phase 2**

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

No comment at this time.

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

No comment at this time.

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

PG&E requests clarification regarding how “(A) projects and existing queue” is defined. Would this include all projects from clusters 1-4 that remain in the queue, or only a subset?

### **Allocation of TPP-based Deliverability**

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

As discussed in #14, PG&E is not convinced that (B) projects should be eligible for a chance of obtaining TPP-based deliverability.

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

PG&E supports the idea of breaking the appropriate milestones into stages, where there would be a basic set of eligibility requirements after Phase 2 to qualify for TP-deliverability, and then a more stringent set of milestones embodied in the GIA. The initial eligibility criteria should be stringent enough to provide an initial screen, but not too stringent as to cause potentially viable projects to prematurely withdraw. PG&E suggests that a signed PPA or committed financing are appropriate initial milestones to meet these goals. However, an approved PPA and completion of all permitting requirements are much too stringent, especially given that they are largely outside the control of the LSE or the developer. Permitting milestones and PPA approval deadlines make sense to include within the GIA to ensure the project is making progress toward commercial operation.

While it is true that the number of MWs with signed PPAs is greater than the amount that will actually come online, having a signed PPA is the best preliminary milestone for striking the right balance between screening out non-viable projects while keeping in potentially viable projects. The fact that some signed PPAs do not achieve commercial operation does not suggest that this criterion is not sufficiently stringent. The eligibility requirement of a signed PPA will make the majority of non-viable projects ineligible, which is the real goal of the initial screen.

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

PG&E suggests that projects moving forward without a PPA could demonstrate committed project finance through one of the following:

- Submit a binding Commitment Letter from a Lender
- Demonstrate the project will be balance sheet financed
- Produce bank statements showing they have sufficient cash in the bank

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

PG&E supports the proposal that all projects that execute a FC GIA should be included in the subsequent TPP base case portfolio.

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

PG&E supports the proposal to revoke the deliverability capacity from projects that miss milestones in their GIAs.

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

PG&E supports this parking lot concept. Given the possibility of delays for potentially viable projects in meeting the eligibility criteria, it is reasonable to create this year-long buffer so that the project would not have to reenter the interconnection queue from the beginning.

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

PG&E believes that (B) projects should not have the opportunity to receive TPP-based deliverability.

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

PG&E believes that such projects should lose the entire amount posted to date, which would typically be the initial posting required between Phases 1 and 2 for a project that drops out before it signs a GIA. The role of the financial posting is to create a financial disincentive for a project to continue into Phase 2 unless it is truly viable. By refunding a portion of the posting, the CAISO would weaken this disincentive, encouraging non-viable projects to stay in the queue. This disincentive would be further weakened if there was a chance that these (B) projects could obtain ratepayer-funded deliverability, which PG&E opposes.

#### **Other Proposal Elements**

26. DNU paid for by an interconnection customer would fall under the merchant transmission provisions of the ISO tariff and would be eligible for allocation of congestion revenue rights

commensurate with the capacity added to the ISO grid. The customer would be able to select a non-incumbent PTO to build the project, provided it is a "green field" project and the builder meets qualifications specified in the ISO tariff.

No comment at this time.

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

PG&E suggests that a timeline needs to be established for making this determination. The grid may change and at a later point, the developer could argue that the upgrade that they funded is providing more benefit. At the time of achieving Commercial Operation Date, if it is determined that the DNU provided excess deliverability capacity and there is a queued project that may benefit from it, the party would be refunded for that incremental difference.

28. Some projects that go forward under these new provisions could be subject to reduction in annual net qualifying capacity (NQC) for one or more years. This could occur if transmission capacity in an area must be expanded through the TPP to accommodate the amount of deliverable capacity that achieves COD in that area. Consistent with the ISO's January 10 discussion paper on cluster 1-2 approach, "existing" projects would not be subject to the reduction, but "new" projects would be. "New" would include all cluster 5 and later projects that elect option (A).

As stated in PG&E's comments on "Deliverability Requirements for Clusters 1-4" submitted on January 24, 2012, "new" should not apply to the following:

- Executed PPAs between a developer and an LSE
- Executed PPAs that require amendments
- Projects that are already delivering energy or capacity as of March 2012

PG&E believes the definition of this criterion is critical because the RA value that a project is able to provide is one of the key value streams embedded within the levelized \$/MWh energy price in a PPA with a renewable generator. In addition to RA value, LSEs evaluate the RPS compliance value and projected energy production when evaluating potential projects. If executed PPAs were considered "new" and therefore had no priority with respect to NQC in future deliverability studies, then there would be a greater risk that the NQC could be adjusted downward, and that the RA value assumed in the levelized \$/MWh price could be diminished, which could disadvantage ratepayers by providing less RA value than the LSE had assumed in the executed contract.

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

PG&E does not support this aspect of the proposal. PG&E believes that LSEs could make up the shortfall in RA more cost-effectively than the CAISO could through its backstop CPM.

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

No additional comments at this time, however, once some of the remaining details are proposed, PG&E may have additional input.