SCE Straw Proposal

Generation Interconnection Process Reform (GIP2)

CAISO Stakeholder Meeting

April 28, 2011

Agenda

- Background
- Areas of Concern
  - Cost Cap
  - Base Case
  - Upsizing in TPP
  - Suspension
- Proposal
  - Re-evaluation of post-Phase II Plan of Service
  - Elimination of Ability to Suspend GIA
  - Abandoned Plant provision in CAISO tariff
- Benefits of Proposal

Background

- Certain GIP provisions cause shifts in financial responsibility from Interconnection Customers (ICs) to Participating Transmission Owners (PTOs) under certain circumstances
- These provisions mute the true cost of transmission interconnection
- May lead to suboptimal transmission being constructed and recovered from ratepayers
- May add to uncertainty and delays in construction
- Proposal seeks to balance need IC cost certainty with interests of ratepayers to ensure transmission is appropriately sized, securitized, financed, and eventually recovered from ratepayers

Review of Provisions in current GIP and TPP

- Cost Cap:
  - IC's maximum financial responsibility is determined in the Interconnection Studies and IC not required to upfront finance upgrades above the maximum, even if Plan of Service changes after the studies (Section 7.3 and 7.4 of the GIP)
- Base Case:
  - ICs of future cluster studies are protected from assuming financial responsibility for upgrades that were responsibility of earlier queued IRs that have withdrawn, because the upgrades are included in the base case of the future study and there is no ability to change the Plan of Service following the Phase II study (Section 12.2.2 of the GIP)
- GIP-driven upgrades subject to "up-sizing" in Annual Transmission Planning Process (TPP)
  - Extension of Cost Cap concern, ICs are protected from increases to financial responsibility for upgrades that are "up-sized" in TPP (Section 24.4.6.5 of the Tariff)
- Suspension of GIA
  - Extension of Base Case concern, ICs of future cluster studies protected from assuming financial responsibility of earlier queued generation that is suspended, as long as in the base case for future cluster studies (Article 5.16 of pro-forma GIA)

Why these provisions are a concern

- Although geared to provide ICs with greater cost certainty, these provisions are a concern for several reasons:
  - ICs are not seeing the true cost of transmission upgrades
    - May lead to suboptimal transmission development from ratepayers perspective
  - Adds to uncertainties in GIP, could contribute to delays in securing licensing and/or construction of upgrades
  - Cost recovery concerns on part of PTOs
    - May be required to upfront finance without abandoned plant assurance typically sought
    - Upgrades may be viewed as “routine” by FERC
  - Unplanned capital requirements

Re-evaluation of GIP-driven upgrades

- Adjustments to Phase II final Plan of Service can be needed for many reasons, including changes in the queue well after Phase II is complete
- Until the licensing process is completed, which will inevitably change the Plan of Service, no one knows the exact transmission that will be constructed
- Some upgrades may require more than one such re-evaluation during the upgrade’s development cycle
- Current GIP is silent on any way to remedy this situation
- Proposal:
  - PTOs may request re-evaluation of GIP-driven upgrades at any time
  - Network upgrades that are no longer required due to withdrawing generation are removed from the base cases for future cluster studies
    - Decision to remove upgrades from base case will require concurrence of ISO and PTO
  - Any re-sizing of the upgrades that results in reduction of financial security posting requirements will be reflected in GIA or amended GIAs
    - IFS cannot increase because Cost Cap still in place

Elimination of Suspension

- Ability to suspend GIA has potential to negatively impact non-suspending ICs in the same study group
- Suspension injects further uncertainty into GIP, could lead to challenges in licensing/permitting or other delays
- ICs do have “outs” in the current GIP, with the potential to recoup some interconnection financial security if withdrawals are for certain reasons
- Proposal:
  - Eliminate ability to suspend LGIA

Abandoned Plant in CAISO Tariff

- Some of the provisions in GIP discussed herein (as well as others proposed in GIP2) will lead to PTOs non-voluntary upfront financing of upgrades that might not qualify for 100% Abandoned Plant Cost Recovery Assurance
- SCE has made contingent any voluntary upfront financing of network upgrades on 100% Abandoned Plant Cost Recovery assurances from FERC
  - Same applies to non-voluntary upfront financing
- CAISO in best position to resolve this impasse
- Proposal:
  - CAISO Tariff should be amended to pre-approve eligibility for 100% Abandoned Plant Cost Recovery for amounts of network upgrades that a PTO is required to upfront finance as a result of provisions in the GIP or Tariff

Benefits of Proposal

- Interests of ICs, ratepayers, regulators, CAISO, and PTOs are aligned when it comes to wanting to construct optimal transmission facilities
- Benefits of the proposal accrue to all parties:
  - Cost Caps remain in place and continue to provide a level of cost certainty to ICs
  - Ability to rationalize Plans of Service leads to better price signals of true cost of transmission facilities and avoids overbuilding the system
  - Elimination of suspension reduces uncertainty and the potential for delays in licensing/permitting or construction of needed facilities
  - Abandoned Plant provisions help ensure FERC approval so that PTOs can recover their costs