Comments of The Metropolitan Water District of Southern California on CAISO Proposal for a Third Category or Alternative Treatment of New Transmission Facilities

October 10, 2006

The Metropolitan Water District of Southern California (Metropolitan) provides these comments in response to the CAISO revised White Paper on the above topic, dated September 21, 2006. Although the revised paper purports to respond to prior stakeholder comments, Metropolitan found only a few, modest changes from the CAISO's prior proposal. It would have been helpful if the CAISO had identified by underline the specific changes from its prior White Paper. The revised proposal appears unchanged from the prior one except the CAISO proposes 6 criteria or principles as the basis for creating a distinct category of transmission, including: 1) The transmission project would permit wholesale transmission access to an area not currently accessible where there is "a significant energy resource that is not transportable"; and 2) The transmission project would not increase the annual revenue requirement (TAC rates) by more than "5% on average over a 10-year period".

Metropolitan owns and operates approximately 122 MW of eligible renewable generation, located throughout southern California's coastal plain, and strongly supports efforts to promulgate the development of additional generation from renewable resources in California. Notwithstanding Metropolitan's keen interest in the expansion of renewable resources, Metropolitan is still concerned the CAISO proposal may not achieve its intended purpose, and may conflict with other strategic CAISO initiatives. Metropolitan's concerns are explained below.

A. <u>Creating Inappropriate Subsidies Will Distort Efficient Location and Development of Renewable Resources</u>

As stated in our July comments, Metropolitan understood the purpose of the CAISO's market redesign was, among other things, to reveal the true cost of serving load at various nodes throughout the CAISO Controlled Grid. Implementation of the CAISO's revised proposal reduces the initial cost of serving load from more remote locations at which renewable generation is anticipated to be located and will distort the price signals that would otherwise exist under LMP to encourage the development of generation located closer to load. Metropolitan fundamentally questions the wisdom of subsidizing the cost of developing remote, rather than local, renewable sources of energy. For example, solar panels could be installed on every building or house if more subsidies were provided. Perhaps, some other form of renewable energy could be located closer to the load with more subsidies. Alternatively, increased investment in energy efficiency could reduce energy consumption.

The CAISO's revised proposal also does not consider its need for more controllable resources to be located closer to load, as reflected in the reliability backstop mechanism established in the Offer of Settlement submitted by the CAISO and others in FERC Docket No. EL05-146, addressing the RCST Tariff. In Metropolitan's view, if renewable generation is to be subsidized, it should not take the form of transmission costs. It is far more appropriate for the individual LSE or LRA, rather than the transmission grid operator, to decide upon the form of subsidy for renewable generation. The LSE or LRA is in a far better position to determine which renewable generation source provides a better fit for its load with regard to cost, fuel diversity, generation profile, location, etc.

B. Establishing a New Category of Transmission Will Have Unintended Consequences

Metropolitan is still apprehensive that implementation of the CAISO proposal will have unintended consequences. During the stakeholder call on September 29, the CAISO clarified that once a new transmission line was approved with only a portion of the capacity initially subscribed by renewable resources, any generator should be able to interconnect with the proposed facilities because to deny them would likely violate FERC's open access, non-discrimination requirement. A thermal generator would have an incentive to site its facilities proximate to the Interconnection Facilities proposed by the CAISO to avoid initial responsibility for the payment of their construction. Then, the CAISO would have to build another line in the same vicinity for future renewable resources. The CAISO's principles do not address the potential for more promising renewable sites in relatively remote locations outside of California, such as Wyoming, which Metropolitan understands is currently considered a promising location for wind generation. In addition, it is unclear how the CAISO would select one project for inclusion in its program over another. Metropolitan is uneasy the CAISO proposal will result in rolling into the TAC the cost of *all* generation tie-lines, not just those intended to benefit renewable generation. If Metropolitan's concern is realized, the cost of the CAISO proposal will have significantly increased.

C. Lack of Clarity on Limiting Increases to TAC

The CAISO proposes that the transmission project not increase the annual revenue requirement (TAC rates) by more than "5% on average over a 10-year period." During the September 29 call, the CAISO responded to Metropolitan's question by stating the 5% limit applies to each project, not collective projects. If 10 projects were approved, TAC rates could increase by 50% with no assurance that all the remaining transmission capacity would eventually be subscribed. In addition, it is not clear how the "5% on average" would be calculated. For example, if a project increases TAC by 25% for only one year, would the 10 yr average be 2.5%? Instead of limiting eligibility by requiring that the cost of each project to not exceed the CAISO TAC by more than 5% on average over a 10 year period, Metropolitan would prefer a cumulative, maximum increase cap to the CAISO TAC.

D. <u>All Interconnecting Generators Must Pay Cumulative Costs</u>

Metropolitan firmly objects to the proposal that subsequent interconnecting generators would only contribute to prospective transmission costs. In Metropolitan's view, that would contribute, rather than hinder, the potential for "stranded costs," as would-be generators wait for others to interconnect first to diminish the balance of transmission costs for which they would be responsible. To minimize the potential for stranded investments by a PTO that are paid through TAC, commitments for a majority of a transmission line's capacity should be required and an interconnecting generator should pay its share of cumulative transmission costs.

In sum, Metropolitan has identified above many potential problems and conflicts with existing CAISO policy that would ensue if the CAISO proceeds to carry out its proposal. In contrast, the anticipated benefits are few, to the extent they exist at all. If the CAISO is determined to proceed with its proposal, Metropolitan recommends that further clarification and consideration of the foregoing comments is needed.