

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

**California Independent System) Docket No. ER12-1855-000
Operator Corporation)**

**ANSWER TO MOTIONS TO INTERVENE AND COMMENTS,
MOTION TO FILE ANSWER, AND ANSWER TO PROTESTS, OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

The California Independent System Operator Corporation¹ files this answer to the motions to intervene and comments submitted in this proceeding in response to the ISO's submittal on May 25, 2012 of a tariff amendment to integrate its transmission planning and generator interconnection procedures (TPP-GIP tariff amendment).²

¹ Capitalized terms not otherwise defined herein have the meanings set forth in Appendix A to the ISO tariff, as revised by the proposed tariff changes contained in the ISO's May 25, 2012 TPP-GIP tariff amendment in this proceeding. Except where otherwise specified, references to section numbers are references to sections of the ISO tariff as revised by the proposals in the TPP-GIP tariff amendment.

² The following entities filed motions to intervene and/or comments in this proceeding: the American Wind Energy Association and California Wind Energy Association (together, AWEA/CalWEA); California Department of Water Resources State Water Project; California Municipal Utilities Association (CMUA); Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (collectively, Six Cities); City and County of San Francisco; City of Santa Clara, California, City of Palo Alto, California, and City of Alameda, California; Cogeneration Association of California and the Energy Producers and Users Coalition; Iberdrola Renewables, LLC; Imperial Irrigation District; Independent Energy Producers Association; K Road Power Holdings LLC and K Road Calico Solar LLC (collectively, K Road); Large-Scale Solar Association (LSA); MidAmerican Transmission, LLC; Modesto Irrigation District; M-S-R Public Power Agency; Northern California Power Agency (NCPA); NRG Power Marketing LLC, Avenal Solar Holdings LLC, Cabrillo Power I LLC, Cabrillo Power II LLC, El Segundo Power LLC, Long Beach Generation LLC, NRG Solar Blythe LLC, and NRG Solar Roadrunner LLC; Pacific Gas and Electric Company; Pathfinder Renewable Wind Energy, LLC and Zephyr Power Transmission, LLC (together, Pathfinder/Zephyr); Pattern Renewables LP; San Diego Gas & Electric Company; Solar Energy Industries Association; Southern California Edison Company; Trans Bay Cable LLC; and Wellhead Electric Company, Inc. (Wellhead). The California Public Utilities Commission (CPUC) filed a notice of intervention.

The ISO also submits a motion to file an answer and its answer to the protests submitted in this proceeding by AWEA/CalWEA, LSA, and Pathfinder/Zephyr.

For the reasons the ISO explains below, the Commission should accept the TPP-GIP tariff amendment as filed.

I. Answer

The TPP-GIP tariff amendment, in conjunction with the ISO's 2010 revisions to its transmission planning process, provides an effective response to the problem of developing transmission infrastructure efficiently and in a timely manner within a context of uncertainty about the eventual geographic pattern of future generation development. The ISO recognizes that the need to make costly transmission infrastructure commitments in this climate of uncertainty creates risks for all participants, including transmission ratepayers, load-serving entities (LSEs), participating transmission owners, and generation project developers.

Without reiterating the discussion in the ISO's May 25 filing, it is important in response to the comments and protests to re-emphasize a central and crucial point which seems to be a key source of expressed concerns with the TPP-GIP tariff amendment: while changes to the ISO's generator interconnection and transmission planning processes can help to mitigate and equitably allocate these risks, such changes cannot fully eliminate risks that are inherent in the current competitive generation development climate. The risks derive primarily from the facts that (1) the interconnection queue contains a far greater volume of

proposed generation projects than load-serving entities will need for their load-serving and renewable portfolio requirements, and (2) until now, costly transmission projects could be approved by the ISO in either of two quite different and relatively separate processes (*i.e.*, GIP and TPP), each having different prognoses for the ultimate permitting and construction of the approved transmission.

Within this context, the TPP-GIP tariff amendment provides a rational, practical, and transparent process to enable generation developers and load-serving entities to make informed business decisions, while balancing the goals of promoting viable generation projects necessary to achieve California's Renewables Portfolio Standard (RPS) mandate, providing ratepayers with protection against excessive transmission upgrade costs, and continuing to ensure that all generation projects have fair and open access to interconnect with the ISO controlled grid.

A. The Evidence Shows that the Tariff Revisions in the TPP-GIP Tariff Amendment Are Needed to Address Significant Overcrowding of the ISO's Interconnection Queue

AWEA/CalWEA argues that the ISO has not provided sufficient evidence to show that approximately 75 percent of projects in the queue are not expected to be completed.³

Contrary to the claims of AWEA/CalWEA, there is ample evidence to support the 75 percent figure. Development of new generation to meet the RPS mandate has resulted in a volume of interconnection requests in the ISO's queue

³ AWEA/CalWEA at 10 (citing transmittal letter for TPP-GIP tariff amendment at 6-7).

that is approximately four times the amount of new generation needed.⁴ In other words, about three out of four (*i.e.*, 75 percent of the MW volume) of the projects in the queue will not be required by load-serving entities to meet their mandates and therefore will likely not be completed.

