Stakeholder Comments Template

Integration of Transmission Planning and Generation Interconnection Procedures (TPP-GIP Integration) Second Revised Straw Proposal, posted January 12, 2012

Submitted by	Company	Date Submitted
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This template is for submission of stakeholder comments on the topics listed below, which were discussed in the TPP-GIP Integration Second Revised Straw Proposal posted on January 12, 2012, and during the stakeholder meeting on January 19, 2012.

Please use the list of topics and questions below to structure most of your comments. At the end of the document you may offer comments on any aspect of this initiative not covered by the topics listed. When you state a preference for a particular approach on a topic or issue, your response will be most helpful if you clearly explain the reasoning and business case for your preference.

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.

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.

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.

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.

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.)

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.

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.

   It is critical that the CAISO be able to identify what is "a reasonable margin" above the TP deliverability to be studied in GIP Phase 1 in order for meaningful DNU costs exposure to be identified. "A reasonable margin" should be determined in robust TPP, considering commercial viability of generators in queue plus potential for additional generation. The CAISO should always be mindful of the incremental costs versus the potential benefits of the additional margin.

   Additionally, Load Serving Entities (LSE) rely on individual generator study results as a signal to areas where DNU costs are high. Without this signal to the "buyers", the CAISO will need to consider other transparent means to provide information to both generators and buyers.

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

   SCE has no comment on this issue

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.

   SCE has no comment on this issue.

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.

SCE is concerned with the deliverability network upgrades and associated costs resulting from phase 1 solely for advisory purposes. The elimination of the interconnection customers' requirements to post financial security for deliverability network upgrades will reduce the financial commitment required for generators to remain in the queue. Given the multiple CAISO initiatives – TPP-GIP Integration, QC1/QC2 deliverability requirements, and generator interconnection queue management – where one of major objectives is to reduce the queue to a generation amount that is more representative of the amount that will actually be needed to meet California's 33% Renewable Portfolio Standard target, this element of the TPP-GIP Integration proposal would result in an undesirable amount of generation remaining in queue and perpetuating the many challenges of managing the burgeoning generator interconnection requests.

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.

    SCE supports this change from the CAISO's TPP-GIP Integration Discussion Paper for 12/1/11 Working Group issued November 23, 2011, where the allocation of TPP deliverability occurs between Phase 1 and Phase 2. The CAISO should not include (B) generators in base case assumptions until the project is actually completed. If the (B) generator subsequently withdraws, it should not be the PTO's responsibility to finance and construct the deliverability network upgrade.

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

    SCE is concerned with a possible unintended consequence of the elimination of the security posting requirement for DNUs which is that non-viable interconnection customers will likely elect to remain in the queue because the costs of doing so has been dramatically reduced. Although one of the initial design concepts of the TPP-GIP Integration is to identify the ratepayer-funded deliverability network upgrades so that generators can have greater certainty regarding costs responsibility and decide whether or not to remain in the queue, the elimination of the DNU security deposit will have an offsetting effect of allowing interconnection customers to remain in the queue regardless of progress towards meeting meaningful milestones. With this effect of "softening" the milestones for generators to remain in the queue in the hopes of receiving TPP deliverability, SCE urges the CAISO to develop and vigorously enforce additional meaningful milestones on the back-end for generators to retain their allocated deliverability. SCE also urges the CAISO to reconsider raising the Phase 1 cost caps.

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.

SCE has no comment on this issue.

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.

SCE agrees that projects choosing (B) should have very low expectations of obtaining TPP-based deliverability if available. Interconnection customers choosing option (B) should be serious in their commitment to fund needed deliverability network upgrades. By having this expectation, the certainty regarding funding responsibility between either ratepayers or interconnection customers for identified deliverability network upgrades will be maintained.

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.

As an original proponent, in the CAISO's GIP 2 stakeholder initiative, of Phase 2 re-studies to capture the impacts of base case changes related to generation project status and approved transmission, SCE supports this element of the TPP-GIP Integration proposal.

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

SCE has no comment on this issue.

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.

SCE has no comment on this issue.

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.

While one of the CAISO's overarching goals is to have the Integration of TPP-GIP apply to QCs 5 and beyond, the requirements for generators to receive TAC-funded deliverability will almost certainly result in benefits to generators in Cluster 4 and below, with no direct benefit to QC5. Under the latest proposal, the CAISO will allocate TPP

deliverability to interconnection customers based on "first ready, first served", using as criteria the project's completion of all permitting required to begin construction and either an approved PPA or evidence of committed project financing. Also, the allocation of deliverability will occur after Phase 2. It is not realistic to expect that the QC5 generators will have secured licensing and an approved PPA by the time their Phase 2 studies have been completed and thus generators in earlier clusters are the most likely beneficiaries of ratepayer-funded deliverability.

