

Stakeholder Comments Template

Integration of Transmission Planning and Generation Interconnection Procedures (TPP-GIP Integration) Revised Straw Proposal, September 12, 2011

Submitted by	Company	Date Submitted
<i>Fernando Cornejo Gary Holdsworth</i>	<i>Southern California Edison</i>	<i>September 29, 2011</i>

This template is for submission of stakeholder comments on the topics listed below, covered in the TPP-GIP Integration Straw Proposal posted on September 12, 2011, and issues discussed during the stakeholder meeting on September 19, 2011.

Please submit your comments below where indicated. Your comments on any aspect of this initiative are welcome. If you provide a preferred approach for a particular topic, your comments will be most useful if you provide the reasons and business case.

Please submit comments (in MS Word) to TPP-GIP@caiso.com no later than the close of business on September 29, 2011.

SCE appreciates this opportunity to submit comments on the CAISO's TPP-GIP Integration Revised Straw Proposal ("Proposal") posted on September 12, 2011, and discussed during the stakeholder meeting on September 19, 2011. Although the CAISO is proposing to dramatically alter the characterization of GIP-driven transmission, SCE continues to support the greater concept of TPP-GIP Integration while emphasizing that we have concerns relative to critical implementation details.

As SCE understands the Proposal, the CAISO envisions two types of generator-driven network upgrades starting with Queue Cluster 5 (the CAISO is not proposing to apply this approach to Queue Clusters 3 and 4) that would apparently replace the "GIP-driven" category of transmission as we know it today. First, is policy transmission supported by the TPP that is ratepayer-funded, with its construction/ownership open to competition. Second, is Interconnection Customer (IC)-funded transmission that is incremental to what is supported by the TPP and which is funded by the IC. SCE would suggest, however, that to the extent there are IC generation projects beginning with Queue Cluster 5 that wouldn't clearly be characterized as fulfilling policy needs, but would fulfill, for example, reliability needs, there may be a continuing need to preserve the "GIP-driven" label for some network upgrades.

SCE is not categorically opposed to moving to a paradigm envisioned by the CAISO where most ratepayer-funded transmission to accommodate generation

interconnections requests is re-characterized as policy-driven transmission and thus open to competition so long as it is based on *true competition* with fair rules for all participants and is designed to ensure that reliability and rates are protected. It will be incumbent on the CAISO and stakeholders to develop strict eligibility criteria for all transmission developers and require independent developers to synchronize to the same technical and reliability standards the incumbent PTOs have achieved historically. Ratepayer benefits must be realized for competition to be worthwhile. Proper risk allocation in the competitive process is critical to the realization of ratepayer benefits. Transmission developers will need to be willing to take on appropriate risks, especially project completion risk which would include development and construction. These are examples of the critical implementation details that must be addressed in any proposed move to a competitive paradigm. If there is stakeholder consensus to move forward with the CAISO Proposal, then SCE looks forward to working with the CAISO and stakeholders to ensure these and other critical implementation details are adequately addressed.

1. Section 4 of the paper laid out several objectives for this initiative, including four previously-identified GIP issues to be included in scope. Please indicate whether your organization believes these objectives are appropriate and complete. If your organization believes the list to be incomplete, please specify what additional objectives the ISO should include.

SCE generally agrees with the objectives for this initiative.

2. The revised straw proposal presents a timeline describing how the new TPP-GIP process would work. Please comment on the overall process design in terms of how well it meets the objectives of this initiative and how workable it is from a practical perspective. If you see ways it can be improved please offer concrete suggestions.

SCE agrees with the CAISO that both Phase 1 and Phase 2 of the GIP should be retained and is pleased that the CAISO has abandoned the idea of collapsing GIP Phase 2 into the TPP as the CAISO had proposed in the original straw proposal. SCE believes that the interjection of the most recent approved TPP between the Phase 1 and Phase 2 will help inform the IC on whether to proceed to Phase 2, recognizing that it will be responsible for funding any incrementally needed transmission. However, this interjection of TPP in between Phase 1 and Phase 2 studies will lengthen the overall study process, an area of concern for interconnection customers (although this appears to be an inevitable result in order to achieve the objectives of this initiative). Also, SCE notes that the timeline does not yet include time for a competitive process, which will need to be included.

3. Please comment on the following specific aspects of the design of the proposed new TPP-GIP process, and offer concrete suggestions for improvement where needed.

- a. The study assumptions proposed for each of the two GIP study phases.