This percentage figure is supported by a recent quarterly report from the CPUC to the California legislature on RPS procurement. In the report, the CPUC explained that the California investor-owned utilities' RPS solicitation for 2011 drew "a very large market response," including the following: "Total generation from unique bids was greater than 250,000 gigawatt hours (GWh), or 4.5 times the demand needed to meet the 33% RPS in 2020, which is forecast to be about 61,000 GWh."⁵ Representatives from CPUC staff presented similar information in the ISO's TPP-GIP stakeholder process.⁶ It is appropriate for the ISO to rely on this information provided by the CPUC and other state agencies regarding progress towards meeting the RPS goals.

In any event, the effectiveness and appropriateness of the TPP-GIP tariff amendment does not hinge on the strict accuracy of the 75 percent figure. The underlying and undisputed contextual fact is that the queue volume is enough in excess of the demand for new generation projects to create a highly competitive

⁴ Transmittal letter for TPP-GIP tariff amendment at 2.

⁵ *CPUC Renewables Portfolio Standard Quarterly Report*, at 7 (4th Quarter 2011). This quarterly report is available on the CPUC's website at <http://www.cpuc.ca.gov/NR/rdonlyres/3B3FE98B-D833-428A-B606-47C9B64B7A89/0/Q4RPSReporttotheLegislatureFINAL3.pdf>.

⁶ See *RPS Procurement Process* (presentation by CPUC staff dated Nov. 28, 2011), available on the ISO's website at http://www.caiso.com/Documents/CPUC_Presentation_RPS_Procurement_Dec012011.pdf.

market for suppliers of renewable energy, which in turn creates risks for generation developers and uncertainties for infrastructure planning, to which the ISO's proposal is addressed.

B. The Two-Step Process in the TPP-GIP Tariff Amendment for Allocating TP Deliverability Is Just and Reasonable

The TPP-GIP tariff amendment sets forth the following two-step process for allocating TP Deliverability: (1) the ISO will identify prior commitments that will utilize MW quantities of TP Deliverability, including but not limited to pre-cluster 5 generating facilities that have executed PPAs with LSEs; and (2) if the ISO determines that any TP Deliverability remains available for allocating after taking into account those prior commitments, the ISO will allocate the remaining TP Deliverability to (i) generating facilities in the current interconnection study cycle who demonstrate that they meet specified eligibility criteria, such as being short-listed in LSE procurement processes or having executed PPAs with LSEs, and to (ii) eligible "parked" interconnection requests from the previous interconnection study cycle.⁷ AWEA/CalWEA and K Road argue that this two-step process is not just and reasonable. For the reasons discussed below, the arguments of AWEA/CalWEA and K Road are without merit.

1. The ISO's Use of the Executed PPA Criteria Under the Two-Step Process Is Appropriate

AWEA/CalWEA and K Road argue that the proposed two-step process relies to an inappropriate extent on criteria regarding executed power purchase

⁷ GIDAP Section 8.9; transmittal letter for TPP-GIP tariff amendment at 32-35.

agreements (PPAs).⁸ In fact, however, the ISO does not rely solely or disproportionately on the use of executed PPAs anywhere in the TP Deliverability process under the proposed Generator Interconnection and Deliverability Allocation Procedures (GIDAP). Information on PPAs, as well as other information regarding project viability, is required under three circumstances pursuant to the GIDAP provisions:

(1) in evaluating prior commitments of full capacity or partial capacity deliverability status to interconnection requests prior to cluster 5 that would reduce existing transmission network capacity available to allocate to the current queue cluster (Section 8.9.1);

(2) as a means by which generation customers in cluster 5 and beyond will provide evidence of financial viability (Section 8.9.2); and

(3) as continuing evidence of financial viability that must be provided along with other information by generation projects previously allocated TP Deliverability (Section 8.9.3).

Under each of these sections of the GIDAP, the ISO examines criteria in addition to information about PPAs. For example, GIDAP Section 8.9.2 requires interconnection customers seeking TP Deliverability to provide information as to (1) permitting status, (2) financing status, and (3) land acquisition, with certain minimum criteria that they must meet in order to be eligible for allocation of TP Deliverability. Having a PPA is an element only of item (2), financing status, and not the exclusive method to demonstrate financial viability, as a customer can

⁸ AWEA/CalWEA at 6-16, 20; K Road at 6-13.

demonstrate financial wherewithal independent of a PPA. Thus, executed PPAs are merely one element of the ISO's determinations under the two-step process.

To the extent the ISO does use executed PPAs in the two-step process for allocating TP Deliverability, that use of PPAs is appropriate because an approved or pending PPA is a reliable indicator of the viability of a generating facility project. As the Commission explained with regard to an earlier ISO tariff amendment to revise its interconnection process:

We find that the existence of an approved or pending PPA with a load-serving entity is a reasonable criterion for a project's inclusion in the serial study group. The existence of such a PPA demonstrates that the project has been identified by a load-serving entity as needed to meet demand, reliability or renewable portfolio standard requirements and that it may be in a favorable position to secure financing.

