Stakeholder Comments Template

Integration of Transmission Planning and Generator Interconnection Procedures (TPP-GIP Integration)

Draft Final Proposal, posted February 15, 2012

Please submit comments (in MS Word) to TPP-GIP@caiso.com no later than the close of business on March 1, 2012.

Submitted by	Company	Date
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Introduction

LSA appreciates the opportunity to file comments on the CAISO's Draft Final Proposal (Proposal) in the TPP-GIP Integration Initiative. LSA also appreciates the CAISO's diligent efforts to solve current problems with the planning, financing and construction of network transmission in California.

The Proposal addresses some of LSA's concerns about the earlier Second Revised Straw Proposal, including revision and refinement of the proposed commercial viability milestones in assignment of deliverability for TPP-approved transmission upgrades (TP Deliverability). However, the new features of the Proposal have raised additional concerns, and LSA continues to have other significant concerns that have not yet been addressed.

LSA does not believe that the Proposal is yet ready for "prime time." because significant issues have yet to be resolved. The single week that CAISO has given stakeholders to comment on the many major changes in the Proposal is not sufficient, given the numerous outstanding issues, the inability of the CAISO to provide answers to many of the questions asked, and the significance of the reforms proposed. The CAISO has not justified the rationale for several changes in the Proposal, and it must do so before CAISO Board and FERC consideration.

LSA understands the logistical difficulties with extending the Cluster 5 Application Window and/or postponing the associated Phase I Study commencement, but developers are missing key information about the interconnection-study process, and it would be unfair to close the window before that information has been provided.

LSA provides introductory comments below on the larger policy framework before addressing the specific items listed by the CAISO.

First, LSA remains concerned that the Proposal does not address, or even consider, alignment with utility procurement processes other than the Power-Purchase Agreement (PPA) milestones, and that will greatly hamper its ability to accomplish the intended goals. There is no mention or consideration of current California Public Utilities Commission (CPUC) procurement rules or potential future changes to those rules. For example:

- The schedule and milestones are not coordinated with planned Load-Serving Entity (LSE) Request for Offers (RFO) under the CPUC or other procurement processes; and

- The policies are not consistent with the CPUC-approved procurement framework. The CPUC's "least-cost, best-fit" (LCBF) procurement-cost assessment currently assumes that transmission costs are ultimately paid by ratepayers (effectively, requiring developers to lower generation prices to absorb them). If the CAISO charges generators for transmission costs without ratepayer reimbursement, generators would absorb those costs twice.

  This is a critical issue, caused by inadequate consultation and coordination with the CPUC and other oversight entities. Policy-makers must carefully consider whether such costs should be assessed against generation at all, and if so, whether that should occur in the procurement process or in CAISO markets, but the Proposal does not allow that consideration. At the very least, the final Proposal should defer implementation of any non-reimbursement provisions pending commensurate CPUC revision of its procurement policies.

Second, LSA continues to believe that the CAISO must consider additional measures to give viable generation projects currently in the queue access to transmission in a timely manner. Any process that would limit Network Upgrade cost reimbursement, and thus limit the amount of new transmission built, will fail unless transmission access currently taken by non-viable projects in the queue is freed up for use by more-viable projects.

Third, LSA continues to believe that the proposed Interconnection Customer (IC) selection between "Option A" and "Option B" after Phase I Studies is not useful and should be reconsidered. The CAISO has stated that it must provide Option B under open-access rules, but if that option is a sham option, then the CAISO will not have met this requirement. Under any viable "Option B", a developer must have both certainty and cost caps for its ultimate costs, but the current proposal provides neither.

The current financial-security postings early in the study process were a fundamental tradeoff for the early cost certainty now provided, and removal of that cost certainty will make it difficult or impossible for any developers to select Option B. For example, a developer cannot properly price a bid into an LSE RFO without knowing its transmission costs, and the removal of reimbursement from those costs increases their impacts on the bid price by many orders of magnitude.