It is critically important to adjust the assumptions of the GIP Phase 2 to account for the increased risk that IC-funded transmission from a previous Phase 2 will not be constructed. As a result of this concern, SCE proposes that any network upgrades coming out of the TPP/GIP interaction that are 100% IC-funded be excluded from the base case assumptions of all subsequent interconnection studies until such upgrades are included in executed Generator Interconnection Agreements and such upgrades receive all required licenses/permits for construction. This treatment of 100% IC-funded upgrades will reflect the speculative nature of these upgrades, as well as the difficulty in securing licenses/permits for transmission that has essentially been rejected for approval for ratepayer funding by the TPP.

- b. The information available to interconnection customers at each decision point in the process.

After Phase 1 and the corresponding re-evaluation in the TPP, the generators will have key information on the amount, including possibly all, of their generation capacity which will be interconnected with ratepayer funding.

- c. The “soft” nature of the GIP cost caps, whereby interconnection customers and ratepayers will have shared responsibility for upgrade costs that exceed the cost cap. Comment on both (i) the appropriateness of sharing this cost responsibility, and (ii) the ISO’s specific proposal for how the costs would be shared.

To the extent the interconnection request of an IC’s project cannot be met through the TPP plan and requires additional network upgrades, the IC should be required to fund all of the additional network upgrades (and not be reimbursed by ratepayers). SCE does not believe it appropriate for ratepayers to share this cost responsibility with the IC. SCE does not believe that IC’s risk of financing network upgrades is a risk that should be mitigated through cost caps. As the CAISO is seeking to send the appropriate cost signals to ICs by requiring network upgrades incremental to those met through the TPP plan to be wholly funded by ICs, why would the CAISO then seek to protect those same upgrades from cost over-runs? This does not make sense to SCE. Incremental upgrades to those

met through the TPP plan should be wholly funded by ICs with no reimbursement by ratepayers and with no cost caps or protection from cost overruns.

4. In the revised straw proposal, the ISO identifies four options by which allocation of ratepayer funded upgrades could be allocated.
 - a. Please rank the options, Option 3A, 3B, 3C, or 3F, from 1 (most appropriate) to 4 (least appropriate) your organization believes to be the most appropriate means for determining the allocation of ratepayer funded upgrades. Please explain the reasons for your preference? If there other options the ISO should consider, please describe them and explain why they could be superior to the other options.

SCE ranks its preferred options to allocate ratepayer funded upgrades as follows: (1) Option 3F; (2) Option 3B; (3) Option 3A; and (4) Option 3C

SCE prefers Option 3F. SCE believes the LSE allocation option has merit and the CAISO should move forward and develop additional details surrounding this proposal which, to some degree, aligns with two other transmission related allocations: CRR allocations and the RA import accounting rights. Allocating the rights to LSEs addresses many of the shortcomings in the other three proposals, and should help LSE's in the decision-making process of forward contracting. The allocation rights would likely need to be "tradeable" after the initial allocation to LSEs in order to increase the efficiency of the proposal. The CAISO and stakeholders will need to work together to develop additional details of Option 3F.

- b. Based on stakeholder feedback during the September 19 stakeholder meeting, many parties stated the ISO would likely need to utilize more than one of the identified options. Please provide comment regarding what combination of these options will best facilitate the efficient allocation of ratepayer funded transmission capacity. Please provide as much detail as possible.

SCE's position is that if Option 3F is ultimately implemented (after development of the necessary details), there is no need to utilize a combined-option approach. Rules would have to be determined to address the case where an LSE dedicated the transmission rights to a given generation project, but for some reason the project did not come to fruition. SCE believes that simply returning the rights back to the LSE to

re-distribute the “freed-up” transmission to other “ready” or viable generators would be an appropriate solution. The CAISO and stakeholders will need to work together to develop additional details of Option 3F.

- c. If Option 3A is selected, what are appropriate milestones to determine which projects are the “first comers?” In particular, some stakeholders have suggested that only projects with signed PPA should be allowed to qualify. Please comment on the appropriateness of this criterion and any others that might be needed.

One problem with using signed (and CPUC-approved) PPAs, along with other development-based milestones, is that it often places the “cart before the horse” as many developers have stated to SCE in the past that these development efforts rightfully take place after the transmission studies are completed and the IC has an idea of its financial responsibility. SCE’s experience is that the majority of IRs in its queue do not have PPAs at the start of the interconnection studies, and many of them still do not have PPAs by the completion of studies, or even at the execution of interconnection agreements. As a result, SCE believes PPAs will be of little use as a qualification factor. Other alternative milestones could be used, but many share the same timing problem. For example, site exclusivity could be used, but many ICs do not have site exclusivity by the time they complete interconnection studies (ICs participating in the Cluster Study Process can meet the site exclusivity requirement via deposit and site exclusivity is not a requirement for execution of the GIA). Likewise, progress towards project financing or progress towards permitting/licensing could be used, but again, these efforts are likely to occur in earnest only after interconnection studies are complete and will likely be only just commencing at the time the CAISO would need to evaluate the milestones for allocation purposes. As a result, SCE views Option 3A as well-intentioned but very difficult to come up with any milestones that would be useful as indication of first comers.

