

**Comments of the California Municipal Utilities Association (“CMUA”)
Proposal for a Third Category or Alternative Treatment of New Transmission
Facilities for Renewable Generators**

Introduction

CMUA members support renewable resource development. This is evidenced by our real and tangible investments in renewable resources, the resolutions of our governing boards adopting state goals, and recent reports issued by the California Energy Commission which conclude that we are more aggressively pursuing California’s renewable energy goals than other load serving entities.

The CAISO White Paper contains statements that do not reflect these facts or an accurate understanding of California law. One example is the cost allocation options which attempts to divide entities into those that do, or do not, have a state mandate. In fact, California law speaks of “targets” for CPUC-jurisdictional entities:

In order to attain a target of 20 percent renewable energy for the State of California and for the purposes of increasing diversity, reliability, public health and environmental benefits of the energy mix, it is the intent of the Legislature that the California Public Utilities Commission and the state Energy Resources Conservation and Development Commission implement the California Renewables Portfolio Standard Program described in this article.

The California Code then has limits on the effect of renewable procurement on the overall portfolio and the market price of available renewables, including limits on expenditures for renewable resources that are over-market.

The language relevant to CMUA members also speaks of goals:

Each governing body of a local publicly owned electric utility, as defined in Section 904, shall be responsible for implementing and enforcing a renewables portfolio standard that recognizes the intent of the Legislature to encourage renewable resources, while taking into consideration the effect of the standard on rates, reliability, and financial resources and the goal of environmental improvement.

In summary, California law applies goals for renewable development for CMUA members that are highly similar to those applied to CPUC-jurisdictional entities.

CMUA raises this point to make clear that the reason we have concerns with the proposal to establish special treatment for a Third Category of transmission is not

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because we don't have requirements to pursue state renewable goals, but because we believe the chosen approach is unnecessary and bad policy for the reasons set out below. Also, as established by the CEC Reports, we are aggressively pursuing state goals without these types of mechanisms that may seek to socialize the costs of renewable resource procurement.

Overall Concerns

A. The CAISO Proposal Runs Counter to Its Other Initiatives to Promote Development of Local Capacity and Undermines the Price Signals Which MRTU is Intended to Provide.

Harry S. Truman once said: "Give me a one-handed economist! All my economists say, 'On the one hand ... on the other.'" Similarly, the CAISO is presenting policy directions that are contradictory.

The CAISO has been advancing proposals to require load serving entities to provide certain minimum amounts of capacity in identified local areas to meet reliability requirements of the grid. Also, the CAISO has developed deliverability tests. Finally, the CAISO has proposed its MRTU market redesign which will establish nodal prices for generation.

Certain CMUA members face a Hobson's choice, because the goals of the CAISO's policy proposals conflict. These members are Resource Adequate in the aggregate, meaning they would not need to procure additional resources to meet planning reserve criteria. However, they may face additional local procurement responsibilities which renewable resources distant from load will not satisfy. It is highly unlikely that they could integrate renewable and intermittent resources, distant from load, and benefit from any build out of "trunk" lines to remote renewable sites, while at the same time procuring resources within designated load pockets to meet local reliability requirements. Therefore, it is not supportable to state even in the abstract that "all" benefit from development of these facilities.

Moreover, the CAISO is proposing an MRTU market design which will encourage development of resources closer to load in order to diminish delivery risk. As CMUA understands it, and without additional work-arounds to protect renewable energy from congestion price risk, the White Paper proposes to encourage and subsidize certain resources distant from load, while at the same time the CAISO touts a market design which attempts to price energy and transmission together to reflect the delivered price of the commodity.

It is necessary and appropriate that the CAISO examine all of its market design proposals in a comprehensive, rather than piecemeal, fashion.

B. CMUA Has Concerns with the Tactical Approach Adopted by the CAISO Which Will Present a General Proposal to FERC Without the Needed Detail of a Tariff Filing.

The CAISO has proposed seeking guidance from FERC in the form of a Petition for Declaratory Order. CMUA joins other market participants in opposition to this tactical approach.

Often the CAISO has presented questions to FERC in a general fashion and without Tariff details necessary for parties to reach final conclusions. When proposals are ambiguous, parties to FERC proceedings have little choice but to raise these ambiguities at FERC, whereas the appropriately detailed Tariff language may resolve issues. Also, the details of this proposal are important; i.e., who pays, what types of facilities specifically would qualify. As pointed out below, there are many of these issues that are not specified in the White Paper.

CMUA sees little advantage in the approach proposed by the CAISO. Depending on the level of detail in the Petition, the resulting guidance from FERC may be so general as to be of limited value. Also, the two step process would appear to delay the ultimate resolution of this issue. CMUA therefore requests the CAISO reconsider this approach.

