

Stakeholder Comments Template

**Integration of Transmission Planning and Generation
Interconnection Procedures (TPP-GIP Integration)
Revised Straw Proposal, September 12, 2011**

Submitted by	Company	Date Submitted
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This template is for submission of stakeholder comments on the topics listed below, covered in the TPP-GIP Integration Straw Proposal posted on September 12, 2011, and issues discussed during the stakeholder meeting on September 19, 2011.

Please submit your comments below where indicated. Your comments on any aspect of this initiative are welcome. If you provide a preferred approach for a particular topic, your comments will be most useful if you provide the reasons and business case.

Please submit comments (in MS Word) to TPP-GIP@caiso.com no later than the close of business on September 29, 2011.

- 1. Section 4 of the paper laid out several objectives for this initiative, including four previously-identified GIP issues to be included in scope. Please indicate whether your organization believes these objectives are appropriate and complete. If your organization believes the list to be incomplete, please specify what additional objectives the ISO should include.**

CalWEA Response: The CAISO's Revised Straw Proposal partly clarified its list of "key objectives," which include the use of the "least regrets" approach for identifying policy-driven upgrades. CalWEA strongly agrees that the least regrets method must be the cornerstone for the CAISO's reform initiative, and generally agrees with the other objectives of this CAISO initiative. However, we are concerned with the CAISO's follow-through on these objectives and the lack of any objective metrics to assess whether the goals are being met. For example, CAISO's 4th objective says:

4. Limit the potential exposure of transmission ratepayers to the costs of building transmission additions and upgrades that are inefficient or under-utilized.

CAISO fails to propose any steps to test the usefulness of the network upgrades triggered by one or more interconnecting generation projects. In our comments to the CAISO's original straw proposal on TPP-GIP integration we proposed that every network upgrade that comes about through the interconnection process (and is not identified in the TPP) should be tested against a set of criteria to verify its usefulness beyond the interconnection of interconnecting those projects. We proposed that any transmission upgrade identified through the GIP Phase 2 studies that meets two out of the three following criteria should be funded by the ratepayers regardless of the trigger for such upgrade:

- **Is strictly a network upgrade:** For multi-terminal upgrades, either terminal of the upgrade are connected to at least 3 transmission substations within two branch layers from the terminal station. Single terminal upgrades are connected to at least 4 transmission substations within two branch layers from the terminal station.
- **Provides some reliability value:** The upgrade partially or fully resolves known network reliability issues or assists with compliance with the NERC/WECC/CAISO transmission planning standards – including those for which other transmission upgrades are identified and approved.
- **Provides economic value:** The transmission upgrades benefit to cost ratio, as determined using the CAISO TEAM, methodology is at least 0.5.

We believe such an approach for determining whether an upgrade should be rate-based is more consistent with FERC's new objectives in its Order 1000 to allocate the cost of transmission upgrades based to the beneficiaries of the upgrade as opposed to simply use a "but-for" test for such a purpose. It is also more consistent with FERC's long-standing policies on rolled-in pricing for grid upgrades. And most importantly, the criteria we proposed are objective, easily verifiable and not subject to manipulation. Incorporating such criteria would go a long way to making the CAISO's proposed approach defensible at FERC.

Another area where CalWEA is concerned with the inconsistency between a CAISO stated objective and the CAISO plans and practices is the following:

6. Provide greater transparency for all stakeholders regarding transmission upgrade decisions.

We have been consistently concerned about the underlying process that CAISO and PTOs use to determine the network upgrades in the interconnection studies. More specifically, we find the base cases and study criteria for both the reliability and deliverability assessments to be overly conservative and the proposed transmission

solution to be “over-designed.” Yet, our repeated requests to get a closer look at such criteria and solutions have been rebuffed by the CAISO and PTOs.

It appears to us that the methods used by CAISO and the PTOs raise significant questions. For example, we find dispatching of wind resources at their 100% nameplate rating in the PTO peak load reliability assessments to be overly conservative and inconsistent with common practices of other transmission providers. In contrast to the CAISO method, MISO dispatches interconnecting wind generators at 20% of their nameplate capacity in its peak load reliability assessment. We also have concerns when CAISO dispatches wind and solar PV generators significantly beyond their typical Qualifying Capacity (QC) for their location in its deliverability assessment.

In short, the CAISO needs to move beyond general statements of objectives and provide reasonable, objective and verifiable implementing details that are consistent with the objectives.

