

**CALIFORNIA ENERGY COMMISSION**

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July 14, 2006

Mr. David Withrow  
Senior Market and Product Economist  
California Independent System  
Operator Corporation  
P.O. Box 639014  
Folsom, CA 95763-9014

Re: Comments – *Third Category or Alternative Treatment of New Transmission Facilities for Renewable Generators*; California Independent System Operator Corporation, White Paper, June 28, 2006

Dear Mr. Withrow:

The California Energy Commission (Energy Commission) is pleased to support the effort of the California Independent System Operator Corporation (CA ISO), represented by its June 28, 2006, white paper, to obtain recognition from the Federal Energy Regulatory Commission (FERC) of a third category of transmission facilities for renewable resources, and approval of an alternate cost recovery methodology for those facilities. Once placed into effect, this should resolve the present delay in integrating new renewables transmission facilities into the CA ISO-controlled grid and promote development of the state's renewable energy resources. The critical importance of this endeavor was recognized by the Energy Commission in the *2004 Energy Report Update* in which it concluded that “. . . providing for timely and adequate transmission projects will prove critical to meeting the state's renewable energy goals.” (*Mimeo* at 31.)

In the *2004 Energy Report Update* the Energy Commission concluded that “transmission interconnection issues for renewable resources located in concentrated areas, such as the Tehachapi wind resource areas and Imperial County's geothermal resource areas, are complicated by the number of developers of renewable resources competing for limited transmission capacity and their limited ability to finance large transmission investments.” (*Mimeo* at 31.) The Energy Commission further noted that “the transmission interconnection process for new generation is based on single location power plant development, which does not fit the characteristics of renewable resources in remote areas. The risk of planning transmission on a plant-by-plant basis is developing a suboptimal system. In contrast, the risk of planning for long-term renewable development provides for a more optimal transmission system, but assumes that multiple developers bring their plants into operation on a given schedule.”

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(*Mimeo* at 39.) To address these issues, the Energy Commission's *2004 Energy Report Update* recommended that the CA ISO investigate changes to its tariff to encourage renewable transmission projects.

The deficiencies in this plant-by-plant approach were explained further in the Energy Commission's *2005 Energy Report*:

Current FERC policy effectively bars the advanced planning and construction of transmission facilities necessary through the "chicken and egg" nature of renewable transmission development; renewable projects cannot secure contracts under RPS procurement procedures without knowing whether existing transmission will be able to accommodate them. At the same time, utilities are wary of investing in renewable transmission without assurances of cost recovery, which is premised on the renewable generation being built. This poses a major impediment to renewable resource development.

Even when a renewable developer requests new transmission capacity, the present system assigns the bulk of the cost to the developer with the project that first pushes the transmission system beyond its existing capability. Transmission upgrades would be much more efficiently built through a phased-in development plan anticipating future renewable generation instead of additions of relatively small, individual projects. (*Mimeo* at 99.)

The Energy Commission believes that changes to the CA ISO's tariff should eliminate reliance on an inefficient plant-by-plant approach for planning and developing new transmission facilities in support of renewable resources. Recognizing a third class of renewable transmission facilities and placing into effect the associated alternate cost recovery methodology offers the promise of jump-starting the stalled effort to access the rich concentration of renewable resources located in remote areas of California. Changes to the CA ISO tariff also increase the likelihood that renewables transmission facilities will be developed in a timely and cost-effective manner. In short,

. . . . the Energy Commission strongly believes that its *2004 Energy Report* recommendation to implement changes to the CA ISO tariff is even more necessary today than it was a year ago for meeting California's renewable goals. [footnote omitted] The Energy Commission, the CPUC,

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and the CA ISO should implement changes to the CA ISO tariff to encourage construction of transmission for renewables. (*2005 Energy Report, mimeo* at p. 100.)

Sincerely,

A handwritten signature in black ink, appearing to read "B. B. Blevins", with a stylized flourish extending to the right.

B. B. BLEVINS  
Executive Director