C. The Proposal Raises Significant Large Policy Questions on the Proper Role of the ISO.

The CAISO has undeniable responsibilities to ensure short term reliability of its Control Area. CMUA also supports a proactive role for the CAISO on transmission planning. These continuing tasks have proved challenging enough.

The CAISO is not constituted to undertake integrated resource planning; it is not a state agency. Nor is the CAISO responsible for the economic consequences of planning decisions. As such, the CAISO should not be in a position of advocating for particular types of resources, or for particular types of investment (generation versus transmission), or for particular fuel sources.

The CAISO Board should not look at this issue in the limited context of building out a few wires facilities. If the CAISO pursues this approach seeking to advocate for one societal goal, there appears to be little limit to the types of issues in which the CAISO will become enmeshed. Indeed, the CAISO is already discussing the cost allocation possibilities of rolling in certain generation assets into transmission rates. With specific regard to this proposal, the CAISO is not just facilitating renewable development, but one particular type of renewable resource. This is well beyond the mission of the CAISO.

D. There Appear Better Ways to Accomplish the Stated Goal, Such as Development of Networked Facilities that Interconnect Renewables and Have System Benefits.

Particularly frustrating is the reality that the build out of wind energy regions, including in the Tehachapi's, may be accomplished at the same time as networked upgrades that may resolve or lessen zonal constraints and lower local reliability requirements. In other words, the CAISO may be raising a controversial issue for no good reason. The CAISO has enough controversy and conflict on its hands without venturing out of the way for additional disputes.

III. Specific Questions and Concerns

A. The Money Flow is Not Clear. What Will the Generators Pay Back, When, and To Whom?

It is not fair to characterize this proposal as a "bridge loan" to be paid back when a renewable site is developed. It is very unclear what the interconnecting renewable resource developers will be expected to pay. At the Stakeholder Meeting, it was acknowledged that there were different interpretations of what the cost responsibility would be for developers. Many interpreted the proposal to mean that the developers' responsibility would be "pro rata, going forward," while others expected the payments to reflect the prior carrying costs of the facilities. This should be clarified before any Board action. Further, the CAISO's proposal to allow thermal generators to interconnect to these subsidized facilities raises questions about the overall purpose of the proposed policy. Finally, all options appear to place the risk that no development occurs on load.

CMUA is not unalterably opposed to financing mechanisms, properly designed which remove obstacles to development of prudent renewable resources. The CAISO proposal in the White Paper does not meet this description.

Once the CAISO has clarified this point, stakeholders should be given additional opportunities to provide written comments on this proposal.

B. The CAISO Has Made No Attempt to Clearly Explain How This Proposal is Different from SCE's.

CMUA is concerned that the CAISO is headed down a dead end street identical to the road traveled by Southern California Edison Company in Docket No. EL05-80-000, in which FERC rejected SCE's proposal for a similar treatment of "trunk line" facilities. The CAISO White Paper mentions the earlier effort to accomplish a similar result but provides no recitation of different facts that would support a different result. CAISO

representatives indicated at the Stakeholder Meeting that it was believed the result would be different because it is a CAISO-proposal rather than an SCE proposal. This point does not change the applicable legal test and in any event is insufficient as a basis to involve the CAISO in a controversial issue and a lengthy FERC dispute.

C. This Proposal will Disadvantage Other Renewable Resources

Ultimately, it is the duty of relevant regulators to judge the relative economics and other costs and benefits of renewable resources without masking costs of particular fuel sources. The CAISO's proposal will subsidize the costs to develop one type of resource to the disadvantage of other fuel sources. In this regard, we note the lack of support from other areas of the renewables sector for this proposal. Indeed, CMUA believes portions of the wind energy industry oppose this proposal.

Relevant regulators may take into account a host of factors that may include costs and other factors such as support for the grid, the load shape of the particular load serving entity, local reliability, greenhouse gas reduction, and the resolution of other local environmental issues. As a concrete example, CMUA members have found that investment in renewable resources close to load that involve landfills or other biogas products can fulfill multiple public purposes. To the extent that a load serving entity makes such determinations and chooses to invest in geothermal, biomass, landfill gas, small hydro, solar, or other types of resources, it should not be expected to foot the bill for those that choose remote resources that require expensive facilities to interconnect them to the grid. California's state policies promote renewable resource development, not development of one particular fuel source.

IV. Conclusion

The costs of non-networked facilities needed to interconnect generation to the grid should be dealt with under established CAISO policies for interconnection, and exceptions should not be provided based on fuel source. To the extent that load serving entities want to ease development by suppliers by paying upfront interconnection costs, they are free to do so, so long as the load serving entities that take the output of the generating facilities pay the costs, and those costs are not rolled into FERC-jurisdictional rates.