- 2. The revised straw proposal presents a timeline describing how the new TPP-GIP process would work. Please comment on the overall process design in terms of how well it meets the objectives of this initiative and how workable it is from a practical perspective. If you see ways it can be improved please offer concrete suggestions.**

CalWEA Response: We support the CAISO developed process timeline for the TPP-GIP integration. We are, however, concerned that maintaining this thoughtfully tuned timeline will be extremely difficult in practice even if all TPP and GIP processes run smoothly and without a major hitch. However, we do believe that the chances of disruption to the GIP process are likely to significantly increase thanks to the potential introduction of the requirement for the IC funding of network upgrades. Finally, we believe that regardless of the final decision on network upgrades IC funding, this timeline for coordination of TPP and GIP activities should be maintained.

- 3. Please comment on the following specific aspects of the design of the proposed new TPP-GIP process, and offer concrete suggestions for improvement where needed.**
 - a. The study assumptions proposed for each of the two GIP study phases.**

CalWEA Response: As we have stated in response to Question 1 above, our biggest concern is related to the underlying study process (base case, assumptions and upgrade determination) that CAISO and the PTOs use in the GIP Phase 1 and 2 study processes. We find the base cases and assumptions to be unreasonably conservative and the associated upgrades to be over-designed. In the past, our concerns were somewhat mitigated by the fact that all network upgrade costs would eventually be

refunded to the IC. If the CAISO implements a TPP-GIP reform that directly assigns network upgrade costs to interconnecting generators, we foresee significantly more litigation at FERC over GIP study results, including prudence challenges, resulting in the complete disruption of the cyclically intertwined GIP process.

b. The information available to interconnection customers at each decision point in the process.

CalWEA Response: As stated by various stakeholders before, one of the concerns that we have is that the results of interconnection studies are sprung on ICs only after the studies are complete, leaving very little chance for the IC to have any influence in the results or to “correct” the results due to the cascading impact of such corrections. The CAISO states that it has based its reform initiative on steps taken by MISO, yet as we write, MISO is instituting a two track GIP process in which one track, the SPA, is intended to perform “informational” studies for the interconnecting projects that could be used by the ICs, on the one hand, to make many useful decisions about their projects, and the MISO and its TOs, on the other, to fine tune their study assumptions and results. Only when a project is completely ready to move into the DPP is the IR application moved to definitive planning. The CAISO GIP lacks such a feature leaving no alternative for the ICs to either withdraw from one cluster cycle and re-enter into the next one, at great expense and disruption to everyone, or argue and litigate the study results that they have.

c. The “soft” nature of the GIP cost caps, whereby interconnection customers and ratepayers will have shared responsibility for upgrade costs that exceed the cost cap. Comment on both (i) the appropriateness of sharing this cost responsibility, and (ii) the ISO’s specific proposal for how the costs would be shared.

CalWEA Response: For major reasons presented below, we oppose the concept of soft-cap for IC funded network upgrades. When CAISO introduced the network upgrade cost cap in its GIP tariff, it introduced a very useful feature for renewable generation development for California as these caps bracket network upgrade financing cost exposure which is critical to project financing. In a future GIP environment where ICs have to actually fund a portion of the network upgrade, the importance of a network upgrade cost cap will rise even higher for project financing. At the same time, given the “super-conservative” nature of the GIP Phase 1 studies and the fact that as part of the GIP 2 reform, PTOs will receive a blanket “abandoned plant cost recovery” through CAISO tariff for all upgrades that exceed the cap, we do not see, both on practical and procedural grounds, why the concept of the “soft-cap” for network upgrades should be introduced.

Furthermore, we are concerned that the main reason for network upgrade cost caps becoming violated would be the development cost overruns during network upgrade

construction by the transmission developers. Given the history of such cost overruns, we believe that soft-caps will expose the ICs to unforeseen costs under circumstances when they have no control whatsoever over the cost estimates or expenditures for upgrades committed by the PTOs. The lack of any meaningful cost controls with the burden of paying for excessive upgrade costs directly assigned to ICs with fixed-price PPAs is not just and reasonable, and will ultimately prove to be disruptive to the development of renewable generation in California.

Finally, for the reasons mentioned above, if the CAISO insists on keeping the notion of the soft cap, then it should:

- Allow ICs to build IC funded network upgrades themselves, regardless of the location or nature of the network facilities; or
- Raise the ratepayers' responsibility for cost over-runs from the proposed 25% to 50% to provide cost control incentives.

4. In the revised straw proposal, the ISO identifies four options by which allocation of ratepayer funded upgrades could be allocated.