- d. If Option 3B is selected, what is the appropriate metric and methodology upon which pro rata shares should be determined?

If Option 3B is selected, pro rata allocation based on proportions of electrical flow into the system would be the appropriate metric. SCE views 3B as an improvement over the other options, as it is more objective rather than subjective, and has none of the timing concerns expressed above. This being said, SCE still prefers Option 3F over Option 3B as far as an allocation method. The CAISO and stakeholders will need to work together to develop additional details of Option 3F.

- e. If Option 3C is selected, then how should such an auction be conducted? Specifically, the ISO seeks comments regarding whether an auction should be an open bid or closed bid and held in a single round or an iterative bidding process? Please provide as much detail as possible.

1. Should the ISO conduct separate auctions for large projects and small projects? If so, how should the ISO determine how much transmission capacity should be available in each auction?

SCE does not support the auction option, especially given its provision to refund payments to the ICs after commercial operation of the generating unit. This refund provision essentially means that generation developers with the strongest financial positions to bid high and cover the float on the auction payment will win all of the auctions. SCE does not believe this approach is equitable.

- f. If Option 3F is selected, how shall transmission capacity be allocated to the LSEs? In particular, is the existing methodology for allocating import capacity to LSEs for RA (tariff section 40.4.6.2) applicable in the present context? If not, how should it be adapted?

LSE's would be allocated rights to the upgrades based on their respective percentage of CAISO load. For example, if SCE is assumed to be 35% of CAISO load and TPP has determined there are 800 MW of ratepayer-funded generator network upgrades for a particular resource portfolio study area, SCE would be allocated $0.35 \times 800 = 280$ MW. SCE would then be able to allocate the transmission capacity to generators seeking to interconnect to the electrical system in that study area. Unlike the RA process that reallocates transmission rights every year, we understand this proposal would allocate the transmission rights at the end of each TPP process. The incremental rights from each TPP would be allocated only once, and then could be dedicated to projects for the entire life of the project. Thus, the existing methodology for RA import capacity is not fully applicable in this context and instead a simple load ration share should be used.

- g. All of the options provided could create opportunities to buy/sell allocations of capacity created by ratepayer funded projects. Is there a need for the ISO to set up rules to prohibit or manage such sales?

As stated in response to question 4(a) above, SCE's position is that the allocation rights of Option 3F would likely need to be "tradeable" after the initial allocation to LSEs in order to increase the efficiency of the proposal. The CAISO and stakeholders will need to work together to develop additional details of Option 3F.

5. In cases where an IC pays for a network upgrade and later ICs benefit from these network upgrades, the ISO has proposed two options, Options 3E and 3G to resolve the "first mover-late comer" problem.
 - a. Does the ISO need to select one of these options or should both be implemented? If both, please explain or give an example of how the two could work together.

CAISO should adopt only one option – Option 3E.

- b. If only one option is to be chosen, which option does your organization favor and why?

As stated in response to question no. 5(a), CAISO should adopt Option 3E which assumes that the ICs in a particular study group that requires incremental IC-funded NU will be required to pay the full incremental costs of these NU, even when the NU provide more network capacity than the current study group needs. In this case, later ICs whose projects utilize the transmission capacity of NU paid for by the earlier ICs will reimburse the earlier ICs for a pro rata share of the NU costs. This option is preferred over Option 3G, because it reduces the potential exposure of ratepayers to the costs of inefficient transmission rather than adopting Option 3G which requires up-front ratepayer funding with subsequent reimbursement to ratepayers by later-queued generators who benefit from the excess capacity.

- c. In option 3G, should the "late comer" be responsible for paying back ratepayers for the portion of the network upgrades already covered by ratepayers or simply take over paying for the portion of the network upgrades covered by ratepayers moving forward?

SCE does not support Option 3G and believes it should not be adopted by the CAISO.

6. In order to transition from the current framework to the new framework, the ISO proposes that the entire existing queue including Clusters 3 and 4 proceed under the original structure, and that Cluster 5 would proceed using the new rules.

- a. Does your organization support this transition approach? If not, please indicate how it should be modified and provide the justification for your proposal.

SCE supports the approach of applying the new framework to Cluster 5.

- b. Given the potential size of clusters 3 and 4, if these clusters proceed under the existing rules is there a need to create new rules that would strengthen the incentives for less viable projects to drop out of the queue rather than proceed into the GIP phase 2 study process? If so, please offer concrete suggestions and explain why your suggestions would be effective and reasonable.
7. Some stakeholders expressed interest in determining only the reliability upgrades and costs in the GIP studies and to consider the need for delivery upgrades in the TPP. The ISO seeks comment regarding the feasibility/desirability of separating the assessment of reliability and delivery upgrades in this manner. In particular, how would this approach improve the process of identifying delivery upgrades that ICs would be required to pay for?

