

Stakeholder Comments Template

Submitted by	Company	Date Submitted
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Please use this template to provide your comments on the Interconnection Process Enhancements Draft Final Proposal for Topics 1 and 2 posted on September 12 and as supplemented by the presentations and discussion during the September 19 stakeholder web conference, and subsequent amendments.

Submit comments to GIP@caiso.com

Comments are due Monday, October 7, 2013 by 5:00pm

Stakeholders are asked to base their comments on all of the following documents:

1. The Draft Final Proposal posted on September 12 which may be found at:

http://www.caiso.com/Documents/DraftFinalProposal_Topics_1-2_InterconnectionProcessEnhancements.pdf

2. The presentation discussed during the September 19 stakeholder web conference which may be found at:

http://www.caiso.com/Documents/Agenda_Presentation-InterconnectionProcessEnhancements-DraftFinalProposal_Topics1-2.pdf

3. Supplemental presentation slides amending the September 12 draft final proposal's approach to downsizing study costs and discussed during the September 19 stakeholder web conference which may be found at:

http://www.caiso.com/Documents/SupplementalPresentation-InterconnectionProcessEnhancements-DraftFinalProposal_Topics1-2.pdf

4. The September 24 amendment to the September 12 draft final proposal which may be found at:

http://www.caiso.com/Documents/Addendum-DraftFinalProposal_Topics_1-2_InterconnectionProcessEnhancements.pdf

Based on all the documents referenced above, please provide your comments on each of the topics listed below.

Topic 1 – Future downsizing policy

Please select one of the following options to indicate your organization's overall level of support for the proposal on Topic 1:

1. Fully support;
2. Support with qualification; or,
3. Oppose.

If you choose (1) please provide reasons for your support. If you choose (2) please describe your qualifications or specific modifications that would allow you to fully support the proposal. If you choose (3) please explain why you oppose the proposal.

Comments:

LSA supports the CAISO’s Draft Final Proposal for this topic, with a few qualifications. However, LSA has significant concerns about the Addendum to the proposal – specifically, the provisions for adjusting financial security and setting the cost cap, and particularly the treatment of the recent reassessment study. Each of these topics is discussed below.

Draft Final Proposal

LSA appreciates the CAISO’s incorporation of many LSA recommendations, including two new features from LSA’s Straw Proposal comments: (1) Delaying the provision eliminating downsizing requests from the MMA process until the downsizing application window opens next Fall; and (2) expanding eligibility to GIDAP projects.

However, LSA believes that the CAISO should consider further revising the proposal as follows:

- **Clarify eligibility to participate in the annual downsizing study relative to the “COD:”**

The Draft Final Proposal (Proposal) does not state explicitly or explain clearly the deadline for submitting a participation request. For example:

- The application deadline for a phased project was described orally on the September conference call as “the COD of the last phase of the project.” However, if Phase 1 and Phase 2 have reached COD but Phase 3 has not, then can the developer still submit an application to downsize Phase 1?
- If a non-phased project has reached COD but the entire project is not yet complete, can it still apply to downsize the rest of the project?

- **Clarify the IC’s cost responsibility for upgrades that are:**

- **Needed by “later-queued projects,”** e.g., that this provision only applies to projects in the interconnection queue at the time that the downsizing application is submitted; and
- **Revised or replaced.** The Proposal states that the IC will still be responsible for upgrades triggered by its full project size that are needed by later-queued projects, or any “alternatives” to such upgrades. LSA believes that this is a sensible revision generally – for example, it would allow the original upgrade to be downsized, or replaced by a different (e.g., cheaper and/or faster) alternative.

However, the CAISO should clarify that the IC’s cost responsibility is limited to the original upgrade costs. If the CAISO decides to pursue a more costly upgrade – e.g., because it would be faster, or provide additional benefits to the system – then those costs should be covered by the PTOs and ratepayers, and not the IC.

- **Revise the GIA revision requirement:** The Proposal requires downsizing projects to incorporate “current tariff provisions” regarding time in queue and suspension rights into their revised GIAs. The CAISO clarified that: (1) the time-in-queue limits would be 10 years for serial-study projects and 7 years for cluster-study projects; and (2) the suspension provisions would be those developed as a result of IPE Topic 12 resolution.

LSA has two concerns about this provision.

First, consistent with its past positions (e.g., with IPE Topic 12), LSA strongly objects to this additional CAISO requirement of unrelated LGIA changes when developers need amendments for legitimate business reasons. There is no apparent reason why forfeit of suspension rights should be required for downsizing projects, and the tariff already contains time-in-queue limits that the CAISO has maintained in other forums are already binding even if they are not explicitly in GIAs.

Second, LSA is concerned about the implementation of this requirement, if it is retained. The Proposal states that the existing GIA would be amended to incorporate these changes (as well as the downsizing study results). However, the CAISO seemed to imply that a complete change – to the then-current GIA pro forma agreements and appendix formats – would be required. LSA shares CalWEA’s concerns that, if the latter was the case, other material changes might also be made.

