Pacific Gas and Electric Company®

Comments of Pacific Gas and Electric Company on the CAISO's Location Constrained Resource Interconnection Draft Tariff Language

These comments are submitted in response to the CAISO's request regarding its draft tariff language for the Location Constrained Resource Interconnection (LCRI) policy, posted on the CAISO's Web site on October 1, 2007. PG&E has strongly supported this initiative and would support changes to the CAISO tariff subject to the following comments and clarifications. In addition, because the draft tariff language requires considerable revision, PG&E requests that an updated version that incorporates stakeholder comments be posted before the October 22, 2007 conference call.

Section 24.1.3

"The CAISO, a Participating TO or any other Market Participant may propose a transmission addition as a Location Constrained Resource Interconnection Facility. A proposal shall include the following information."

PG&E Comments

This needs to be reworked to make it consistent with the CAISO's new FERC Order 890-compliant Business Practice Manual for the transmission planning process. All Market Participants should be able to submit proposals for studies in an open season. Then, the CAISO and PTOs, with stakeholder review, would decide which proposals have sufficient merit to include in the study plan. If the study demonstrates sufficient need, the PTO would submit a transmission plan to the CAISO for approval. In addition, the PTO, CAISO or a sub regional planning group may perform studies to explore the benefits of a conceptual proposal.

Items (a) through (e) in this section are only needed if all the PTO studies have been concluded and the project is ready to be submitted to the CAISO for approval.

Section 24.1.3, Item (e)

"A conceptual plan for future connection of further transmission additions that would convert the proposed transmission addition into a network transmission facility."

PG&E Comments

It may not be realistic to expect that all LCRIFs can be turned into network facilities in the future. This item can be restated in the following manner:

"An assessment of the potential for future connection of further transmission additions that would convert the proposed transmission addition into a network transmission facility, including conceptual plans."

Section 24.1.3.1, Item (e)

"The addition of the capital cost of the transmission facility to High Voltage TRR of a Participating TO will not cause the aggregate of the net investment of all LCRIFs (net of the costs of LCRIFs recovered through the TRBA) included in the High Voltage TRRs of all Participating TOs to exceed fifteen percent (15%) of the aggregate of the net investment of all Participating TOs in all High Voltage Transmission Facilities reflected in their High Voltage TRRs in effect at the time of the CAISO's evaluation of the facility."

PG&E Comments

The net capital cost of the LCRIF (total capital cost of the LCRIF minus the subscribed portion of the capital cost) will not cause the cumulative net capital cost of all LCRIFs to exceed fifteen percent of the total net transmission plant as reported by the Participating PTOs.

The CAISO should include the reporting requirement for PTOs with respect to determining net plant of all PTOs to calculate the 15% cap.

Section 24.1.3.1, Item (f) and Section 24.1.3.2

"Prior to the commencement of construction of the facility, existing or prospective owners of LCRIGs have demonstrated their intention to connect LCRIGs to the transmission facility consistent with the requirements of Section 24.1.3.2."

"A proponent of an LCRIF must demonstrate interest in the LCRIF equal to sixty percent (60%) or more of the capacity of the transmission facility in the following manner prior to the commencement of construction of the LCRIF."

PG&E Comments

PG&E proposes that the criteria for adequate commercial interest be disjoined from the other LCRIF criteria and that the CAISO provisionally approve LCRIF projects. After approval, the PTO constructing the project shall not proceed with significant capital expenditures (e.g., engineering design, environmental studies and permitting):

- until adequate commercial interest is met; or
- unless FERC or the CPUC authorizes recovery by the PTO of 100% of the costs for abandoned plant (including engineering design, environmental studies, and permitting costs), in the event the LCRIF does not go forward to completion.

However, the tariff should provide that adequate commercial interest must be shown prior to land acquisition, procurement, and construction of the LCRIF. This format is generally consistent with the CAISO's recent proposal for "conditional approval."

Section 24.1.3.2, Item (b) (i)

"[T]he proponent's demonstration of the remainder of the required minimum level of interest must include a showing that additional LCRIGs have demonstrated interest in the LCRIF by ...

executing a firm power sales agreement for the output of the LCRIG for a period of five years or longer."

PG&E Comments

Five years may not be an adequate term; PG&E recommends a minimum term of ten years.

Section 24.1.3.2, Item (b) (ii)

"[T]he proponent's demonstration of the remainder of the required minimum level of interest must include a showing that additional LCRIGs have demonstrated interest in the LCRIF by ... paying a deposit to the ISO equal to the sum of the minimum deposits required of an applicant for interconnection to the ISO Controlled Grid in connection with all required studies, reduced by the deposits actually paid by the LCRIG for such studies, which deposit shall be refundable to the extent it exceeds costs incurred by the CAISO for such studies if the LCRIF is not approved or is withdrawn by the proponent."