- a. Please rank the options, Option 3A, 3B, 3C, or 3F, from 1 (most appropriate) to 4 (least appropriate) your organization believes to be the most appropriate means for determining the allocation of ratepayer funded upgrades. Please explain the reasons for your preference? If there other options the ISO should consider, please describe them and explain why they could be superior to the other options.**

CalWEA Response: We believe that Option 3B, which allocates a pro rata share of the ratepayer funded network upgrades, based on load flow studies, to all IC projects in the study group, is the only equitable and practical manner to deal with this important allocation process. We believe that any other approach for sharing this network capacity, whether those that will leave the decision making in one way or another to LSEs or those that allow the entities with the deepest pocket to outmuscle otherwise viable projects, can be fraught with arbitrariness and can lead to regulatory litigation by one or more ICs who find the allocation outcome to be unfair.

Instead, we recommend that the CAISO consider establishing additional readiness milestones, in addition to Phase 1 IFS deposit, for projects to enter into Phase 2 studies. The CAISO should then allow projects that cannot meet the readiness milestones to “park” for one cycle until the next cluster cycle. Based on our “meet the readiness milestones or park” proposal, the CAISO should require a project to meet two out of the following readiness milestones before it is allowed to enter Phase II Studies:

1. Demonstrate environmental permit for the project;
2. Demonstrate final site control for the project;
3. Demonstrate proof of project financing;
4. Demonstrate proof of access right to the POI substation;
5. Demonstrate equipment purchase order;
6. Have one year of recorded local meteorological data based on local measurement;
7. Have an approved PPA; and
8. Make an additional 50% deposit above its Phase 1 IFS deposit requirement.

Projects not meeting the two readiness milestones would then be “parked” for one year and studied in the next year’s study process if they can then meet the required milestones – otherwise, they would have to leave the queue. A project that is parked would also postpone its Initial IFS posting requirement by one year and its unused study deposit will be used for its study in the next year’s cluster cycle.

We believe that this screen for allowing projects to move into Phase 2 should be applied to projects in Queue Cluster 4 (QC-4) and with some minor modification to projects in Queue Cluster 3 (QC-3) that have already made their IFS posting. In the case of projects in QC-3 that have already made their IFS posting, the IC should be allowed to elect to be subjected to this criteria. We believe that the “park” feature of this proposal will make it attractive enough so that some projects in QC-3 may accept the meet the readiness milestones, receive a refund of their IFS posting, and wait for QC-5 to re-enter the studies.

Finally, in the future, the CAISO may consider instituting readiness milestones for even entering into Phase 1 interconnection studies. However before taking such a step, the CAISO should institute some form of feasibility analysis, similar to the one used by the MISO, in order to allow generators to have a general understanding of their cost before committing to milestones.

- b. Based on stakeholder feedback during the September 19 stakeholder meeting, many parties stated the ISO would likely need to utilize more than one of the identified options. Please provide comment regarding what combination of these options will best facilitate the efficient allocation of ratepayer funded transmission capacity. Please provide as much detail as possible.**

CalWEA Response: We believe that the most equitable and practical approach for the capacity allocation is the prorated capacity allocation. The practicality of the approach will significantly rise as the process is complemented with the “meet the readiness milestones or park” approach as we proposed in response to Question 4a.

- c. If Option 3A is selected, what are appropriate milestones to determine which projects are the “first comers?” In particular, some stakeholders have suggested that only projects with signed PPA should be allowed to qualify. Please comment on the appropriateness of this criterion and any others that might be needed.**

CalWEA Response: We believe that the main goals of Option 3A can be readily accommodated using the “meet the readiness milestones or park” approach proposed above. In addition, we believe that the “meet readiness milestones or park” approach offers another significant benefit in that it prevents projects that are not ready enough from even entering into Phase 2 and as such leading to better Phase 2 study outcome to start with.

- d. If Option 3B is selected, what is the appropriate metric and methodology upon which pro rata shares should be determined?**

CalWEA Response: We believe that the prorated allocation should be made based on the size of the project.

- e. If Option 3C is selected, then how should such an auction be conducted? Specifically, the ISO seeks comments regarding whether an auction should be an open bid or closed bid and held in a single round or an iterative bidding process? Please provide as much detail as possible.**

- 1. Should the ISO conduct separate auctions for large projects and small projects? If so, how should the ISO determine how much transmission capacity should available in each auction?**

CalWEA Response: CalWEA believes that pro rata allocation of transmission capacity is more equitable to other approaches presented by the CAISO.

- f. If Option 3F is selected, how shall transmission capacity be allocated to the LSEs? In particular, is the existing methodology for allocating import capacity to LSEs for RA (tariff section 40.4.6.2) applicable in the present context? If not, how should it be adapted?**

CalWEA Response: CalWEA believes that pro rata allocation of transmission capacity is more equitable to other approaches presented by the CAISO.