Finally, LSA is very concerned that the Proposal adds significant risks to developers through uncapped cost responsibility even for Option A projects (for both Reliability Network Upgrades (RNUs) and Delivery Network Upgrades (DNUs)) without any CAISO efforts to improve the validity or consistency of cost-estimation methodologies, the reasonableness of the resulting cost estimates or actual costs, or any incentives to PTOs to minimize costs. The CAISO's apparent decision to abandon its GIP-2 commitment to work toward uniform PTO cost-estimation methodologies, in private discussions with the PTOs and without announcing it to other market participants, will significantly worsen this problem.

Purported self-build options have not proven to be a viable alternative, as the CAISO has essentially admitted and historical facts demonstrate. LSA is not aware of any LGIAs with Stand-Alone Network Upgrades identified as DNUs.

The current cost-cap and reimbursement provisions at least exert some discipline over PTO costing and excessive expenditures, but those incentives would be lost under the Proposal framework. Effectively, to "protect" ratepayers from high transmission costs, the CAISO has taken away virtually all cost protection for developers, i.e., their assurance that such costs will be estimated accurately and that the ultimate charges will be just and reasonable.

Though conditions may vary within and between PTO systems, LSA does not agree with the CAISO's statements on the PTO Per-Unit Cost conference call that it would be impossible to impose any degree of uniformity between PTO cost-estimation practices, or to construct any valid cost benchmarking effort based on national or industry metrics. After all, the CAISO itself has participated in extensive organizational and cost benchmarking with ISOs/RTOs across the country, even though those other organizations have different authority, work scopes, and cost structures. If cost caps are removed, and cost-reimbursement is limited, then the CAISO should commit to establishing a benchmarking framework to provide developers at least assurance that their expenditures are reasonable, and then follow through on that commitment.

Section 1. Overall support for the draft final proposal.

Please select one of the following options to indicate your organization's overall level of support for this proposal: (1) fully support, (2) support with qualification, or (3) oppose. If you choose (2) please describe your qualifications or specific modifications that would allow you to fully support the proposal.

LSA supports the general TPP-GIP coordination concept but opposes several implementation details. Moreover**,** because stakeholders have been given only a week to draft comments on a Draft Final Proposal that is complicated and vastly different from prior proposals, LSA cannot describe precise qualifications or specific modifications that would allow it to fully support the proposal. Moreover, LSA views the proposal as a whole and reserves the right to protest various aspects of the final proposal, even if the CAISO adopts the specific modifications requested herein.

With those caveats, LSA would be much more likely to support the proposal if the CAISO would:

(1) Abandon provisions to remove RNU and LDNU cost reimbursement. As described below, RNU and LDNU costs should be reimbursed by ratepayers once the project reaches COD, and the CAISO's new proposal is unworkable and not just and reasonable.

(2) Provide that any IFS postings required before PPA approval, the GIA effective date or the TP Deliverability are completely reimbursable upon withdrawal from the queue. Under the new framework, it matters little to other generators whether projects without TP deliverability remain in the queue or not, i.e., their withdrawal will not adversely impact others.

(3) Retain DNU cost caps for generation projects that do not receive TP Deliverability, but that build DNUs without reimbursement.

(4) Provide much more detail about ADNU-LDNU differentiation. As described below, the CAISO has not adequately explained this important distinction.

(5) Provide much better explanation about how Serial-C4 projects will be modeled in the TP Deliverability analysis, e.g., how the CAISO will determine the amount of deliverability "reserved" for them..

(6) Clarify that Distributed Generation projects will be subject to the same analysis for TP Deliverability on a going forward basis.

Section 2. Major differences between the 2/15 draft final proposal and the earlier 1/12 second revised straw proposal.

1. In response to stakeholder concerns about the previous proposal that ratepayers would reimburse customers fully for all reliability network upgrades (RNU), the draft final proposal will determine whether a project is eligible for full, partial or no reimbursement in a manner that aligns with the allocation of TP deliverability under this proposal.

LSA is very concerned about the changes related to RNUs in the Proposal, including the steps to limit reimbursement and the discriminatory treatment of projects seeking TP Deliverability versus projects coming into the queue as Energy Only (EO).