SCE is concerned that CAISO load may be forced to pay for transmission costs for resources built that do not help satisfy California policy goals. For example, consider the case where a utility in say Utah signs a contract with a renewable generator that builds within the CAISO footprint. Moreover this unit proceeds under Option A, and thus CAISO load (through the TAC) will be forced to pay for its deliverability upgrades. Why should CAISO load subsidize the cost of renewable generation used to meet Utah policy goals? The CAISO should weigh the possibility of this situation happening and consider the development of rules to ensure that if only CAISO load pays for deliverability network upgrades, then the corresponding transmission facilities should be deemed to be needed for and ultimately used to benefit CAISO-area customers.

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.

As stated above, the proposed milestones required for an interconnection customer to be allocated some amount of TPP deliverability are not realistically achievable for generators in QC5 within the 120-day period from receiving their Phase 2 results. The net effect of these milestones, coupled with the timing for the allocation of TPP deliverability, will be to exclude the currently studied cluster from receiving TPP deliverability and having earlier-queued generators receive the TPP deliverability. If the CAISO truly wants one of the outcomes of the TPP-GIP Integration to be its full applicability to generators in QC5 and beyond, it should consider deferral of the allocation of TPP deliverability until a later time in the process, after the currently studied cluster has had a fair opportunity to progress towards meeting the identified milestones. Otherwise, SCE generally agrees these are good milestones but more discussion around them may be merited.

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

SCE does not have a detailed comment at this time, but emphasizes that the evidence provided must be compelling and must demonstrate the project's ability to move forward through the entire development cycle. As an example, evidence of committed project financing could include agreements demonstrating the closing of construction-period financing with a lender.

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.

SCE is concerned with this proposed indirect transfer of deliverability risk, from interconnection customers to LSEs, by allowing (A) projects to execute FC GIAs, even if the total exceeds the TP deliverability available. While managing the associated risk through bilateral negotiations in a PPA might be a mitigating option, this will add greater uncertainty to the overall procurement process. The undesirable end result will be higher costs to retail customers through the higher bid prices likely to be reflected in Power Purchase Agreements (PPAs). Moreover, the CAISO could adopt the simpler solution of providing a Full Deliverability on a first ready, first served basis. In other words, Full Deliverability will be allocated to those projects that are able, and execute, a GIA. Once the amount of Full Deliverability upgrades have been executed in GIAs, no other projects from that queue cluster would be eligible and would interconnect as Energy-Only resources.

As for expanding the TPP planning portfolio in a particular study area, for the next TPP cycle, to provide sufficient deliverability, SCE agrees that the CAISO should adjust its assumed resource portfolio amount to reflect the commercial realities of generators meeting significant milestones.

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.

As SCE stated in response to Issue #12 above, with the elimination of financial security requirements regarding deliverability network upgrades for generators choosing option (A), this will provide a greater incentive for generators to stay in the queue. With this "softening" of the milestones for generators to remain in the queue in the hopes of receiving TPP deliverability, SCE urges the CAISO to develop and vigorously enforce additional meaningful milestones on the back-end for generators to retain their allocated deliverability. If the project loses its deliverability, SCE agrees that it may continue as EO if it so desires.

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.

SCE supports the concept that an option (A) project that does not meet the milestones by the time required would have an additional GIP Phase 2 cycle to do so. As SCE stated in response to Issue #19 above, the currently studied interconnection customers will, in all likelihood, need additional time to complete all permitting required to begin construction and either obtain an approved PPA or provide evidence of committed project financing. Even the additional one-year Phase 2 cycle might not allow sufficient time for the currently studied generators to meet the milestones.

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.

SCE supports this proposal element which is consistent with SCE's proposed requirement of option (B) generators being serious in their commitment to fund deliverability network upgrades. If there is no incremental TPP deliverability, above the amount allocated to option (A) generators, available to allocate to option (B) generators, then option (B) generators should self-fund deliverability network upgrades.

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.

A (B) project that elects to drop out after Phase 2 should be subject to a meaningful forfeiture of its posting. A relatively high forfeiture rate is needed for a generator (B) to continue to demonstrate that it is serious about funding its deliverability network upgrades and only intends to drop out in the event of some highly unanticipated event beyond its control. SCE believes a (B) project should be eligible for partial refund of its deposit to reflect the low-probability occurrence of such extreme qualifying developments.

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.