We disagree with protestors who claim that higher-queued projects are being unjustly disadvantaged by the inclusion of a criterion that takes into account the existence of a PPA. . . . We believe this PPA criterion demonstrates a proposed project has reached a significant developmental milestone and the criterion is a reasonable means to identify those projects that are likely to be among the projects first-ready to come on line.⁹

These benefits of an approved or pending PPA also apply to the two-step process for allocating TP Deliverability. A generating facility with an approved or pending PPA thereby demonstrates that its project has been identified by an LSE as needed to meet demand, reliability, or RPS requirements, and that it may be in a favorable position to secure financing. Further, higher-queued projects are not unjustly disadvantaged by the use of criteria related to PPAs. To the contrary, the existence of an

⁹ *California Independent System Operator Corp.*, 124 FERC ¶ 61,031, at PP 50-51 (2008).

approved or pending PPA is a significant developmental milestone and provides a reasonable means to identify those projects that are likely to be on-line soonest. These are relevant factors in determining how TP Deliverability should be allocated.

AWEA and CalWEA have themselves acknowledged the importance of using executed PPAs to determine project viability. In the Commission rulemaking proceeding on preventing undue discrimination and preference in transmission services, AWEA submitted comments that explained that “[t]ransmission providers are frequently jammed with many projects holding each other up. Often there are ‘zombie’ projects blocking the queue, without a Power Purchase Agreement or other indication that they are serious projects.”¹⁰ Moreover, CalWEA, in the stakeholder process for the ISO proceeding regarding the Generator Interconnection Procedures Phase 2 proposal, stated that it “has proposed that project milestones – e.g., PPA execution – be required for Phase II Study entry and for GIA [Generator Interconnection Agreement] execution.”¹¹ AWEA/CalWEA also includes execution of a PPA in its proposed alternative menu of criteria for allocating TP Deliverability.¹² Thus, AWEA/CalWEA recognizes the importance of using an executed PPA as an indicator of a serious transmission or interconnection project.

¹⁰ AWEA comments, Docket No. RM05-25-000, at Section 4.3 (Nov. 22, 2005).

¹¹ CalWEA stakeholder comments on ISO’s Generator Interconnection Procedures Phase 2 proposal, at 10 (July 14, 2011), available on the ISO’s website at <http://www.caiso.com/Documents/CalWEAComments-GeneratorInterconnectionProceduresPhase2-RevisedDraftFinalProposal.pdf>.

¹² AWEA/CalWEA at 20-21. AWEA/CalWEA’s proposed alternative to the ISO’s menu of criteria is addressed in Section I.E, below.

2. The Two-Step Process Does Not Unduly Discriminate Against Pre-Cluster 5 Projects Without Executed PPAs

AWEA/CalWEA and K Road argue that the proposed two-step process for allocating TP Deliverability unduly discriminates against pre-cluster 5 projects without executed PPAs.¹³ In addition, Wellhead argues that the GIDAP should clarify that it is not diminishing any rights of pre-cluster 5 projects.¹⁴ These parties appear to be confused about the nature of the assessment under GIDAP Section 8.9.1 of transmission capacity commitments for pre-cluster 5 projects.

GIDAP Section 8.9.1 only provides a means by which the ISO will evaluate the amount of network capacity available for allocation to customers in cluster 5 and beyond pursuant to GIDAP Section 8.9.2. GIDAP Section 8.9.1 does not in any way affect the contractual obligation of the ISO to provide delivery network upgrades identified in pre-cluster 5 GIAs.

Under GIDAP Section 8.9.1, the ISO does not allocate transmission capacity (or TP Deliverability) to any specific pre-cluster 5 projects. The ISO uses information regarding executed PPAs only to estimate, as accurately as possible, how much TP Deliverability in each grid study area should be set aside as unavailable for projects in cluster 5 and subsequent clusters. In so doing, the ISO does not earmark the set-aside transmission capacity for any specific pre-cluster 5 generating facilities. Whichever projects in the pre-cluster 5 queue progress in accordance with their GIAs to achieve commercial operation – regardless of whether they also show that they have executed PPAs pursuant to

¹³ AWEA/CalWEA at 15-19; K Road at 4, 9-10.

¹⁴ Wellhead at 11-12.

GIDAP Section 8.9.1 – will receive their requested deliverability status as provided under the current GIP once all their required network upgrades are in service.