Major format and other changes will only prolong the revision process, and substantive changes could upset agreements made between the parties many years before. Therefore, if this provision is implemented, the CAISO should make only the specific changes to the existing GIA for that purpose, and not require a complete revamping of the entire agreement.

Addendum to Draft Final Proposal – Financial Security Postings

As noted above, LSA has significant concerns about the Topic 1 revisions proposed in the Addendum, i.e., the change to the Interconnection Financial Security (IFS) provisions and the “clarification” to the cost-cap provisions.

The earlier Proposal versions stated that any revised IFS postings reflecting the downsizing study results would occur once the results were released. This is consistent with the process for the “one-time” downsizing study conducted earlier this year.

In the Draft Final Proposal, the CAISO rejected PG&E’s proposal that IFS revisions not occur until the next posting change – e.g., for projects that have made their second posting, until the third posting was due – stating that “The ISO does not support this proposal because of the possibility that such a true-up may not occur for several years in the future, especially if network upgrade construction is delayed” (Draft Final Proposal, p.25).

However, in the Addendum, the CAISO reversed itself and decided to adopt the PG&E proposal, so that IFS reductions would be delayed until the next posting. The CAISO said (between the Proposal and the call) that it was changing this provision because of:

- **Consistency**, i.e., that this would be the process used for IFS changes applicable to other projects participating in the reassessment study (see above); and

- **Efficiency**, i.e., the cumbersome process to revise security postings. (The Proposal states that reducing IFS postings from the recent downsizing study “was an extremely complicated, highly labor intensive and very cumbersome process.”)

The CAISO position is essentially that these factors outweigh any unfairness to developers from this change. The CAISO said that, aside from the recent downsizing study, the later IFS corrections reflect CAISO “practice,” though that practice is not included in the tariff or BPMs.

LSA believes the opposite – that there is little justification for retaining financial security that could be well above the actual financial responsibility of the project, simply because it is too much trouble to revise it, or because other projects under entirely different rules are subject to that practice.

Moreover, applying this change to recipients of recent reassessment-related cost updates is particularly unfair, for these reasons:

- Some of their GIAs contain provisions that specifically require posting reductions (in some cases, “prompt” reductions) if the PTO’s cost estimates are reduced;
- The CAISO position on this issue was not clearly stated before, and they had reasonable expectations of receiving their posting reductions immediately, given the most recent process for the downsizing study and the CAISO’s position on this issue up to now;
- Projects in some areas – e.g., the Cluster 3-4 projects in the Fresno-Kern area in PG&E’s service territory – saw such significant reductions that the second IFS posting amount actually exceeds 100% of their updated cost responsibility (and is many multiples of 30% of their new cost responsibility); and
- Leaving the current postings in place could greatly increase their forfeit risk above the tariff level if the projects are withdrawn before the third posting is due.

This change would impose real costs and risks on real projects. For example, one LSA member has a Cluster 3-4 project with an original \$85 million Network Upgrade (NU) cost responsibility (lower of Phase I or Phase II Studies) that posted the maximum \$15 million second IFS posting. The reassessment reduced the total cost responsibility to about \$12 million. Requiring the project to keep \$15 million IFS until the third posting would greatly increase the project’s costs and risks as follows:

- **Cost to maintain unneeded security:** The new second posting amount, based on the reassessment, would be 30% of \$12 million, or \$3.6 million, if adjusted now. Assuming a typical 1-2% annual cost for the security and the expected year or more before the third posting is due for this project, the extra cost for the \$11.4 million of unneeded security could be over \$200,000 if the adjustment is delayed until the third posting.
- **Risk of withdrawal:** If the project was proposed at 150 MW of capacity, the forfeit of security at an adjusted \$3.6 million second posting level would be \$1.8 million ((lower of half the posting amount or \$20K/MW, i.e., half of \$3.6 million). If the second posting amount is left at \$15 million, then the forfeit would be \$3 million (\$20K * 150 MW). In other words, postponing the security adjustment would increase the already substantial forfeit amount by over 65%, or by \$1.2 million.

In summary, LSA believes that adjustments to financial security should be made right away when the project cost responsibility is reduced, for any reason. As a compromise, LSA proposes that the CAISO make two revisions to the Topic 1 proposal in this area.

First, the CAISO should allow immediate IFS reductions where the new cost responsibility for the current posting would be more than 30% below the current posting amount, or where that reduction is required in the GIA. This will limit the number of IFS revisions by limiting them to those where the cost (and inequity) of maintaining the current postings would be the greatest, or where the CAISO/PTO obligation to make that reduction is clear.