SCE does not necessarily agree that deliverability network upgrades funded by interconnection customers would be considered merchant transmission, subject to cost recovery via allocation of congestion revenue rights. This situation could potentially involve a "policy-driven" deliverability network upgrade. Also,additional merchant lines connecting into SCE's facilities is a complex issue and SCE has serious concerns about this possibility. Consistent with the CAISO tariff, any needed network deliverability network upgrades and additions within the PTO's rights-of-way and existing facilities will be built by the incumbent PTO. Finally, what the CAISO initially believes to be a merchant transmission line might eventually turn out to be a policy-driven transmission line, and this should not create any additional "back-stop" obligations on the PTO to finance and construct.

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.

SCE agrees that later-queued generators which interconnect based on benefitting from a deliverability network upgrade funded by an earlier-queued generator should be required to reimburse the funding generator for the newly used deliverability.

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 a general matter, the proposal to vary the NQC of a resource in future years introduces a considerable amount of risk to the contracting parties (i.e. the LSE and the Generator). This risk is difficult to evaluate as it is dependent on studies and activities that are beyond the control of the parties and does not have a regularity that allows parties to evaluate the risk using historical statistics. As such, SCE is concerned with the potential impacts to costs and contracting complexity to account for this uncertainty. SCE therefore prefers that the process be established such that future studies for transmission expansion (including that from Generator Interconnection) be performed in a manner that ensures that those resources already on the grid at that time retain their NQC value. This would be consistent with the methodology used today in which once a resource is found to be deliverable, it is always deliverable.

In situations where the combined amount of deliverability for both the generating projects reliant on ratepayer-funded deliverability and those willing to fund their deliverability network upgrades exceeds the amount of TPP deliverability available in a particular study area, the CAISO proposes that the LSEs and regulatory authorities will have information to assist procurement decisions as a possible mitigation option. This mitigation option implies the LSEs have an ability to coordinate their procurement activities. SCE has concerns with such a proposal, and reiterates here it comments submitted on a similar issue in response to the CAISO's QC1/QC2 revised discussion paper.

While the CAISO can support contracting parties by providing information (e.g., remaining deliverability capacity in a given area), it is difficult to imagine that information would be sufficient to advise LSE's on multi-billion dollar decisions regarding PPAs. It is difficult enough mapping PPA agreements to interconnection requests as the latter are usually larger than the former. Moreover, there are regulatory and other concerns that may be associated with LSEs coordinating procurement activities. The CAISO should not, therefore, base its proposal on any unrealistic expectations of coordination and instead should focus on providing public information to support procurement activities and recognize that LSE procurement practices will need to be conducted independently pursuant to applicable legal and regulatory requirements.

The CAISO also proposes as one of its options to apply NQC adjustments on an annual basis to all "new" generation projects. In the context of Integration of TPP-GIP Second Revised Straw Proposal, the CAISO states that "new" would include generation projects in clusters 1 through 4 that have not achieved specified development milestones by a certain date, and to all generation projects in Cluster 5 and beyond that are dependent on TPP deliverability to become viable. In Issue #28 above, the comments template states that "'New' would include all cluster 5 and later projects that elect option (A)."

SCE requests that the CAISO clarify how it is intending to define "new". SCE's position is that any interconnection customer, regardless of cluster, with a signed PPA should be exempt from any reductions in NQC.

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.

The CAISO should disregard this proposal. In essence, this proposal would "deem deliverable" projects that clearly do not meet the technical requirements required for Full Capacity Deliverability Status. This proposal would obviate the need for California's Resource Adequacy program, as the participating "Resource Adequacy Resources" would offer no actual RA benefits (but would presumably offer these benefits to attract contracting opportunities and request higher contract payments for phantom attributes). The proposal would have utility customers pay twice – once to the generator for bogus "Resource Adequacy Benefits," and again to the CAISO so the CAISO could then obtain needed capacity from resources that can actually provide the capacity.

As pointed out in #28 above, the potential for changing the NQC value introduces risk to the contracting parties. The proposal to have the CAISO perform backstop capacity procurement does not eliminate that risk. Rather, the risk is simply socialized to all market participants. In this proposal, SCE presumes that the cost of the backstop procurement would be allocated as it is today. Since the NQC values would be maintained, there would not be any LSE that is under-procured and therefore, the costs would be allocated to all LSEs. This does not solve the problem and inappropriately assigns costs to entities that have no ability to control or avoid those costs.

Moreover, the suggestion above undermines the purpose of the RA program itself. Ideally, RA requirements are intended to provide the CAISO with enough generation to serve the grid taking into account an appropriate margin (i.e., the Planning Reserve Margin). Simply deeming a resource to provide RA when in fact does not could result in lack of resources needed to actually support the grid.

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