First, all RNU costs should be fully reimbursable. RNUs are typically smaller and less costly than DNUs, and the CAISO does not need to impose additional risks on developers in order to realize its larger transmission cost-control objectives. (See additional comments below on the proposed reimbursement cap.)

Second, there is no reason to condition RNU reimbursement on a project's DNU status. These are two entirely different kinds of upgrades, and the reimbursement of the former should be independent of the latter.

Likewise, the Proposal contains no justification for treating RNU reimbursement differently for different EO projects based on how they entered that status. Projects that start as EO are not "disadvantaged" in any way through their voluntary selection of that status early in the process based on their individual needs, compared to Option A or Option B projects that seek TP Deliverability allocations but also end up proceeding as EO projects.

There is simply no reason to punish projects by revoking their RNU reimbursement if they seek but are not awarded TP Deliverability and make a rational decision to proceed as EO (Option A), or if they lose their deliverability (despite their best efforts) and then convert to EO (Option A or B projects). Such projects will already be in distress due to the loss of TP Deliverability, and the CAISO should not further worsen the condition by imposing an entirely unrelated additional penalty that could precipitate the failure of the project. The Proposal is even more unfair because those "original" EO projects could always seek deliverability later through the annual study option.

Moreover, developers must know their costs in order to properly price and finance their projects. RNUs are generally required for projects to reach commercial operation, and those development activities will simply be untenable if RNU reimbursement can be revoked late in the process, perhaps years after GIA execution.

2. Projects that submit energy only interconnection requests and do not seek deliverability will be reimbursed for RNU up to a maximum of $40,000 per MW of generating capacity.

As explained above, LSA believes that all RNU costs should be fully reimbursable and that all EO projects should be treated the same. If the CAISO limits RNU reimbursability, it must also allow developers and their transmission experts to have more input into identification of the necessary RNUs.

In addition, if the CAISO limits RNU reimbursement, there is no justification for setting the RNU reimbursement cap at the average level found in the Cluster 1-Cluster 2 Phase II Studies. Instead, the CAISO should make two important changes to this element.

First, the CAISO should use a higher percentile threshold to establish the limit – e.g., the 80th or 90th percentile. This would still achieve the objective of limiting ratepayer exposure for extremely high-cost RNUs without unduly limiting the reimbursement feature.

Second, the CAISO should escalate the reimbursement limit in the future for inflation, e.g., using the escalation figures now included in the posted PTO Per-Unit Costs. This will preserve the relative reasonableness of the results as construction costs escalate over time.

3. The proposal distinguishes between area delivery network upgrades (ADNU) and local delivery network upgrades (LDNU), where ADNU are generally identified through the TPP to provide deliverability to a targeted MW amount of generation in an area, while LDNU are identified through the GIP studies to provide resource-specific deliverability.

The CAISO must provide a more precise definition of ADNUs vs. LDNUs, before the FERC filing. The numerous stakeholder questions at the last meeting revealed considerable confusion about these key definitions, and stakeholders adequately assess the CAISO's proposal without more information. This is s critical distinction, because the proposed reimbursement treatment for these facility types is so drastically different.

The Proposal would apparently base this distinction on the forum where the need for the upgrades is identified – the annual Transmission Planning Process (TPP) for ADNUs and the GIP studies for LDNUs. However, this may not be the best criterion for distinguishing between the two, if ADNUs are intended to be more regional in their benefits, while LDNUs are intended to be more local.

For example, several areas in southern California consists of 220 or 500 kV systems that are tightly integrated, so it is very likely that the upgrades from both TPP and GIP will benefit generators in a larger area. However, using this logic, the upgrades that are identified through GIP will be classified as LDNU, even though they would benefit a larger area, just like the upgrades identified in the TPP.

Instead, the CAISO should consider using the 5% DFAX flow impact test already used for cost allocation to determine whether upgrades benefit small or larger areas and/or numbers of projects, regardless of where their need was first identified. In any case, this portion of the proposal is brand new, has not been fully explained or vetted, and is not ready for CAISO Board consideration until it is better understood.

