

July 17, 2006

Mr. David Withrow, Lead Policy Analyst  
California Independent System Operator  
P.O. Box 639014  
Folsom, CA 95763-9014  
VIA ELECTRONIC MAIL

RE: White Paper Proposing a Third Category or Alternative Treatment of New  
Transmission Facilities for Renewable Generators

Dear Mr. Withrow,

National Grid USA (National Grid) expresses its appreciation for the work that the California Independent System Operator (CAISO) has done to raise awareness of the challenges and opportunities associated with the development of long-distance transmission facilities to remote areas. An abundance of untapped energy resources exist across the Western Interconnection. Like CAISO, National Grid views transmission development as critical to ensuring that such resources play a key role in safeguarding the energy security of California and other Western states for years to come.

The proposals in CAISO's White Paper entitled "Proposal for a Third Category or Alternative Treatment of New Transmission Facilities for Renewable Generators" constitutes a positive step towards making the energy potential of California available to customers. The major thrust of the paper, regulatory treatment that will facilitate the development of transmission "trunk line" facilities, is a concept that National Grid strongly supports.

The CAISO proposal moves public policy forward in that it recognizes the value of planning transmission to accommodate multiple new generators where it has been established that the transmission capacity likely will be used by the generators within a reasonable period of time. National Grid supports comprehensive regional planning to identify transmission upgrades that would provide reliability or economic benefits to a region. The CAISO's proposal takes a step in the direction of improved regional planning, although the proposal is currently limited to transmission facilities that are designed to serve renewable generators only. CAISO could improve upon its proposal by

extending the new class of transmission facilities that it would establish to include those that are designed to serve all generation types rather than just renewable generation. National Grid encourages CAISO to make this change.

CAISO's proposal on cost recovery raises a number of issues that would benefit from further thought and development. National Grid identifies some of those issues below. We would welcome the opportunity to work with CAISO and with stakeholders to think through the implications of those issues and, if warranted, to develop a revision to the CAISO's proposal prior to CAISO submitting it to FERC.

**The CAISO Petition Should Extend the New Class of Transmission Facilities to Include Those That Are Designed To Serve All Generation Types Rather than Just Renewable Generation.**

The CAISO White Paper proposes to limit eligibility for inclusion in its third category of transmission facilities to new high-voltage, bulk-transfer transmission facilities which are not eligible to be classified as network upgrades, and which are designed to serve multiple renewable generators where it has been established that the amount of added transmission capacity will likely be used by renewable generators within a reasonable period of time. National Grid respectfully suggests that CAISO should revise its proposed eligibility requirements to include lines serving generation other than renewable resources. Limiting the proposal to those facilities that serve renewable generation ignores the fact that the barriers encountered by such generators seeking to site in remote areas are faced by traditional generation technologies as well.

CAISO correctly argues that "the capacity of an individual renewable generation project often will be much smaller than the capacity of the tie-line required to optimally and efficiently connect all expected renewables (and any other) generation in the region to the networked grid. In these circumstances, renewable developers have claimed an inability to finance the totality of the costs associated with the Interconnection Facilities sized to accommodate the anticipated quantity of generation in the region."<sup>1</sup> What is overlooked in this statement is that traditional generators seeking to site in remote areas also often face difficulty with financing for the same reason; namely, the first generators to enter the market are often unable to finance the total costs of a transmission line that is efficiently sized to reflect the abundance of resources in the area and the probability that other new generators will soon follow. This barrier diminishes access to efficient, diverse resources (both renewable and otherwise) to the detriment of customers.

In light of the foregoing, we respectfully suggest that CAISO extend eligibility for inclusion in its third category of transmission to facilities serving both renewable and

---

<sup>1</sup> White Paper at 8.

non-renewable generation. CAISO should revise the proposed definition of the new class of transmission facilities that appears on page 10 of the White Paper by striking the word “renewable” in each of the two places that it appears. As revised, the definition would read as follows:

*New high-voltage, bulk-transfer transmission facilities, not eligible to be classified as network upgrades, which are designed to serve multiple Generators where it has been established that the amount of added transmission capacity likely will be utilized by Generators within a reasonable period of time.*

**CAISO’s Cost Recovery Proposal Raises a Number of Issues that Would Benefit from Further Thought and Development.**

CAISO’s proposal recognizes that certain generator supply transmission lines may typically provide benefits to all users of CAISO’s Controlled Grid. CAISO therefore proposes rolled-in rate treatment of unrecovered costs for a new third category of transmission facilities. The up-front costs would initially be covered by the Participating Transmission Owner and rolled into CAISO’s transmission adjustment charge (TAC), which is paid for by all users of the CAISO Controlled Grid. As the renewable generation resources are developed in the area connected by the transmission facilities, cost recovery would be transferred to those generation owners. Once the anticipated generation is fully developed, none of the costs would be included in the TAC.

National Grid agrees with CAISO that multi-generator supply transmission lines typically provide benefits to all users of the grid and therefore should be recognized as facilities that should be eligible for broader cost allocation treatment. The specifics of CAISO’s proposal, however, raise a number of issues regarding cost allocation for generator supply transmission lines that would benefit from further development and thought. Those issues include the following:

- What are the benefits of generator supply transmission lines and how should the benefits be measured?
- Do both generators and load customers benefit from generator supply transmission lines? If yes, are the benefits that each receives different? Do the facilities provide a benefit to both generators and load customers over the life of the facilities?
- If the generation supply transmission lines would benefit all load customers of CAISO’s Controlled Grid, should the ultimate costs of those facilities, not just the up-front costs, be rolled into the TAC?

David Withrow

July 14, 2006

Page 4 of 4

- Should the ability to pay of generators that would be served by supply transmission lines be considered in properly designing cost allocation mechanisms for such lines?
- What siting signals would CAISO's cost recovery proposal provide?
- How would the process of "backing out" costs from the TAC work? Has the CAISO developed a similar mechanism that illustrates the mechanics of how such a process would work?

National Grid would welcome the opportunity to work with CAISO and with stakeholders to think through the implications of these issues and, if warranted, to develop a revision to CAISO's proposal prior to CAISO filing it with FERC.

## **CONCLUSION**

CAISO presents in its White Paper a proposal that moves in the right public policy direction. It recognizes the value of planning transmission to accommodate new generators where it has been established that the transmission capacity will likely be used by the generators within a reasonable period of time. Nonetheless, the proposal could be improved by extending the new class of transmission facilities that CAISO would establish to include those that are designed to serve all generation types rather than just renewable generation. In addition, CAISO's cost recovery proposal raises a number of issues that would benefit from further thought and development. We look forward to working with CAISO on those issues.

Sincerely,

*/s/ Peter G. Flynn*

Peter G. Flynn  
Deputy General Counsel  
National Grid USA  
25 Research Drive  
Westborough, MA 01582  
peter.flynn@us.ngrid.com