In previous sets of comments on GIP2 and in stakeholder meetings, SCE has seriously considered whether the development of reliability upgrades and delivery upgrades should be conducted in separate processes. SCE sees some merit in keeping the reliability upgrades in the group GIP studies, and continuing the application of cost caps and other features of the GIP for the reliability upgrades. The delivery network upgrades, on the other hand, have become a stumbling block to an efficient interconnection process, primarily because of the sheer size of the scope of work required to provide deliverability to certain generation resources, and the sheer size of the cost estimates and financing requirements related to that scope. It is precisely the delivery upgrades that have led to the need for TPP/GIP interaction in the first place, because it is these upgrades that are in the most need of “rationalization” for the purposes of meeting the 33% RPS in the most cost effective manner.

It has been suggested by several parties that the TPP might be a better venue to evaluate the deliverability needs on a comprehensive, holistic basis. This is because the CAISO is responsible for the deliverability assessment, and delivery upgrades are typically the largest component of IC financial responsibility in the interconnection studies. Delivery upgrades are not required to maintain reliability – they are more economic in nature. They are not required for interconnection, but they are required qualify for Resource Adequacy and LSEs typically require full capacity deliverability to get a PPA. As a result of these factors, it seems reasonable to SCE that if delivery upgrades identified via the deliverability assessment synch up with the CPUC/CAISO developed resource portfolios

under a least regrets approach, they should be considered for ratepayer funding. On the other hand, for any/all of the delivery upgrades that do not sync up with the resource portfolios the upgrades should be funded by ICs without ratepayer subsidy because they are providing less benefit to the grid as compared with the preferred upgrades. For this reason, SCE believes strongly that such “not-approved” upgrades should be 100% IC responsibility without any cost cap or other ratepayer subsidy [see SCE’s comments on 3(c) above].

8. Stakeholders have expressed concerns about the appropriate time to restudy the needs for and costs of network upgrades when projects drop out of the queue. Therefore the ISO seeks concrete suggestions for when and how restudies should be conducted.

SCE was the initial proponent of this issue, and is pleased that it is still on the table for CAISO inclusion in the GIP. The current GIP (such as Section 12.2.2 and 12.2.3) has some minimal provisions for changing the plan of service developed in the Phase II study, without any real detail around how such a change would occur. SCE believes the GIP would benefit from further development of a post-Phase II re-adjustment mechanism. The original GIP1 effort eliminated the ability to perform a restudy for purposes of cost allocation. However, just by doing away with a reallocation of costs does not mean that a restudy provision is no longer needed or helpful to determine what the PTO will actually construct. The need has not gone away because ICs still maintain the ability to withdraw from the interconnection process at any time, even after execution of a GIA, and those withdrawals do indeed impact other ICs in their study group or later queued ICs.

The challenge in developing a post-Phase II re-evaluation is determining 1) what would be the triggering event for such a re-evaluation, 2) what is the timing for such a re-evaluation, and 3) which party(ies) can request such a re-evaluation. The adjustments need to be performed in a manner that informs subsequent cluster studies of the outcome of triggered upgrades as early as possible so as not to disrupt future study work. But since ICs can withdraw even after the execution of the GIA, the re-evaluation may need to be performed multiple times on a given set of network upgrades. There also needs to be a mechanism put in place to recalculate the IFS posting requirements in relation to any post-Phase II adjustment mechanism.

SCE offers the following straw proposal for consideration by the CAISO and stakeholders:

- 1- Triggering event: The re-evaluation can be triggered at any time following the publishing of the Phase II study. The re-evaluation is triggered by the withdrawal of an IR or termination of GIA(s), where the PTO, in coordination with the CAISO, determines that a change to either the reliability or delivery

- network upgrades would be required based on the remaining generation from the original Phase II study group. (For ICs in a cluster of one, no other party is impacted by the change in network upgrade allocation, so no re-evaluation is required).
- 2- PTOs should inform the CAISO within 30 calendar days of IR withdrawal whether the plan of service, in the PTOs judgment, would qualify for adjustment.
 - 3- Any party to an executed GIA can request the PTOs perform the re-evaluation, but PTOs are best situated to determine the requirements for any impact to reliability upgrades needed for the remaining generation, while the PTO and CAISO will need to collaborate on the delivery network upgrades required for the remaining generation.
9. Please offer any other comments on the revised straw proposal, including any suggestions for improvement of the proposal or other issues your organization believes the ISO must address in this initiative.