

CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

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LOCATION CONSTRAINED RESOURCE INTERCONNECTION NEAR-FINAL PROPOSAL

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COMMENTS OF THE STAFF OF THE CALIFORNIA PUBLIC UTILITIES COMMISSION

September 28, 2007

The CPUC Staff supports the overall concept and most of the components of the Location Constrained Resource Interconnection (LCRI) proposal that the CAISO Staff released on September 14, 2007. In particular, we commend CAISO staff for a very open and substantive stakeholder process, and for moving towards integrating the LCRI process into the broader transmission planning process that is being refined pursuant to FERC Order 890. Our main concern with the September 14 Near-Final draft is that the LCRI process needs to provide a strongly proactive and clear signal to generation developers (and to the buyers of their output) regarding the development of transmission that will access key resource areas – in order both to support generation development and to ease the long run burden on the staffs of the CAISO and its participating transmission owners (PTOs) in implementing the generator interconnection process.

For this reason, in our view, the LCRI process should be fully synchronized with, and rationally related to, the CAISO’s transmission planning and LGIP processes, as well as with the statewide Renewable Energy Transmission Initiative (RETI). Transmission planning for the Tehachapi Wind Resource Area is instructive. The Tehachapi Collaborative Study Group spent nearly two years in an effort to develop a transmission plan of service for the Tehachapi area. But not until the CAISO became significantly and proactively involved did a workable Plan of Service for Tehachapi emerge.

Our recommendations toward this end, set forth below, relate to three elements of the CAISO staff’s proposal: (1) information requirements for bringing a potential transmission project into the CAISO’s study process; (2) the process for subsequently evaluating proposed LCRI facility (LCRIF) proposals; and (3) the need to provide an earlier (and more proactive) signal regarding transmission to key resource areas, ahead of the ultimate approval of cost recovery and construction based on a substantial demonstration of “commercial interest,” principally through completed LGIAs.

1. Information Requirements

The proposed “project justification and technical data requirements” in Section 3.5.1 appear to require that in order to be included in the CAISO’s annual transmission study plan, a proposed project must have already been developed substantially beyond the conceptual stage. These “requirements” leave it unclear if and when the CAISO itself would take a lead or a major role in developing any of the individual proposed project plans that would be submitted for possible inclusion in the annual study plan, as opposed

to only responding to the individual proposed project plans submitted by others. We recommend that the CAISO and its staff take an active role in developing certain individual proposed project plans that would address important location-constrained resource areas.

The CAISO's active efforts in this regard could play a major role not only in facilitating and encouraging development (including financing) of renewable or other location-constrained generation, but could also ease the burdens, delays and uncertainties associated with the LGIP process. That process now contains about 80 GW of generator applications, mostly involving location-constrained renewable generation projects. Just as the CAISO sought, in its filing in FERC Docket # ER07-447-000, an exemption from its tariff to enable the clustering of generator interconnection requests (primarily from wind generators) in connection with the proposed Tehachapi Renewable Transmission Project, the facilitation of the interconnection of many of the renewable generation resources currently in the CAISO interconnection queue will necessitate a similar clustering process. We accordingly recommend that the final LCRI proposal, as well as the implementing tariff language that the CAISO will shortly be developing, should explicitly provide a blueprint for facilitating or enabling such clustering on a going forward basis.

2. Process and Criteria for Evaluating LCRI Facility (LCRIF) Proposals

The language in Section 3.5.3, "Evaluation of Proposed LCRIF Transmission Projects," describes various factors the CAISO would consider in evaluating a proposed LCRIF transmission project. The listed criteria are all meaningful and potentially important in a given situation, but in some situations certain listed criteria could be of lesser importance and other factors could be more important. We accordingly recommend that the CAISO add language to this section of the LCRI Proposal (as well as to the implementing tariff language that is ultimately developed) that allows for some flexibility in the application of these ranking criteria.

This section should also incorporate a more specific reference to the importance of supply procurement needs and objectives as important drivers of the evaluation of proposed LCRI-eligible transmission projects. This would include information on the supply procurement needs and objectives coming from external processes, such as those taking place under the aegis of the CPUC and the CEC, and from the RETI process.

Regarding the proposed comparison and ranking of different LCRIF projects, it is unclear what "meet the same requirements" or "other transmission planning considerations" may actually amount to in practice. It would, in our view, be better to state that LCRIF projects will be evaluated based on benefit/cost, as well as their effectiveness in meeting supply, reliability, policy and other objectives in ways that may or may not be reduced to benefit/cost, and that furthermore, different LCRIF proposals will be ranked against each other where such ranking is feasible and contributes to selecting proposals for approval.

3. An Earlier, More Proactive Transmission Planning Signal

Discussion of the "demonstration of commercial interest" criteria for approving an LCRIF project (for cost recovery and construction) in Section 3.7 declines to provide a

“pre-designation mechanism” under which eligibility for LCRI treatment could be established at an earlier point, before the commercial interest criteria have been met. Such a proactive signal is essential given location-constrained generation developers’ need for predictability, especially to obtain financing.

Given the size and intractability of the current interconnection queue and the conventional wisdom that there is a transmission-generation “chicken-and-egg” dilemma, the lack of such a signal could contribute to a self-perpetuating interconnection logjam, and unnecessary delay in the development of needed renewable resources and the transmission necessary to bring those resources to load. We know that the CAISO is committed to breaking such logjams. Indeed, the development of the LCRI process was specifically intended to alleviate these problems. However, as long as there is no official transmission “master plan” for an area, interconnection studies and processes will be slower, more uncertain, and more potentially contentious than they would otherwise need to be, especially in connection with such sensitive issues as cost allocation and timing of access. In this regard, we would note that the Tehachapi area, despite having developed plans of service that have already been approved by the CAISO Board, and approved (Segments 1-3) or in the process of approval (Segments 4-11) by the CPUC, is nowhere near reaching the level of “commercial interest” specified in the LCRI proposal.

Contrary to the *ad hoc* practice of the past, future transmission plan development in connection with location-constrained resource areas should serve the purpose of sending a reliable signal to generators regarding the eventual availability of needed transmission infrastructure. Moreover, such signals should be sent as soon as the development of an appropriate transmission plan outline for an identified location-constrained resource area is rationally justified. Such a justification is likely (as in the case of Tehachapi) to occur well before reaching the 35% LGIA level. However, once such a plan is developed, even if it is only a conceptual plan, it will substantially help to streamline the LGIP process. Later on, when the commercial interest threshold specified in the LCRI proposal is subsequently reached, construction and TAC roll-in can be approved.

Thus, not only does the CAISO need to play a strong role in seeing that transmission planning for important resource areas occurs in a timely manner that supports supply procurement needs and priorities, but the CAISO also needs to provide a meaningful signal of support well ahead of the attainment of the commercial interest threshold triggering construction and cost roll-in under the LCRI proposal. We understand that this effort will require some CAISO staff resources, but we believe that in the long run, it will also save CAISO staff resources by streamlining and rationalizing the LGIP process.

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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