Second, the CAISO and PTOs should work together to streamline the process of making and revising IFS postings, so that IFS revisions can routinely be made in the future

Addendum to Draft Final Proposal – Cost Caps

The Addendum says that the current tariff provisions related to NU cost responsibility would continue to apply, i.e., that the maximum NU cost responsibility (“cost cap”) for a project would remain the lower of the Phase I or Phase II Study estimates (including Addenda to those studies).

The reassessment study is not counted as an “addendum” to the Phase II Study, but instead is a separate “advisory” study. Thus, although the executed and in-progress GIAs will be revised to reflect the reassessment-study results, those revisions will not change the level of the cost caps.

LSA is confused by the CAISO’s position on this issue.

First, it seems a bit arbitrary to say that, because the CAISO is calling the study and results something besides one of the many Phase II Study addenda, the results won’t reduce the cost cap. A “reassessment” did not even exist when the cluster-study rules were established, but LSA does not see why the results cannot be presented as another Phase II Study addendum. Obviously, the Phase I and Phase II Study results were inflated by projects that are no longer in the queue, and now that the queue is what it is, the cap should reflect the current status.

Second, the CAISO proposal inconsistent with other provisions of the Topic 1 framework. The CAISO removed the withdrawal opportunity that was included in the earlier downsizing study for projects with significant Network Upgrade cost increases, because supposedly the GIDAP reassessment process would not have that result. If a reassessment reduces the cost responsibility of a generation project, and that cost responsibility cannot increase in future reassessments, then effectively the cost cap has been reset, and the rules should reflect that.

If the implication of maintaining a cost cap above the GIA cost responsibility is that future reassessments could, in fact, increase the cost responsibility back up to the cap, then that provision would really be unworkable for developers. It would raise the possibility that the affected generation projects could have their financing efforts, and their efforts to secure PPAs, adversely impacted far into the development process. They would have to either continue to rely on the inflated Phase I/II Study numbers despite the more recent reasonable figures, or they would risk potentially large cost increases by relying on the latter.

In summary, the CAISO should revise the cost cap, as well as the cost responsibility, to reflect reassessment results (for both downsizing and other projects).

Topic 2 – Disconnection of completed phase(s) of project due to failure to complete subsequent phase

Please select one of the following options to indicate your organization’s overall level of support for the proposal on Topic 2:

1. Fully support;
2. Support with qualification; or,
3. Oppose.

If you choose (1) please provide reasons for your support. If you choose (2) please describe your qualifications or specific modifications that would allow you to fully support the proposal. If you choose (3) please explain why you oppose the proposal.

Comments:

LSA supports the CAISO’s proposal for this topic, with some qualifications related to the penalty amounts. Generally, LSA agrees that situations where this proposal would apply should be very rare, given the annual downsizing opportunity described under Topic 1.

However, LSA believes that the CAISO should consider revising the penalty provisions so that developers are not penalized if they fund upgrades that are actually “used and useful.” For example, the developer should be entitled to reimbursement to the extent that:

- **The facilities are clearly needed for the capacity that was or will be built** (e.g., Reliability Network Upgrades needed for interconnection and operation of the first project phase). It is unfair to require the developer to forfeit money when the facilities would have been needed even for the smaller project size.
- **The facilities will be used for later-queued projects.** As LSA noted before, some guidance for this approach can be found in LGIA Article 11.4.1.4 (Failure to Achieve Commercial Operation), which states as follows (emphasis added) for projects that are cancelled entirely:

If the Large Generating Facility fails to achieve Commercial Operation, but it or **another Generating Facility is later constructed and makes use of the Network Upgrades**, the Participating TO shall at that time reimburse Interconnection Customer for the amounts advanced for the Network Upgrades...

Downsizing a project is certainly less impactful than canceling it entirely. There is no justification for allowing cost recovery by a developer of a cancelled project to the extent that previously triggered upgrades are used and useful, but denying that same cost recovery to the developer of a downsizing project in the same situation.

The CAISO could use the same methodology for determining whether another project later “makes use” of transmission associated with a failed generation project to assess whether another project later “makes use” of transmission associated with cancelled/project capacity or phases.

LSA understands that MISO has addressed this issue in a satisfactory manner and recommends that the CAISO investigate MISO’s policies in this area.

In addition, LSA still does not see the need for the 25% downsizing limit under the “safe harbor” provisions. The CAISO’s proposal is to change the current safe harbor amount from the current 5% level to the greater of 5% or 10 MW, but the latter amount cannot exceed 25% of the project size. A 10 MW reduction to either a 100 MW project or a 20 MW project would likely have the same financial and operational impact; thus, there is no reason to limit the safe harbor amount for the latter to 5 MW while the former can use a 10 MW amount.

The CAISO’s rationale for this differential treatment is that allowing smaller projects to downsize under the same provisions as larger projects would not sufficiently incent them to use the Topic 1 downsizing tools. However, that same rationale would apply to allowing larger projects to use the proposed more generous new limitations.