

**CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

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**LOCATION CONSTRAINED RESOURCE INTERCONNECTION  
DRAFT TARIFF LANGUAGE**

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**COMMENTS OF THE STAFF OF THE  
CALIFORNIA PUBLIC UTILITIES COMMISSION**

**OCTOBER 15, 2007**

***General Comments***

The Staff of the California Public Utilities Commission welcomes, and is in substantial agreement with, the California ISO's Location Constrained Resource Interconnection (LCRI) draft tariff language that was released on October 1, 2007. When integrated with other transmission-related developments, such as planning process enhancements linked to FERC Order 890, the LCRI initiative will help rationalize and streamline proactive development of electric transmission to meet California's energy needs, including increased reliance on renewable energy. We commend CAISO staff for a very open and substantive stakeholder process, and for moving towards coordinating the LCRI process with both the broader transmission planning process and with renewable resource area assessments under way via other processes. Our general comments regarding the draft tariff language are two-fold:

- the LCRI process as well as other processes assessing and supporting development of high-priority energy resources must be well coordinated both with each other and with the broader transmission planning cycle; and
- in addressing the often mentioned "chicken-and-egg" dilemma associated with the planning for the transmission needed to access new renewable generation resources, the overall transmission planning process of which LCRI is a part must provide proactive signals to generators regarding their approximate cost exposures for transmission access, before those generators must make major financial commitments.

Our specific comments on the draft tariff language are as follows.

***1. Nature of Transmission Projects Seeking LCRI Facility (LCRIF) Status***

The draft tariff language does not provide for "pre-designation" or a similar process formally identifying a transmission project as having met all criteria for LCRI treatment (particularly cost recovery) save for the rather rigorous generator interest test. In the absence of such a proactive signal within the LCRI process, it will be necessary for

such a signal be provided outside of the LCRI process, within the overall transmission planning (and/or clustered generator interconnection) process. This will necessarily take place well ahead of the timeframe in which LCRIF candidates will be obligated to meet the substantial generator interest requirements established for formal LCRIF. We would note that even in the Tehachapi area, with approximately 6,0000 MW of generation in the interconnection queue, and where the transmission plan of service is already in the formal permitting process at the CPUC, the prospective generators are nowhere close to meeting these generator interest criteria.

Section 24.1.3 of the draft LCRI tariff language provides that the CAISO, a PTO or any other Market Participant may “propose a transmission addition” seeking LCRI status. In order to make the LCRI process more effective and more likely to produce the desired results, such proposed additions should be able to (1) be evaluated or developed in the broader transmission planning process (per tariff amendment pursuant to Order 890) and (2) be eligible for formal recognition, such as inclusion in the CAISO transmission plan, even if not yet approved for construction. We would accordingly recommend adding some new clarifying text to this section of the draft tariff language, following the present proposed wording, “The CAISO, a Participating TO or any other Market Participant may propose a transmission addition as a Location Constrained Resource Interconnection Facility;” the new text would read as follows: “*Such a proposed addition may come from proposals presented to or emerging from the CAISO’s annual transmission planning process, including proposals that are included in the CAISO’s annual transmission plan, although not necessary approved for construction.*”

## **2. Definition of an Energy Resource Area**

One of the criteria for LCRIF designation is that a proposed facility access multiple generators in an Energy Resource Area. Draft additions to the Master Definitions Supplement define an Energy Resource Area as “A geographic region certified by the CPUC and the CEC in a joint proceeding...” The phrase “joint proceeding” should be removed to provide for greater flexibility in how the mechanics of the designation process may be implemented.

The draft definition of an Energy Resource Area also provides that “...before the CPUC and CEC certify such areas, and for LCRIFs that are proposed to connect LCRIFs located outside the State of California, an Energy Resource Area shall mean a geographic region ...[for which] the ISO Board determines that all of the requirements of Section 24.1.3 are satisfied, except for the requirement that ...[the area be] certified by the CPUC and the CEC.” To this should be added language specifying the requirement that in assessing and designating Energy Resource Areas for which no CPUC-CEC certification is available, the CAISO Board will also consider “all relevant, government-sponsored or government-recognized studies of renewable resource areas.”

## **3. Evaluation of Location Constrained Resource Interconnection Facilities (Section 24.1.3.4)**

Section 24.1.3.4 of the draft tariff language provides various criteria for evaluating (and presumably approving) LCRIFs beyond the criteria set forth in Section

24.1.3.1 (e.g., must access a defined energy Resource Area, must be non-network, must not cause aggregate rate impact above 15%) and Section 24.1.3.2 (demonstration of generator interest). These criteria, which have been a major focus of the stakeholder process to date, are considered to be necessary but not sufficient, for LCRI designation. This fact should be made clear. Furthermore, it would enhance market confidence in the availability of LCRIF status if language in the tariff amendment also states that, in order to weed out economically unjustified or risky projects, and/or to meet the 15% rate impact cap, proposed facilities meeting the more objective, transparent criteria in Sections 24.1.3.1 and 24.1.3.2 are presumed to qualify for LCRI treatment unless disqualified by the broader, underlying transmission planning criteria applied pursuant to Section 24.1.3.4.

Furthermore, the “fuel diversity” criterion in Section 24.1.3.4 should be augmented to include consistency with or facilitation of state and load-serving entity (LSE) supply procurement objectives, since LSE and state supply procurement processes might have their own methods and priorities in valuing fuel diversity and various other factors.

Also in Section 24.1.3.4, criterion (4) refers to distance of the Energy Resource Area from the grid, and “viability” of the LCRIF. In fact, distance from the grid should already have been considered in prioritization and benefit-cost assessment of Energy Resource Areas and potential LCRIFs, and is therefore duplicative, while “viability” is vague and potentially also duplicative. We recommend that these terms either be clarified or replaced with more specific terminology.

Finally, also in Section 24.1.3.4, under criterion (6), “whether, and if so, the extent to which the transmission facility would provide additional reliability or economic benefits...” is vague and potentially duplicative. If this piece of terminology is intended to refer to economic benefits not already captured in economic assessment of Energy Resource Areas and the LCRIF itself (e.g., under benefit-cost), wording should be added to clarify what such additional economic benefits can be expected to be.

In conclusion, the CPUC staff appreciates the opportunity to provide the foregoing comments and trusts that the CAISO staff will accept them in the positive and collaborative spirit in which they are offered.

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