This scope and purpose of GIDAP Section 8.9.1 belie AWEA/CalWEA’s argument that “[t]he ISO has included a make-whole provision for pre-cluster 5 projects erroneously deemed likely to fail due to the lack of PPAs . . . while not doing the same for successful projects in cluster 5 and beyond.”¹⁵

AWEA/CalWEA seems to be referring to the fact that pre-cluster 5 interconnection requests will continue to be processed in accordance with the existing GIP provisions rather than under the GIDAP, and therefore the ISO is required to approve the network upgrades required for their requested deliverability status as long the customers remain in good standing under the GIP. Thus, it is simply not correct to say that the ISO has included a make-whole provision for pre-cluster 5 projects in the TPP-GIP tariff amendment. As the ISO has repeatedly explained, the GIDAP does not affect the status of pre-cluster 5 projects with executed GIAs, regardless of whether they have PPAs, if these projects progress towards their GIA milestones and achieve commercial operation. Such customers have commitments in their GIAs that the necessary upgrades needed to provide deliverability will be constructed according to schedules in the agreement. In contrast, the GIDAP does create a different interconnection paradigm for projects in cluster 5 and beyond, in particular by not providing ratepayer funding for delivery network upgrades for all interconnection

¹⁵ AWEA/CALWEA at 16.

requests seeking deliverability status. Generation projects willing to fund the necessary network upgrades and receive congestion revenue rights (CRRs) as compensation for these upgrades must meet certain financial viability criteria but may proceed to interconnection and commercial operation without an allocation of TP Deliverability and without a PPA.

AWEA/CalWEA make a similarly erroneous “make-whole” argument in referring to projects that are “required” to proceed without ratepayer-funded delivery network upgrades and may “beat the odds and refuse to fail,” which AWEA/CalWEA contrasts with projects that are allocated TP Deliverability but might not succeed anyway.¹⁶ There are no “make-whole” provisions under the GIDAP for either Option (A) or Option (B) customers. Rather, the GIDAP specifies predictable decision points and provides information for interconnection customers to make business decisions that reflect their project development models, and requires them to demonstrate their project status in terms of a number of well-defined indicators that are needed for the modeling and allocation decisions the ISO must make under the GIDAP. These decision points for both project developers and the ISO are critical to the effectiveness of the TPP-GIP tariff amendment in achieving its goals.

Starting with cluster 5, if a customer allocated TP Deliverability in one interconnection study cycle does not meet the retention requirements of GIDAP Section 8.9.3, that TP Deliverability may be allocated to other eligible Option (A) or Option (B) projects in the next queue cluster and in the next allocation

¹⁶ *Id.* at 15-16.

process.¹⁷ Option (B) projects that make the decision to move forward without an initial allocation of ratepayer-funded deliverability do so with the full understanding that they are not eligible for subsequent ratepayer funding regardless of their progress towards commercial operation.

This process is fair and non-discriminatory because all generators in the queue will be provided open access to the grid and with a fair opportunity to seek deliverability status through ratepayer-funded network upgrades; the only difference between generators is whether an interconnection customer will be allocated ratepayer-funded transmission capacity approved in the TPP or must pay for upgrades needed beyond those approved in the TPP and receive CRRs in return. This difference is the means by which the TPP-GIP tariff amendment mitigates the risk that ratepayers will have to fund excessive network upgrades, and is not unduly discriminatory.

AWEA/CalWEA and K Road express concern about potential reductions of the Net Qualifying Capacity (NQC) of pre-cluster 5 projects in some TP Deliverability allocation scenarios.¹⁸ The ISO notes that any such reductions, if needed, would be consistent with existing provisions in Section 40.4.6.1 of the ISO tariff that make generating facilities subject to a potential reduction of NQC in situations where conditions on the grid cause deliverability to be constrained.¹⁹

¹⁷ Projects that are “parked” would also be eligible for this allocation of TP Deliverability.

¹⁸ AWEA/CalWEA at 16; K Road at 7.

¹⁹ Exh. No. ISO-2 to TPP-GIP tariff amendment (Testimony of Deborah A. Le Vine) at 10-11. These provisions have existed in the ISO tariff since at least 2006. See http://www.caiso.com/Documents/Sections12-42-August18_2006ConformedTariff.pdf, at Original Sheet No. 463G.01.

Thus, the potential for reductions to the annual NQC values of generating facilities has long been an element of the ISO tariff and is not being introduced as part of the TPP-GIP tariff amendment.²⁰ Thus, AWEA/CalWEA is incorrect in asserting that the ISO is “retroactively” applying new rules to pre-cluster 5 projects.²¹

Moreover, pursuant to the design of the two-step process for allocating TP Deliverability under the GIDAP, any reductions to annual NQC that may be needed as a result of transmission constraints limiting deliverability of generating facilities would be short-lived, temporary impacts while construction of needed network upgrades was being completed. The potential for such NQC reductions underscores two key points regarding the GIDAP design. First, the design balances the need of generation projects to obtain their requested deliverability status in a timely manner with the potential cost impacts on ratepayers of overbuilding the transmission system. Clearly, if the system is sufficiently overbuilt there would never be a need for NQC reductions, but this would hardly be an improvement over the current planning and interconnection processes. Second, it highlights the importance of the ISO estimating as accurately as possible the amount of TP Deliverability the ISO should set aside for prior

²⁰ This same language in Section 40.4.6.1 also supports potential reductions of NQC for affected pre-cluster 5 projects pursuant to a technical bulletin issued by the ISO on June 8, 2012, following input provided by stakeholders. The technical bulletin clarifies the ISO’s Phase II study assumptions for current queue clusters 1 through 4, and the deliverability methodology to be used for NQC purposes, consistent with the existing provisions of Section 40.4.6.1. See pages 15-16 of the June 8 technical bulletin, which is available on the ISO website at http://www.caiso.com/Documents/RevisedTechnicalBulletin-DeliverabilityRequirements-QueueClusters1-4_Determination-NetQualifyingCapacity.pdf.