In addition, the new LDNU classification seems very similar to RNUs. Consistent with LSA's views on RNU reimbursement, LDNU costs should be fully reimbursable beginning when the generation project achieves commercial operation.

4. **The process for allocation of TP deliverability will be the key determinant of whether a generation project is required to post security and/or pay for a share of ADNU costs after phase 2. All projects will be required to post security for their shares of RNU and LDNU costs. Eligibility for ratepayer reimbursement of these security postings after commercial operation begins will align with whether the project was allocated TP deliverability and then meets the criteria to retain the allocation.**

   LSA supports this element generally, with respect to financial-security postings. However, as noted above, RNUs should be fully reimbursable, and if there are any limits placed on their reimbursability, those limits should not be related to project DNU status.

   In addition, security posting for LDNU costs should be fully releasable if a project is not awarded TP Deliverability or loses it later. There is no justification for retention of security to cover DNUs that was posted by projects that will not receive deliverability, i.e., that do not need, and can receive no benefits from, any LDNU facilities.

5. **The allocation of TP deliverability to generation projects under this proposal will occur for the first time at the end of the GIP phase 2 study process for cluster 5, i.e., during the first quarter of 2014. Before the ISO allocates TP deliverability to any cluster 5 projects, it will first determine how much of the TP deliverability provided by the most recent transmission plan must be encumbered by projects in the existing queue (serial through cluster 4) that are in good standing with respect to their PPAs and GIAs, any expansion of MIC that was addressed in the TPP, and any deliverability for distributed generation (DG) allocated to regulatory authorities under the DG Deliverability initiative in progress. After accounting for these encumbrances, the remaining amount of TP deliverability will be available for qualified projects in cluster 5.**

   LSA supports this element generally. However, the CAISO must provide significantly more information about how it will determine the amount of capacity reserved for each of the categories listed above, in particular with respect to DG.

   The ongoing confusion about the definition of DG exacerbates this confusion, e.g., the CAISO and CPUC DG definitions are different. Based on the CAISO's definition, DG would include generators connecting to transmission not under CAISO operational control. Since the three PTOs have turned over different classes of transmission facilities to the CAISO for operational control, DG sizes can be very different between the PTOs. For example, the term "DG" can apply to both a 100 MW generator connecting to SCE's 115 kV system and a 5 MW generator connecting to PG&E's 12 kV system.

   In addition, as described further below under #16, DG projects should be subject to the proposed TP Deliverability allocation and retention requirements, just like any other generation projects seeking deliverability.

6. **If there is some TP deliverability available for allocation to projects in the current cluster and to option (A) projects in the prior cluster that opted to park for a year, such projects must at least meet the minimum threshold criteria of being included on an active LSE short list and having submitted the necessary permit applications in order to be eligible for the allocation of TP deliverability.**

   LSA agrees with this element. LSA has long advocated inclusion of viability metrics in deliverability allocations in the GIP study process.

7. **If the volume of projects that meet the threshold exceeds the amount of TP deliverability available, the ISO will calculate a numerical score for each project based on the criteria and point values presented in the proposal, and will allocate deliverability to the highest scoring projects without regard to whether the project chose option (A) or (B).**

   LSA supports this element. The proposed scoring system seems reasonable, and Option A and Option B projects should be treated the same in the TP Deliverability allocation process.

8. **A project that is allocated TP deliverability under the proposed approach will be required to demonstrate annually that it meets the criteria for retaining the allocation; i.e., (i) no regression with respect to criteria on which it received the allocation; (ii) executed GIA is in good standing (no ISO notification of breach); (iii) no delay of COD unless for reasons beyond customer's control. If a project loses its allocation, it must either withdraw from the queue or convert to energy only deliverability status.**

   LSA supports this element, with the exception of the COD delay element. As long as the delay is found not to be a Material Modification under the tariff, there is no justification for imposing such a severe punishment on a project. COD delays do not necessarily indicate that a project is not viable, though removal of TP Deliverability (especially if the project is advanced in its development) could (in and of itself) cause a project to fail.

