Cluster 1 & Cluster 2 Deliverability
COMMENTS OF AES SOLAR ON REVISED DISCUSSION PAPER
December 24th, 2011

AES Solar Energy (AES Solar) submits these comments in response to the CAISO's January 10th document **"Generation Interconnection Procedures: Deliverability Requirements for Clusters 1 & 2 – Revised Discussion Paper"** (Paper), and the discussion about the Paper at the January 17th stakeholder meeting. The Proposal includes revisions to the Cluster 1-Cluster 2 (C1/C2) Phase II Study, and similar changes to the methodology for the upcoming Cluster 3-Cluster 4 (C3/C4) Phase II Study.

These revisions would address the current situation where generation capacity in the CAISO interconnection is queue far greater than is likely to ever be built, and which have triggered (in interconnection studies) expensive and long-lead-time transmission upgrades that also are unlikely to ever needed. The Paper proposes to resolve this problem by:

- **Removing several expensive Delivery Network Upgrades (DNUs) that will probably not be needed from those studies**, thereby removing those upgrades (and their costs) from the Second Interconnection Financial Security (IFS) Postings and C1-C4 Generation Interconnection Agreements (GIAs).
- **Addressing those DNUs later, if they are triggered by higher-than-expected generation development in the affected geographic areas**, by:
  - Treating them as policy-driven upgrades in the annual CAISO Transmission Planning Process (TPP), with no additional costs imposed on generators; and
  - Reducing Net Qualifying Capacity (NQC) for "new" generating capacity in the affected area(s) until the relevant upgrade(s) is built and in service.

AES Solar supports the CAISO's general approach, because it should result in a more realistic determination of the transmission upgrades needed to serve new generation. The proposed approach seems reasonable, with benefits that exceed the potential risks described in the Paper. However, AES Solar recommends that the CAISO modify its approach in two ways:

- **Respect the CAISO interconnection queue** in determining any NQC reductions necessary due to delays in DNU development resulting from the new methodology (or any other reason); and
- **Apply this methodology to the Cluster 4 Phase I Study as well**, to avoid Interconnection Financial Security (IFS) postings for upgrades that will probably not be needed.

Each of these recommendations is discussed further below.

Respecting queue positions in allocating available deliverability: The Paper recognizes that, if DNUs removed from the interconnection studies are later determined to be needed, approval of those upgrades in the TPP could delay their construction and operation. The Paper proposes:

- **Division of generation projects in the affected area(s) into "new" and "existing" categories.** The Paper describes possible criteria for this division as: (1) "existing" projects – projects in-service or under construction by an as-yet-to-be-determined date; and (2) "new" projects – all other projects in the area.

- **Awarding of Full Capacity (FC) Deliverability (FCD) to "existing" projects, and NQC reductions for "new" projects, if necessary, based on relative flow impacts on the limiting constraint**, with projects having low flow impacts receiving deliverability before those with higher flow impacts. These NQC reductions would be determined through the CAISO's annual deliverability study provided under the GIP-2 tariff amendments.

AES Solar objects to the proposed methodology for distinguishing between new and existing projects, and for awarding available deliverability to new projects, because it would completely ignore the CAISO interconnection queue and the rights associated with relative queue positions under the tariff, which are entirely unrelated to generation-project on-line dates. AES Solar maintains that this would be a fundamental change to the tariff that would require FERC approval of a tariff amendment; however, the CAISO does not propose to file any such amendment.

Moreover, the proposal is inconsistent with the assumptions in the CAISO's interconnection studies. Earlier-queued projects with later on-line dates have priority over later-queued project with earlier on-line dates in the allocation of available capacity in those studies, and it makes no logical sense to allocate deliverability in a different manner once those projects are operational.

It would be particularly unfair and discriminatory to deprive Serial Group and Transition Cluster projects, which are not being given the opportunity to lower their transmission financial obligations using the proposed methodology, of the deliverability to which they are entitled under their GIAs.

Thus, the CAISO should not discriminate against earlier-queued projects that have not yet begun construction in favor of later-queued projects that have done so. Instead, any available deliverability should be awarded based first on queue position, with Serial Group and Transition Cluster projects coming first. If there are any "ties" – e.g., where several C2 projects are located in an area where there is insufficient deliverability for all of them – the CAISO could use flow factors to allocate that remaining deliverability among those projects in the same study cluster.

Cluster 4 Phase I Study revisions: The CAISO stated at the stakeholder meeting that it would not revise the C4 Phase I Study results, and thus the upcoming Initial IFS Postings, to reflect the new methodology. The CAISO said that this position was justified, in part, because C3 projects (which will be studied together with C4 projects in the Phase II Studies later this year) were required to post security based on their Phase I Studies.

This "two wrongs make a right" argument is fundamentally flawed. The CAISO position would force C4 projects to post IFS for the cost of transmission upgrades that: (1) were triggered by admittedly inflated estimates of earlier-queued generation capacity; and (2) even if triggered in the Phase II Study, would be removed from that study, from Second IFS Posting amounts, and from eventual GIAs.

Moreover, the cost of the unneeded transmission projects would be included in Phase I cost caps for these projects, exposing them to additional development risk. These projects should not be forced to post IFS based on inflated numbers and gamble that the Phase II figures will be more reasonable.

If parity with C3 projects is an issue, the CAISO should revise those Phase I Studies also. Those projects should then be allowed to reduce their IFS postings to reflect the revised figures.

The CAISO said at the meeting that revisions of C3 Phase I Studies would cause projects that dropped out before but might have remained in the queue with any lower revised cost figures to claim that they should be allowed back into the queue. If there are any such projects (and there were doubtless other reasons why those projects failed to post security) then, since the C3/C4 Phase II Studies have has not yet begun, there is no reason why C3 projects could not post security based on revised C3 Phase I Study numbers and be included in the Phase II Study, if they choose.

The GIP-2 tariff provisions would (if approved) give C3 projects 30 days from issuance of a revised Phase I Study, where Network Upgrades decreased by at least 20%. Such projects should be allowed to participate in the Phase II Studies if they post the required security within that time, which should not delay the start of those studies under the current timeline.