²¹ AWEA/CalWEA at 18.

deliverability commitments in each area of the grid in step one of the allocation process, which in turn depends on accurate project status information that interconnection customers are required to provide annually to the ISO.

AWEA/CalWEA also asserts that the TPP-GIP tariff amendment does not guard against unduly discriminatory behavior by Participating TOs in the PPA contracting process.²² However, the tariff amendment does not change the role that Participating TOs currently play in the process for negotiating PPAs – a role over which the ISO has no influence. The CPUC and other local regulatory authorities administer the LSE procurement process under which their jurisdictional LSEs negotiate PPAs. Further, as the ISO understands the CPUC process, jurisdictional LSEs do not have complete discretion to select resources, but must hold requests for offers and then confidentially scrutinize these offers with a review group consisting of consumer advocates and other CPUC stakeholders. The CPUC ultimately will review the proposed PPAs, assess the viability of the generation projects, and determine whether to approve the PPAs after additional scrutiny and possible evidentiary hearings. Thus, any concerns that AWEA/CalWEA may have about the role of Participating TOs or LSEs in the procurement process should be taken up with the CPUC in those proceedings.

C. It Is Appropriate to Apply the Provisions of the TPP-GIP Tariff Amendment Solely to Cluster 5 and Subsequent Clusters

In contrast with parties who argue that pre-cluster 5 projects are adversely impacted by the revisions in the TPP-GIP tariff amendment, NCPA argues that certain elements of the tariff revisions should be made applicable to pre-cluster 5

²² *Id.* at 13-14.

projects.²³ As discussed in the tariff amendment, however, the ISO believes it is appropriate to apply the tariff revisions only to cluster 5 and subsequent clusters.²⁴ In the ISO's view, applying the tariff revisions to pre-cluster 5 projects could be construed as retroactive ratemaking.

However, the ISO agrees with NCPA that only necessary facilities should be built and that, if projects cannot demonstrate that they are viable based on an executed PPA and a GIA in good standing, then the ISO will not "reserve" TP Deliverability for such projects pursuant to GIDAP Section 8.9.1.²⁵ By applying the GIDAP criteria in "reserving" TP Deliverability for pre-cluster 5 projects, the ISO believe it has addressed the concerns raised by NCPA.

D. The Proposed Repayment Methodology for RNUs Under the GIDAP Is Just and Reasonable

AWEA/ CalWEA argues that the \$60,000 per MW cash reimbursement limit for reliability network upgrades (RNUs) proposed in the TPP-GIP tariff amendment is unjust and unreasonable.²⁶ LSA also argues that the cash amount is too low.²⁷ In this regard, LSA goes so far as to say that "CRRs for

²³ NCPA at 6-10.

²⁴ Transmittal letter for TPP-GIP tariff amendment at 50-52.

²⁵ See the discussion in Section I.B, above.

²⁶ AWEA/CalWEA at 23-24.

²⁷ LSA at 17-19. Curiously, LSA also cites to Commission authority that undercuts rather than supports its position: *Southwest Power Pool, Inc.*, 122 FERC ¶ 61,060, *order on reh'g*, 124 FERC ¶ 61,014, at PP 13-14 (2008). At Paragraph 13 of the order on rehearing cited by LSA, the Commission noted that "SPP's proposed direct assignment approach would have abandoned the Order No. 2003 crediting approach *but would not have provided an Interconnection Customer with any corresponding transmission rights* for its Network Upgrade investment, contrary to the Commission's policy on 'independent entity variations'" (emphasis added). LSA apparently asks the Commission to accept the position that CRRs amount to no reimbursement because LSA would prefer to have cash.

RNUs clearly have no use and, therefore, no value. Therefore, there is virtually no possibility of any valuable compensation to the interconnection customer from a CRR.²⁸ These parties make their protests from the perspective that currently, under the GIP, an interconnection customer receives 100 percent cash reimbursement for all needed reliability (and deliverability) network upgrade facilities.

With the GIDAP, the ISO seeks to balance ratepayer versus developer cost exposure. Customers that interconnect under the GIDAP in areas where transmission is being developed are getting huge benefits in not having to post for area delivery network upgrades (ADNUs), getting full cash reimbursement for their local delivery network upgrades (LDNUs), and getting cash reimbursement for a substantial portion of their reliability network upgrades. Nonetheless, AWEA/CalWEA and LSA take issue with the developer's possible, but not likely, exposure for a portion of reliability network upgrades above the \$60,000 per MW cash limitation and reimbursement for that extra portion in the form of CRRs.²⁹ However, just as AWEA/CalWEA and LSA want ratepayers to provide full cash reimbursement for all network upgrades, other parties will want customers to absorb a greater share of their upgrade costs by reducing the cash component

²⁸ LSA at 19.