- g. All of the options provided could create opportunities to buy/sell allocations of capacity created by ratepayer funded projects. Is there a need for the ISO to set up rules to prohibit or manage such sales?**

CalWEA Response: We do not see a reason to prohibit “secondary markets” for allocated transmission capacity. We especially believe that using the use of “meet readiness milestones or park” approach will reduce the chances of such a “secondary market” to take place for speculation purposes.

- 5. In cases where an IC pays for a network upgrade and later ICs benefit from these network upgrades, the ISO has proposed two options, Options 3E and 3G to resolve the “first mover-late comer” problem.**

- a. Does the ISO need to select one of these options or should both be implemented? If both, please explain or give an example of how the two could work together.**

CalWEA Response: We very strongly believe that Option 3G which is completely consistent with the FERC philosophy on transmission cost allocation that reflects the benefits of such upgrades as well as with the CAISO’s FERC approved LCRIF tariff, should be the approach adopted by the CAISO.

- b. If only one option is to be chosen, which option does your organization favor and why?**

CalWEA Response: We propose the adoption of Alternative 3G not only because of its fairness and consistency with precedent, but also for its unique ability to promote the development of viable project who after complying with the “meet the readiness milestones or park” have moved into Phase 2 studies as some of such viable projects can sink due to the allocation of the entire cost of lumpy transmission upgrades.

- c. In option 3G, should the “late comer” be responsible for paying back ratepayers for the portion of the network upgrades already covered by ratepayers or simply take over paying for the portion of the network upgrades covered by ratepayers moving forward?**

CalWEA Response: We do think that late-comer generation projects should not necessarily be required to pay back ratepayers for the portion of the network upgrades already covered by ratepayers as the ratepayers will be the beneficiary of such residual network upgrades in one form or another. However, we believe that the main goal should be to adopt the main feature of the proposed option 3G – which is to allocate the IC-funded network upgrade cost to a project based on its utilization of that upgrade.

6. In order to transition from the current framework to the new framework, the ISO proposes that the entire existing queue including Clusters 3 and 4 proceed under the original structure, and that Cluster 5 would proceed using the new rules.
- a. Does your organization support this transition approach? If not, please indicate how it should be modified and provide the justification for your proposal.

CalWEA Response: For numerous reasons and above all the fact that all projects in QC-3 and QC-4 have made very costly economic decision based on network cost allocation approach within the existing GIP tariff, we completely agree with the CAISO that any new rules for network cost allocation should only apply to QC-5 and beyond.

- b. Given the potential size of clusters 3 and 4, if these clusters proceed under the existing rules is there a need to create new rules that would strengthen the incentives for less viable projects to drop out of the queue rather than proceed into the GIP phase 2 study process? If so, please offer concrete suggestions and explain why your suggestions would be effective and reasonable.

CalWEA Response: We proposed the “meet the readiness milestones or park” in sufficient details for these discussions as part of our answer to Question 4a above. We stand ready to work with the CAISO on the further details of this proposal as part of this stakeholder process.

7. Some stakeholders expressed interest in determining only the reliability upgrades and costs in the GIP studies and to consider the need for delivery upgrades in the TPP. The ISO seeks comment regarding the feasibility/desirability of separating the assessment of reliability and delivery upgrades in this manner. In particular, how would this approach improve the process of identifying delivery upgrades that ICs would be required to pay for?

CalWEA Response: We see the logic of any such a proposal and would support it. However, we are concerned that the logical CAISO process timeline for the TPP-GIP integration as proposed in the CAISO revised straw proposal may not lend itself to such an approach simply due to timing of various processes.

8. Stakeholders have expressed concerns about the appropriate time to restudy the needs for and costs of network upgrades when projects drop out of the queue. Therefore the ISO seeks concrete suggestions for when and how restudies should be conducted.

CalWEA Response: We do not have a proposal for this potential outcome. However, we believe that the adoption of the CalWEA's "meet the readiness milestones or park" proposal can significantly reduce the probability of this situation from coming about in the first place.

9. Please offer any other comments on the revised straw proposal, including any suggestions for improvement of the proposal or other issues your organization believes the ISO must address in this initiative.

CalWEA Response: As we stated in our comments on the original straw proposal, the direct assignment of network facilities costs to ICs conflicts with long-standing FERC practice, and is unlikely to be approved by simply invoking FERC's "independent entity" standard of review. The CAISO will have the burden to demonstrate that its reforms do not lead to undue discrimination against customers or classes of customers, and do not otherwise lead to unjust and unreasonable results. The CAISO will need to document how its reform plan will control costs paid by consumers, achieve fair results for interconnecting generators, and not introduce opportunities for PTOs to impose excessive costs on captive generation developers. Our suggested revisions to the CAISO's plan as discussed above are intended to help the CAISO achieve these goals while accomplishing a genuinely beneficial reform to the generation interconnection and transmission planning process.