



August 22, 2018

Submitted to the CAISO at [InitiativeComments@CAISO.com](mailto:InitiativeComments@CAISO.com) by Tim Mason, Policy Director

**RE: Comments of the Large-scale Solar Association on Draft 2019 Draft Policy Initiatives Catalog**

The Large-scale Solar Association (LSA) hereby submits these comments on the CAISO's August 8, 2018 Draft Policy Initiatives Catalog (Catalog).

**Introduction**

LSA is supportive of most of the policy initiatives the CAISO is considering for 2019 as detailed in the Draft Policy Initiatives Catalog. We do however, strongly oppose consideration of an initiative proposed by Pacific Gas & Electric Company to sunset the reimbursement of network upgrades to interconnecting generators.

**Sunset Reimbursement of Network Upgrades**

Draft initiative 6.4., to Sunset Reimbursement of Network Upgrades to generators is described as:

Pacific Gas and Electric suggested in the 2018 policy initiative catalog process that this initiative be added to the catalog. In 2003, FERC Order No. 2003 established standard procedures and agreements for interconnection of generators larger than 20 megawatts. The order also required Interconnection Customers reimbursement of costs associated with Network Upgrades within a five-year period. Within the CAISO, reimbursement of Reliability Network Upgrades has been limited to \$60,000 per MW since Cluster 5. This initiative would explore suspending the policy where generators within the CAISO balancing area authority are reimbursed for the funds provided for the design, permitting and construction of Reliability Network Upgrades and for Local Delivery Network Upgrades.

This initiative should be rejected for several legal and public policy reasons. First, suspending reimbursement for the design, permitting and construction of Reliability Network Upgrades and for Local Delivery Network Upgrades is counter to FERC policy. As discussed in Order 2003, FERC enacted this policy for several public policy reasons:

However, the Commission instituted this policy to achieve a number of important goals. First, consistent with the Commission's long-held policy of prohibiting "and" pricing for transmission service, the crediting policy ensures that the Interconnection Customer will not be charged twice for the use of the Transmission System. The Commission determined that it is appropriate for the Interconnection Customer to pay initially the full cost of Interconnection Facilities and Network Upgrades that would not be needed but for the interconnection, but once the Generating Facility commences operation and delivery service begins, it must receive transmission service credits for

the cost of the Network Upgrades. This ensures that the Interconnection Customer will not ultimately have to pay both incremental costs and an average embedded cost rate for the use of the Transmission System. Second, the Commission's crediting policy helps to ensure that the Interconnection Customer's interconnection is treated comparably to the interconnections that a non-independent Transmission Provider completes for its own Generating Facilities. The Transmission Provider has traditionally rolled into its transmission rates the cost of Network Upgrades required for its own interconnections, and the Commission's crediting policy ensures that Network Upgrades constructed for others are treated the same way. Finally, the policy is intended to enhance competition in bulk power markets by promoting the construction of new generation, particularly in areas where entry barriers due to unduly discriminatory transmission practices may still be significant. The policy is therefore consistent with the Commission's long-held view that competitive wholesale markets provide the best means by which to meet its statutory responsibility to assure adequate and reliable supplies of electric energy at just and reasonable prices.<sup>1</sup>

While FERC has approved modifications to reimbursement on a case-by-case basis since Order 2003, FERC policy has not changed in the intervening years since FERC Order 2003 was written. PG&E cites a decision in a MISO FERC proceeding (Docket No. EL12-104-000) allowing an independent transmission operator to not pay the full cost of a network upgrade as justification for the proposed review. In that specific proceeding FERC allowed the MISO to depart from the full reimbursement policy, but in the decision it reiterated the importance of the reimbursement policy in Order 2003, stating:

However, in Order Nos. 2003 and 2003-A, the Commission provided flexibility for independent entities to depart from this pricing structure by submitting alternatives for Commission review and approval. The Commission explained that, when the transmission provider is an independent entity, it is less concerned that all generation owners will not be treated comparably. At the same time, the Commission emphasized that, by allowing an independent transmission provider to adopt a reimbursement policy that differs from the Order No. 2003 pricing structure, the Commission was not abandoning the goals it has established for interconnection pricing, noted above.<sup>2</sup>

Further, the federal D.C. Court of Appeals has upheld the reimbursement standard, with a justification that would still likely stand today if it were to be reviewed.<sup>3</sup>

The Commission's crediting policy has also withstood judicial review. In an opinion issued February 18, 2003, the D.C. Circuit Court of Appeals affirmed Commission orders requiring a Transmission Provider to provide credits to Interconnection Customers for the cost of short-circuit and stability Network Upgrades. *Entergy Services, Inc. v. FERC*, 319 F.3d 536 (D.C. Cir. 2003). The court stated that "[t]he Commission's rationale for crediting network upgrades, based on a less cramped view of what constitutes a 'benefit,' reflects its policy determination that a competitive transmission system, with barriers to entry removed or reduced, is in the public interest." *Id.* at 543-44. The court concluded that "the Commission has reasonably explained that its crediting pricing policy avoids both gold plating and less favorable price signals such that the enlarged transmission system, which it views as a public good, can function reliably and continue to expand." *Id.* at 544.

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<sup>1</sup> FERC Order 2003, ¶694

<sup>2</sup> FERC Docket No. EL12-104-000, ¶ 38.

<sup>3</sup> *Id.*

From a market and public policy perspective, the proposed initiative suffers from numerous deficiencies including a stifling of the competitive power market, unfair cost-shifting among transmission users, and undermining achievement of the RPS standard and California's climate change goals. Given the current constraints on the CAISO-controlled transmission grid, the cost of interconnecting new generating resources is extremely expensive, with network upgrade costs running into the hundreds of millions of dollars. It is unreasonable to expect that an individual generator could incorporate these costs into their power prices and remain competitive in the market. As FERC recognizes, burdening individual generators with the cost will reduce competition, which would increase market prices.

The policy would also result in substantial cost-shifting. Network upgrades, by definition, generally benefit the entire transmission system, not just the interconnecting customer. As explained by FERC in an SCE case on network upgrade costs "Reliability Upgrades are integrated transmission network upgrades that benefit the entire transmission system and whose costs are assigned to all transmission customers (*i.e.*, rolled in with other transmission costs)."<sup>4</sup> The benefits of a network upgrade will be socialized by all grid users, and burdening the costs to one party would result in illegal cost-shifting.

Finally, the policy would risk California achieving its RPS and emission reduction targets. To achieve the 50% RPS target, California is expected to require more renewable generation than is on line or under contract today. To achieve the 42 million metric tonne (MMT) emission target for the electric sector established by CA SB 350 and included in the CPUC IRP Reference System Plan will require 10,000-20,000 MW of new renewable resources. Stifling the market by burdening these facilities with the entire cost of network upgrades will risk the ability to achieve these important public policy and environmental goals.

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<sup>4</sup> Opinion No.487, Opinion and Order on Initial Decision and Rehearing, October 25, 2006. P.1