   A developer cannot know its exact COD at the time that it submits its IR, or even at the time it executes its GIA. The definition of "beyond customer's control" is too vague to be used as a criteria where the consequences are so severe. Just as PTOs are only required to use reasonable efforts to meet transmission in-service dates (and often do not meet and/or change those dates), a project COD is a developer's best estimate but, as FERC recognized in Order No. 2003, developers require flexibility around that proposed date.

9. **An option (A) project that does not receive TP deliverability after parking for one year must either withdraw from the queue or execute an energy only GIA. To allow parking for a longer period would complicate the GIP study process by maintaining a backlog of projects to be studied for RNU and LDNU that may not be making progress but have little incentive to withdraw.**

   As long as parked projects pay the costs of studies and other administrative costs each year to stay in the queue, and the CAISO is not reserving TP Deliverability for them, there seems little downside to letting them stay parked. There is no need to re-study them for RNU (or perhaps LDNU, depending on the definition) annually, since those largely project-specific upgrades should change little from year to year.

10. An option (B) project that does not receive TP deliverability within the allocation process immediately following its phase 2 study results must either withdraw from the queue or execute a GIA committing it to pay its share for all required network upgrades without ratepayer reimbursement.

LSA generally supports this element.

11. Projects that withdraw from queue after the phase 2 study results may be eligible for partial refund of their first financial security postings in accordance with existing tariff provisions, as expanded by the following new eligibility conditions: (1) An (A) project will be eligible if it fails to be allocated TP deliverability; the period for "early" withdrawal under this condition will be 18 months from phase 2 study results. (2) A (B) project will be eligible if its phase 2 cost estimate for ADNU exceeds its phase 1 estimate by the smaller of 20 percent or $20 million. The "early" withdrawal period will be 180 days from phase 2 study results.

The first posting should be fully releasable for Option A and Option B projects that withdraw after Phase II after failing to secure a TP Deliverability allocation. Developers will only have very general information before the CAISO's post-Phase II TP Deliverability allocation, and it is unfair to make them guess whether they may or may not receive an allocation or risk significant sums on those guesses.

In fact, to the extent that there is any concern about non-viable Option A projects remaining parked, a complete refund of the first IFS posting would provide a strong additional incentive for those projects to withdraw from the queue.

12. The ISO will maintain the March 31, 2012 closing date for the cluster 5 request window, in contrast to April 30 as stated in the previous proposal. In recognition of the possibility that FERC's order may significantly modify the proposal that the ISO Board rules on in March and the ISO files shortly thereafter, the ISO's filing will include a provision to allow parties to withdraw requests up to 10 days after the FERC order without any penalty applied to the refund of their initial study deposits.

While LSA supports this element, LSA believes (as explained above) that the CAISO needs more time to finalize this proposal, because it is not yet fully developed.

Section 3. Please provide any additional comments on major structural components of the proposal.

13. GIP Phase 1

The Proposal states that only the realistically expected generation will be assumed in the base case for "Cluster N." However, it does not explain the criteria that will be used to define what is "realistically" expected' for Serial-C4 projects.

The CAISO methodology here should be consistent with the recent Technical Bulletin regarding the C1-C4 approach. Use of the same methodology will ensure that C1-C4 projects are treated equitably and that C5 projects are neither unduly advantaged nor unduly favored. At a minimum, the CAISO should make the criteria that will be used in this selection process explicit in the next iteration of this proposal.

14. Transition from Phase 1 to Phase 2

Option B viability: LSA continues to question the viability of Option B. The choice of whether to proceed with any IC-funded transmission should not be required before the cost of that transmission is known, i.e., until after Phase II Studies. No project can commit to paying for DNUs without first knowing the costs, and without a Phase I cost cap, that information will not be available until Phase II. As noted above, an option to preserve open access that is completely non-viable for developers is unlikely to pass muster at FERC.