²⁹ LSA makes the curious argument that while the ISO's position with respect to reimbursement "makes sense" with respect to ADNUs, reliability network upgrades are "generally far less expensive" and require specific information about generator interconnection points. *Id.* at 16. If reliability network upgrades are generally far less expensive, and the GIDAP proposal provides for full cash reimbursement for 71 percent of the projects, there would seem to be little potential risk to project developers in adopting the proposed cap.

for increased use of CRRs. Once again, the ISO proposal strikes a reasonable balance.

LSA incorrectly assumes that CRRs do not provide valuable compensation for reliability network upgrades, asserting that, because the source and sink locations are the same, any possibility of congestion for which the generator would be paid is eliminated.³⁰ LSA's comments are off-base; the ISO's merchant CRR methodology allows the merchant flexibility to pick source and sink locations. Further, as the ISO noted repeatedly throughout the TPP-GIP tariff amendment, providing full CRR reimbursement for reliability network upgrades would be consistent with Order No. 2003, yet the ISO has agreed to provide cash reimbursement for a substantial portion of these costs.³¹

LSA challenges the ISO's statement that the \$60,000 per MW cash reimbursement will fully compensate about 70 percent of total reliability network upgrade costs, claiming that this calculation lacks adequate evidentiary support and provides no basis by which parties may verify these results.³² At pages 14-15 of its protest, LSA provides its own simplistic calculation of typical reliability network upgrades costs, claiming that such costs will, in reality, greatly exceed the cap.

LSA's calculations, while perhaps mathematically accurate, have no basis in historical reality and overstate the actual per MW cost by ignoring the total

³⁰ *Id.* at 18.

³¹ See, e.g., transmittal letter for TPP-GIP tariff amendment at 46-48.

³² LSA at 19-20.

capacity of the reliability network upgrades and the extent to which multiple generators will use the same upgrades. In contrast, the ISO's proposed cap calculation includes this historical context, as it is based on Phase II cost estimates from the transition cluster and queue clusters 1-2.³³ In this regard, the table below shows typical cost ranges for new switchyards and substations identified in those generation interconnection studies.

	Capacity (MWs)	Total Cost (Low) (\$1,000s)	Generator Costs per \$1000/MW (Cost/capacity)	Total Cost (High) (\$1,000s)	Generator Costs per \$1000/MW (Cost/capacity)
500 kV switchyard	3,000	60,000	20	70,000	23
230 kV switchyard	1,000	20,000	20	30,000	30
115 kV switchyard	500	10,000	20		
500 kV substation (RNU portion)*	4,400	150,000	34	200,000	45

* Typically, four 500/230 kV transformer banks are installed in a fully utilized 500 kV substation, but only the first bank would be a reliability network upgrade.

As illustrated in the table, where the capacity of the switchyard or substation is fully or even only partially utilized by the generating facilities that trigger the need for it, the generators' costs fall below the cap.³⁴

³³ Transmittal letter for TPP-GIP tariff amendment at 49-50; Exh. No. ISO-1 (Testimony of Songzhe Zhu) at 3-4.

³⁴ Total costs to each project will depend upon the voltage level and configuration of its interconnection. A generator connecting at 500 kV will be responsible for the 500 kV switchyard connection, whereas a generator interconnecting at a lower voltage will be subject to an additional switchyard cost and the cost of a transformer. As long as the switchyard is utilized at approximately one-third to one-half of its capacity, the per-MW costs to the interconnection customers will remain below the cap.

LSA argues that the \$60,000 per MW cap provides opportunities for discrimination because per-unit costs vary by each Participating TO and that the ISO provides no oversight to reject or adjust these cost estimates.³⁵ However, even accounting for these unit cost differences, the proposed cap provides full cash reimbursement for typical interconnection configurations. Further, LSA seems to concede that consideration of per-unit costs is not within the scope of this proceeding by noting that, in the GIP Phase 2 proceeding, the ISO initially proposed but later decided not to pursue a process that would examine per-unit costs.³⁶ Accordingly, LSA's per-unit cost arguments are beyond the scope of this tariff amendment and should not be further considered.

The ISO also notes that Commission has held that Order No. 2003 "does not protect the interconnection customer by requiring its input in the formulation of the security amounts [based on cost estimates]."³⁷ Rather, "the purchase of security is meant to protect the transmission provider or owner, which has greater incentive to ensure that the security purchased is meaningful."³⁸ Thus, LSA's claims- that the Participating TOs will have incentives to overestimate the costs of reliability network upgrades- are not consistent with Order No. 2003 and do not support LSA's argument that the GIDAP structure is unjust and unreasonable.

³⁵ LSA at 9-12.

³⁶ *Id.* at 11 & n.28.

³⁷ *California Independent System Operator Corp.*, 126 FERC ¶ 61,078, at P 23 (2009).

³⁸ *Id.* (citation omitted).

