Sept. 20, 2017

COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING, COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA ON THE INTERCONNECTION PROCESS ENHANCEMENTS 2018 INITIATIVE SCOPE

In response to the ISO's request, the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (collectively, the "Six Cities") propose the following topic for inclusion in the Interconnection Process Enhancements 2018 initiative:

> Whether the ISO's current allocation methodology for the cost of network upgrades needed to interconnect new (or functionally modified) resources should be revised to allocate such costs to interconnection customers.

The Six Cities observe that the Commission's recent order rejecting the ISO's filing to revise its tariff to incorporate new provisions related to Certified Small Participating Transmission Owners (*see Cal. Indep. Sys. Operator Corp.*, 160 FERC ¶ 61,047 (2017) (the "September 1st Order")) described the cost allocation methodologies used by other Regional Transmission Organizations/Independent System Operators. These methodologies provide for a share of network upgrade costs (in some cases, 100%) to be borne by the interconnection customers whose projects require these upgrades. According to the Commission, "[i]n [the Southwest Power Pool] and [the Midcontinent Independent System Operator], the Commission accepted alternative cost allocation proposals that assigned a portion of the interconnection driven network upgrade costs to the interconnection customer, finding that the proposals better aligned costs and benefits." September 1st Order at P 38.

Allocating network upgrade costs to the interconnection customers whose projects require such upgrades may resolve the Commission's concerns with the ISO's proposal to establish a Certified Small Participating Transmission Owner that would be permitted to include certain low voltage network upgrade costs in its high voltage revenue requirement as expressed in the September 1st Order. More fundamentally, requiring interconnection customers to pay for the network upgrades that are needed to interconnect their facilities to the ISO-controlled transmission grid would provide greater alignment with the Commission's cost causation principles, which generally require costs to be allocated to those parties benefitting from the costs. In the case of interconnecting resources, the parties that primarily benefit from the network upgrades needed to interconnect the resource are (1) the resource itself and (2) the party that elects to purchase the output of the resource. The current approach of assigning network upgrade costs to transmission customers instead of interconnecting resources masks the true costs of these resources. Modifying the current cost allocation to more closely align with cost causation principles may also have the salutary benefit of reducing the number of non-viable projects in the interconnection queue.

This proposal would be implemented by eliminating existing tariff provisions requiring all or a portion of network upgrade costs that are up-front funded by interconnection customers to be reimbursed to those customers. (*See, e.g.*, CAISO Tariff at App. DD § 14.3.2, providing for reimbursement of (i) Reliability Network Upgrade costs up to a maximum of $60,000/MW of generating capacity and (ii) Local Delivery Network Upgrades.) Instead, interconnection customers that fund network upgrades would receive Merchant Transmission Congestion Revenue Rights for Reliability Network Upgrade and Local Delivery Network Upgrade costs, consistent with existing tariff provisions. As the ISO explained to FERC in its original Generator Interconnection and Deliverability Allocation Procedures ("GIDAP") tariff filing in Docket No. ER12-1855-000,

> It is well established that ISOs/RTOs are required to compensate interconnection customers for their contributions to the cost of network upgrades, but that ISOs/RTOs are not required to compensate interconnection customers for their contributions to the cost of network upgrades solely in the form of cash repayment. Instead, an ISO/RTO may provide compensation to such interconnection customers in the form of financial transmission rights, which constitute a type of participant funding.

See Tariff Amendment to Integrate Transmission Planning and Generator Interconnection Procedures, *Cal. Indep. Sys. Operator Corp.*, Docket No. ER12-1855-000 (filed May 25, 2012) at 46. *See also Cal. Indep. Sys. Operator Corp.*, 140 FERC ¶ 61,070, at P 85 (2012) ("GIDAP Filing") ("the Commission has found that compensation solely in the form of financial transmission rights for the costs of network upgrades is fully consistent with Order No. 2003").

In considering this proposal, it would be useful for the ISO to provide information regarding the cost of Reliability Network Upgrades and Local Deliverability Network Upgrades associated with projects pending in queue clusters that are currently undergoing study. For example, in its Revised Straw Proposal issued in the Generator Interconnection Driven Network Upgrade Cost Recovery initiative, the CAISO provided a table (Table 1, on page 12) that estimates Low Voltage and High Voltage Reliability Network Upgrade and Local Delivery Network Upgrade costs for active projects through queue cluster 7 that have received their Phase II Study Reports. The ISO reported that these costs total approximately $880 million and are associated with 115 projects representing 16,000 MW of renewable and conventional capacity. It would be helpful for the ISO to provide similar information broken down by queue cluster and type of network upgrade (i.e., Reliability or Local Delivery) and further classified by High and Low Voltage.

With respect to Area Delivery Network Upgrades, the Six Cities understand that such Upgrades are developed and approved through the Transmission Planning Process and, with the exception of Option B interconnection customers that are not allocated any transmission deliverability, are fully funded by transmission customers. The Six Cities also understand that this category of network upgrades was originally developed for transmission projects that were identified as needed in furtherance of public policy goals. For example, the ISO explained in its GIDAP Filing at 3-4 that

> [T]he public policy-driven Transmission Planning Process … will be used to identify and build large-scale network upgrades needed to support the delivery of power from multiple new generators … based on reasonable assumptions about the location and amount of new resources that will ultimately be developed in discrete geographic areas. These TPP network upgrades will add a certain amount of transmission capacity, which will then be available to meet the major network upgrade requirements of proposed new generating facilities in these geographic areas.

While the Six Cities believe that a participant funding model for public policy-driven transmission projects has substantial merit, before identifying a potential alternative approach to funding Area Delivery Network Upgrades, it would be useful to understand how many Area Delivery Network Upgrade projects have been approved thus far and the cost of such projects.

The Six Cities respectfully request that the ISO accept these late-filed comments, which were prompted by the Commission's discussion in the September 1st Order of alternative allocation methodologies for network upgrade costs.

Submitted by,

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