Treatment of shared RNUs and LDNUs: In addition, LSA continues to believe that planning and funding for shared RNUs and LDNUs should be conducted through the TPP, like ADNUs. Shared RNUs and LDNUs are often substantial and costly, and their planning and development should be performed the same as ADNUs.

Specifically, the CAISO should study shared RNUs and LDNUs in the same manner as DNUs, i.e., study the amount needed to match the generation in the TPP portfolios plus a reasonable margin above that level. The intent would be the same as stated for ADNUs – to avoid excessive costs that can result from extremely large clusters, while providing useful information on needed upgrades and associated costs if generation development exceeds grid capacity.

Additional shared RNUs and LDNUs needed to accommodate higher levels of development than expected in some areas should be addressed in the TPP, like ADNUs in that situation.

Re-study before Phase II: LSA supports re-studies, and then GIA changes favorable to developers, e.g., to remove unnecessary upgrades, reduce cost or timing, and/or award additional deliverability.

However, the CAISO should clarify that any GIA changes as a result of these studies would require the consent of all the parties to the agreement. Mandatory GIA changes that would be adverse to developers – adding upgrades, increasing cost or timing, and/or reducing prior deliverability awards – should not be allowed, because they would greatly impede both PPA contracting and project financing. The only adverse adjustments that might be justified would be to address situations where PTOs cannot obtain necessary regulatory approvals for previously identified upgrades and/or where other factors make construction of such upgrades infeasible.

15. GIP Phase 2

Allocation of TP Deliverability Post Phase 2: The provisions allowing Option A or Option B projects to downsize their size or reduce their deliverability to match their TP Deliverability awards are reasonable. Likewise, allowing Option B Project withdrawal if Phase II ADNU costs greatly exceed Phase I ADNU costs is a fair proposal, and it marginally increases Option B viability.

16. Subsequent to the Allocation Process

NQC reductions: LSA has two comments regarding the application of any NQC reductions made necessary by delays in construction of DNUs needed to provide FCDS to all projects in an area that contracted for it

First, the CAISO should clarify that pre-Cluster 1 generation projects should not be subject to any NQC reductions made necessary by delays in construction of DNUs needed to provide FCDS to all projects in an area that contracted for it.

Second, similar to its comments above about applicability of the Proposal to DG projects, LSA believes that DG projects, as well as imports obtaining RA NQC through the TPP MIC process, should share any NQC reductions.

Generally, DG projects should be subject to the TP Deliverability allocation and retention requirements, the same as other generation projects seeking Full Capacity Deliverability Status. There is a fundamental inconsistency between: (1) a state policy that favors DG because technically it does not impact transmission; and (2) the need to allocate TP Deliverability to DG projects.

DG allocations to the CPUC and other Local Regulatory Authorities under the proposed DG deliverability methodology should be subject to revocation in this process if the specific generation projects allocated that deliverability do not meet the minimum standards for receiving and training TP Deliverability allocations outlined in the Proposal.

Merchant Transmission (MT) projects: It is unclear how this concept will work on a practical level, particularly when a similar concept has also been adopted in CAISO Tariff Section 24 (Transmission Planning Process). For example, if project sponsors have agreed to build an MT project for Option B generators, will they be required to go through the MT Project interconnection provisions in Section 24 again? In contrast, if the same MT Project sponsors submit an MT Project request in the TPP, are the generators that will be using this line required to go through GIP even though this line will be studied as part of the TPP?

In any case, if the CAISO retains Option B, then:

- Where the ICs selects third parties to construct DNUs, the posting should reflect the cost developed by the third party, not the PTO's cost estimates; and
- The proceeds from liquidating any financial security associated with DNUs that is forfeited by Option B project withdrawals should be given to remaining Option B projects funding those upgrades, to mitigate any additional costs that the withdrawals would shift to those remaining projects.

Other IFS forfeits: In addition to revising the disposition of IFS forfeited for ADNUs by Option B projects, the CAISO should change its current policies so that any other IFS not released to a developer would be applied to funding of transmission upgrades for other generation projects. There is no justification for giving this money to LSEs.

Section 4. Please use the space below to offer comments on any other aspect of the proposal not covered above.