As a final matter, LSA's protest criticizes the ISO for failing to develop a "first-mover, late-comer" reimbursement mechanism by which developers who fund ADNU and LDNU (Option (B) customers) and developers who pay for a portion of their reliability network upgrades over the cap could recover costs from later customers using these facilities.³⁹ With respect to ADNUS/LDNUs, LSA fails to refute the explanation in the TPP-GIP tariff amendment that the ISO found that "first-mover, late-comer" reimbursement was not possible to implement for delivery network upgrades along with the TP Deliverability process because, once the upgrades were constructed, extra capacity would be allocated to later-queued customers who would not be required to pay for them.⁴⁰

For reliability network upgrades, the ISO noted that it would be very difficult to track the flow impacts on the incremental amount of upgrades that were paid for by customers whose costs exceeded the \$60,000 per MW cap.⁴¹ LSA disagrees with that ISO statement, asserting that it believes the ISO "could engage in a fairly simple accounting exercise" as a routine part of the GIDAP, without offering any potential methodology for doing this or providing any basis for the conclusion that this would be a simple process.⁴² The ISO continues to maintain that this extra administrative burden is not warranted in light of the small amount of reliability network upgrades that will be customer-funded.

³⁹ LSA at 19-23.

⁴⁰ Transmittal letter for TPP-GIP tariff amendment at 59-60.

⁴¹ *Id.* at 60.

⁴² LSA at 21-22.

E. The TPP-GIP Tariff Amendment Is Just and Reasonable, and Therefore It Is Immaterial Whether Parties' Alternative Proposals Are Also Just and Reasonable

Several parties propose alternatives to provisions in the TPP-GIP tariff amendment. AWEA/CalWEA argues that the Commission should find that its proposed menu of criteria for determining allocations of TP Deliverability is superior to the ISO's menu of criteria for that purpose.⁴³ Six Cities propose different criteria than the ISO for retention of a TP Deliverability allowance.⁴⁴ Wellhead proposes alternatives to the TPP-GIP tariff revisions that include what it calls a "what fits" report.⁴⁵

Despite the claims of these parties that their proposals – not the ISO's – are superior, the proper legal standard is whether the ISO's proposal is just and reasonable under Section 205 of the Federal Power Act ("FPA").⁴⁶ Specifically,

⁴³ AWEA/CalWEA at 20-23.

⁴⁴ Six Cities at 4-6. The Six Cities propose retention criteria based on showing measurable progress towards commercial operation. Although that proposal is intriguing, the ISO also recognizes that the challenge for California is that the siting and construction of transmission takes considerably longer than the siting and construction of generation, *i.e.*, typically 7-10 years for transmission and 2-5 years for generation. Thus, the ISO does not believe it would be practical, as the Six Cities propose, to wait for completion of at least 30 percent of the new project capacity in an area prior to expansion through the TPP process. While the ISO acknowledges that there should not be construction of more transmission capacity than is needed, there also needs to be a balance between assessing the viability of projects and the construction timeline.

⁴⁵ Wellhead at 6-8. Wellhead states that the "what fits" report would provide information in Phase I as to the amount of transmission system capability available without network upgrades and the cost of increments of upgrades to accommodate additional generation. *Id.* at 6. In fact, this is exactly what the Phase I interconnection study will provide under the TPP-GIP tariff amendment. The ISO's proposed Phase I study approach will model the amount of TP Deliverability the grid can support in each study area based on the latest Transmission Plan (*i.e.*, the amount of deliverability available without further delivery network upgrades), and will then identify incremental delivery network upgrades and associated costs to provide deliverability for reasonable amounts of additional generation in each area. TPP-GIP tariff amendment, Exh No. ISO-1 (Testimony of Songzhe Zhu) at 6-10.

⁴⁶ 16 U.S.C. § 824d. Under Section 15 of the ISO tariff, the ISO is the entity authorized to submit filings for Commission approval pursuant to Section 205 of the FPA.

as the Commission has explained, “the courts and this Commission have recognized that there is not a single just and reasonable rate. Instead, we evaluate [proposals under Section 205] to determine whether they fall into a zone of reasonableness. So long as the end result is just and reasonable, the [proposal] will satisfy the statutory standard.⁴⁷

As discussed above and in the TPP-GIP tariff amendment, the ISO’s proposals fall well within the zone of reasonableness. They address the significant overcrowding of the interconnection queue, while at the same time balancing the goals of promoting viable generation projects necessary to achieve the RPS, providing ratepayers with protection against excessive upgrade costs, and continuing to ensure that all projects have fair and open access to interconnect with the ISO controlled grid. Therefore, the Commission should accept the TPP-GIP tariff amendment as filed and should not require the ISO to implement parties’ suggested alternative proposals.

F. The Commission Should Reject Arguments that Are Beyond the Scope of This Proceeding

The Commission should reject arguments made in this proceeding that do not concern the proposed revisions contained in the TPP-GIP tariff amendment.

⁴⁷ *Calpine Corp. v. California Independent System Operator Corp.*, 128 FERC ¶ 61,271, at P 41 (2009) (citations omitted). See also *New England Power Co.*, 52 FERC ¶ 61,090, at 61,336 (1990), *aff’d*, *Town of Norwood v. FERC*, 962 F.2d 20 (D.C. Cir. 1992) (rate design proposed need not be perfect, it merely needs to be just and reasonable), *citing Cities of Bethany, et al. v. FERC*, 727 F.2d 1131, 1136 (D.C. Cir.), *cert. denied*, 469 U.S. 917 (1984) (utility needs to establish that its proposed rate design is reasonable, not that it is superior to all alternatives).