PG&E Comments

This form of monetary deposit is neither proposal discussed on the September 21, 2007 conference call. PG&E has submitted comments in support of a deposit equal to a percentage (between 5% and 10%) of the developer's pro rata share of the proposed LCRIF's capital costs. The deposit described in the draft tariff is a fixed amount which may be too high or too low relative to size of the generation project or LCRIF.

PG&E strongly recommends that the CAISO consider a monetary deposit that is based on a percentage (between 5% and 10%) of the developer's pro rata share of the proposed LCRIF's capital costs. PG&E would also support a deposit based on a $/kW of the generation project's capacity.

Section 24.1.3.3

"In the event that a transmission addition proposed as an LCRIF would connect to LCRIGs in an Energy Resource Area that would also be connected by a transmission facility that is proposed to be constructed by a[n] [entity or party] that is not a Participating Transmission Owner and does not intend to place that facility under the Operational Control of the ISO, the ISO shall coordinate with the [entity or party] proposing that transmission facility through any regional planning process to avoid the unnecessary construction of duplicative transmission additions to connect the same LCRIGs to the ISO Controlled Grid."

PG&E Comments

This language should clarify that the regional planning processes intended here are the same ones (i.e., Transmission Expansion Planning Policy Committee and the new Subregional. Planning Group for California) specified in the Business Practice Manual for transmission planning.

Section 24.1.3.4, Item (a)

"Whether, and if so, the extent to which, the transmission facility exceeds applicable ISO grid planning standards, including standards that are Applicable Reliability Requirements."

PG&E Comments

PG&E suggests the following: "Whether the LCRIF project provides a needed reliability benefit."

Section 24.1.3.4, Item (b)

"Whether, and if so, the extent to which, the transmission facility has the capability and flexibility both to interconnect potential LCRIGs in the Energy Resource Area and to be converted in the future to a network transmission facility."

PG&E Comments

This item suggests that more weight would be given to project that might later become a network facility. To transform LCRIFs to network facilities has not been a goal of this initiative, nor is it in the spirit of resolving the "chicken and egg" problem. This criterion should be removed.

Section 24.1.3.4, Item (c)

"Whether the projected cost of the transmission facility is reasonable in light of its projected benefits, in comparison to the costs and benefits of other alternatives for connecting Generating Units or otherwise meeting a need identified in the ISO planning process, including alternatives that are not LCRIFs. In making this determination, the ISO shall take into account, among other factors, the following:"

PG&E Comments

This level of detail about how the preferred alternative is selected may not be necessary in the tariff.

Section 24.1.3.4, Item (c) (3)

"Whether, and if so, the extent to which, LCRIGs in the Energy Resource Area to which the transmission facility would connect would contribute to fuel diversity"

PG&E Comments

PG&E recommends using an indicator of economic efficiency that can be quantified and estimated and suggests that "fuel diversity" be replaced by "capacity factor."

Section 24.1.3.4, Item (c) (4)

"The distance between the Energy Resource Area and the nearest networked High Voltage Transmission Facility and the viability of a transmission facility traversing that distance"

PG&E Comments

While distance will have an effect on the cost of a LCRIF, it is not the only factor that should be considered. Rights-of-way that are flat and easy to access may be more economically efficient than a shorter route that traverses rough terrain. This criterion is covered in Item 5, which discusses cost comparison between proposed projects.

Definition: Energy Resource Area (ERA)

PG&E Comments

PG&E suggests the following language to define an ERA: *A geographic region that would connect to the ISO grid that is certified by the CPUC and the CEC as an area in which multiple LCRIGs could be located; or, prior to certification by the CPUC and the CEC or for areas that are outside the state of California, approved by the ISO board in which multiple LCRIGs could be located and accessed with an LCRIF that may satisfy all of the requirements of Section 24.1.3.1.*

Definition: High Voltage Transmission Facility

PG&E Comments

LCRIFs are, by definition, High Voltage Transmission Facilities. This definition does not need extensive updating. PG&E suggests the following language to update the definition of a High Voltage Transmission Facility: *A transmission facility that is owned by a Participating TO or to which a Participating TO has an Entitlement that is represented by a Converted Right, that is under the ISO Operational Control, and that operates at a voltage at or above 200 kilovolts, and supporting facilities, and the costs of which are not directly assigned to one or more specific customers (unless that facility is a LCRIF).*