It is well established that the Commission will not entertain proposals that are beyond the scope of the proceeding at hand.⁴⁸

For example, Pathfinder/Zephyr takes issue with the ISO's existing methodology for identifying policy-driven transmission elements.⁴⁹ This topic, however, is addressed in Section 24 of the ISO tariff, which the ISO does not propose to modify in the TPP-GIP tariff amendment. Thus, Pathfinder/Zephyr's issues are beyond the scope of this proceeding.

Pathfinder/Zephyr is developing a multi-state transmission line that would connect wind generation in Wyoming to load in California. This proposal has been brought to the ISO's attention both in the GIP and the TPP, as well as a CPUC proceeding in which the RPS scenarios that will be presented to the ISO are being vetted with interested parties.⁵⁰ However, the proposal is unrelated to how the ISO allocates TP Deliverability under the GIDAP or any other matter addressed in the TPP-GIP tariff amendment.

⁴⁸ See, e.g., *California Independent System Operator Corp.*, 133 FERC ¶ 61,223, at P 104 (2010) ("We find Large-Scale Solar and CalWEA's request that the transmission planning process should consider the reason why generation was denied full capacity status and whether such outcomes should influence transmission planning decisions to be outside the scope of this proceeding and reject Large-Scale Solar and CalWEA's proposed tariff modifications."); *Midwest Independent Transmission System Operator, Inc.*, 134 FERC ¶ 61,264, at P 123 (2011) ("We note that the Midwest ISO is not proposing any revisions to the tariff regarding positive/negative tariff language in the Revenue Sufficiency Guarantee charges, and therefore the issues Midwest TDUs, Xcel, and DC Energy raise are beyond the scope of this proceeding."); *California Independent System Operator Corp.*, 138 FERC ¶ 61,060, at P 90 (2012) ("The Commission further finds that SoCal Edison's proposed addition to CAISO's GIP Phase 2 tariff revisions is beyond the scope of this proceeding and SoCal Edison's proposal is rejected.").

⁴⁹ Pathfinder/Zephyr at 3-11.

⁵⁰ See CPUC website at http://www.cpuc.ca.gov/PUC/energy/Procurement/LTPP/ltp_history.htm.

Further, LSE procurement decisions, which in the ISO balancing authority area largely depend on a bilateral contracting process administered by the CPUC, are not within the ISO's jurisdiction. The ISO works closely with the CPUC, the California Energy Commission, and other state agencies to develop plausible study assumptions about renewable energy locations and LSE procurement decisions. Thus, any such decisions made by LSEs are not relevant to the instant proceeding. In addition, Pathfinder/Zephyr's argument that the Wyoming project should be considered an interregional project based on the requirements of Order No. 1000 is inapposite to this proceeding. That argument can be addressed, as appropriate, once the transmission providers affected by the project have developed the inter-regional study process and cost allocation mechanisms required by Order No. 1000.

G. The ISO Is Active in Conducting Stakeholder Processes to Address Interconnection Issues

CMUA and Wellhead argue that the Commission should order further procedures to examine the ISO's ongoing and future efforts to manage the interconnection queue.⁵¹ There is no need for further Commission procedures beyond issuance of an order on the TPP-GIP tariff amendment. The ISO has addressed issues regarding the queue in a number of stakeholder processes in the past, including the TPP-GIP stakeholder process that led to the filing of this tariff amendment.⁵² As the Commission will recall, since the ISO instituted its

⁵¹ CMUA at 3-6; Wellhead at 13.

⁵² Materials related to the ISO's completed stakeholder processes are available on the ISO website at <http://www.caiso.com/informed/Pages/StakeholderProcesses/CompletedStakeholderProcesses/d>

queue cluster reform process in 2008, the ISO has introduced further refinements through tariff amendments in 2009 (financial posting reforms), in 2010 (GIP Phase 1), and in 2012 (GIP Phase II), prior to the TPP-GIP tariff amendment filing to introduce a new interconnection tariff for cluster 5 and subsequent clusters. The ISO will continue to conduct stakeholder processes in the future to address queue issues. As a result, there is no need for the Commission to establish separate procedures regarding the interconnection queue.

[efault.aspx](http://www.caiso.com/informed/Pages/StakeholderProcesses/Default.aspx). Materials related to TPP-GIP stakeholder process are available on the ISO website at <http://www.caiso.com/informed/Pages/StakeholderProcesses/Default.aspx>.

II. Conclusion

For the reasons explained above and in the TPP-GIP tariff amendment, the Commission should accept the TPP-GIP tariff amendment as filed in this proceeding.

Respectfully submitted,

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Dated: July 3, 2012

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all of the parties listed on the official service list for the above-referenced proceeding, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Washington, D.C. this 3rd day of July, 2012.

/s/ Bradley R. Miliauskas
Bradley R. Miliauskas