

**NextEra Energy Resources Comments Regarding
Integration of Transmission Planning and Generation Interconnection Procedures**

Revised Straw Proposal, September 12, 2011

Submitted by	Company	Date Submitted
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- 1. Section 4 of the paper laid out several objectives for this initiative, including four previously-identified GIP issues to be included in scope. Please indicate whether your organization believes these objectives are appropriate and complete. If your organization believes the list to be incomplete, please specify what additional objectives the ISO should include.**

NextEra supports further integration of the transmission planning and interconnection processes. NextEra notes however, that the ISO's objective to have new transmission driven largely by planning, using the CPUC generation assumptions, needs to be cross checked with actual commercial interest shown through the interconnection process. There needs to be a timely and active feedback loop to verify generation assumptions. The dramatic changes in the renewable market in the past three years is proof that the market is dynamic, and therefore planning assumptions need to be updated and verified in a timely manner.

Furthermore, in order to ensure that this process produces the intended outcome, we request that the following elements be added to the next iteration of this proposal:

1) Clearing the Queue: This is required for an efficient process that can provide realistic transmission need assessments and cost estimates. NextEra understands that the Transmission Planning Process (TPP) will identify needed transmission expansion to accommodate expected generation portfolios, and that such transmission would be funded at ratepayer expense. If all generation projects, regardless of their historic queue position, truly had equal access to this "free commodity" from a financial basis, then clearing the queue would diminish in importance. However, generators will be asked to fund incremental upgrades beyond those identified in the TPP to accommodate their interconnection. As noted in the proposal, the interconnection studies continue to assume the presence of stale, non-progressing projects that consume the capacity created in the TPP. This distorts the process. As such, although the CAISO states that the removal of non-progressing projects from the queue is part of a separate process, NextEra respectfully asks that these processes be linked or combined. The success of both the interconnection process and the transmission planning process depend on it.

NextEra recognizes that the CAISO may have restrictions on its ability to modify the rules governing older projects with executed interconnection agreements that lack sufficient enforcement mechanisms. However, NextEra encourages the ISO to continue to apply all available pressure on non-progressing projects by enforcing process and contractual milestones. In addition, given that many earlier projects, especially those in the serial group, do not include the concept of Full Capacity Deliverability in their interconnection agreements, the CAISO should explore the possibility of excluding stale projects from the generation assumptions incorporated into the interconnection studies. Since many of the legacy interconnections simply relied on congestion management for energy delivery and only had a base level of reliability upgrades to interconnect to the system, it seems reasonable to exclude these generation projects from the study assumption on a going forward basis. This is because unlike full capacity deliverability these projects do not have deliverability status to maintain. Whether under the existing interconnection and transmission planning processes or the proposed revised process, having realistic base case assumption for generation is critical to understanding transmission capacity requirements.

2) Making the Size of the Queues More Manageable: Consistent with the foregoing, NextEra strongly advocates increasing the requirements for entry into the interconnection process (i.e. high security deposits) to ensure that the interconnection queue is manageable and realistic. Developing utility scale generation is a highly capital intensive undertaking. Interconnection processing costs remain a small fraction of the total costs of project development. Therefore, increasing the financial commitments for engaging in the process will not deter those entities capable of ensuring projects reach commercial operation. Generation development competition will remain robust even if the ISO reinstates more meaningful requirements for queue participation. Further, imposing higher hurdles to entering the interconnection process will become even more important under the revised proposal since ratepayers will be fully funding transmission.

While NextEra supports further coordination of the transmission planning and interconnection processes, we note that the current process is not inherently broken. There are two fundamental problems with the process currently. The first is related to non-progressing projects, particularly from the serial queue, that create exaggerated transmission requirements. The second relates to security requirements for entering the queue being too low. Given the extraordinary amount of capacity in the queue, it is clear that the hurdle for entry is too low. Having an unrealistic number of projects in the queue creates an inefficient process that harms all projects seeking interconnection. While low barriers to entry are harmful under the current interconnection, it is even more harmful under this new proposed approach. Since new transmission associated with the TPP will not require generators to pay for network upgrades, the ISO must work to make sure that capacity is efficiently allocated to generators that are viable and most likely to progress to commercial operation. Higher security requirements are both reasonable under the ratepayer funding approach that ISO proposes, and imperative in assuring that the transmission capacity is efficiently utilized. As mentioned below, security is the only efficient means to filter out viable from non-viable projects. Other milestones, such as having a PPA, are inadequate and provide perverse incentives.

3) **Early Cost Certainty:** Generators need to understand the transmission costs associated with a project as early as possible in the process. There also needs to be some bounding on the amount that costs can increase in the study process. This is critical for several reasons. First, if the transmission costs make the project uneconomic, it is in both the ISO's and the interconnection customer's interest to exit the process as early as possible. Today's interconnection process does a good job of providing generators an incentive to exit the process early without penalty and increasing the cost of remaining in the process as time goes on. Those incentives should be maintained in the new process as well. Second, there needs to be a bound on how much costs can increase between Phases 1 and 2. Having a means to estimate transmission cost liability is critical for marketing the project and participating in procurement solicitations. This is even more critical under the revised approach where developers will have to include unrecoverable transmission related costs in solicitation bids.

4) **Employing an Auction Mechanism:** NextEra supports the ISO's proposed auction to allocate transmission capacity when interest in a transmission line is greater than the capacity provided for in the TPP. An auction will assure that the transmission capacity is most efficiently allocated to the interconnection customer (IC) that values it most.

While an auction is the best of the four options proposed for allocating transmission capacity, significantly more detail related to both the timing and design of the auction is needed. .

2. ***The revised straw proposal presents a timeline describing how the new TPP-GIP process would work. Please comment on the overall process design in terms of how well it meets the objectives of this initiative and how workable it is from a practical perspective. If you see ways it can be improved please offer concrete suggestions.***

NextEra generally believes the timeline to be workable. While NextEra appreciates the various perspectives that influenced the decision to release the TPP between Phase 1 and 2 of the study process, it is not clear how useful the Phase 1 study will be if the costs and transmission outcomes could change dramatically in Phase 2 based on TPP results. While it appears that the reason for this decision was to be responsive the developers desire for multiple decision points in the process (which NextEra also supports), it is not clear that the Phase 1 study will provide meaningful information about whether to proceed to Phase 2. Additionally, since the soft cap will be established in Phase 1 before the TPP is released, it is not clear whether developers will be able to count on that cap when making project decisions or bidding the project into a solicitation.

As stated above, NextEra supports a high-hurdle for entering the interconnection process. This is in hopes of creating a queue that is more manageable and contains more viable projects. This "high-hurdle" combined with an appropriately designed, and appropriately timed, auction mechanism to economically allocate capacity is critical to the success of this proposal.

As a general rule, NextEra would prefer more definitive information earlier in the process. To summarize what was stated above, we would like to see:

- 1) **Earlier Identification of Incremental Costs:** Phase II is too late in the process to identify incremental costs.
- 2) **Earlier Determination of Transmission Allocations:** The auction mechanism for allocating transmission capacity has promise. However, its success depends on the auction being timed appropriately.
- 3) **Earlier Release of Transmission Planning Results:** NextEra would like to see TPP results released in advance of Phase I filings.

3. Please comment on the following specific aspects of the design of the proposed new TPP-GIP process, and offer concrete suggestions for improvement where needed.

a. The study assumptions proposed for each of the two GIP study phases.

The ISO states that under the new approach (with ICs responsible for funding incremental network upgrades) that there is greater risk that transmission will not get built and therefore more stringent criteria when making assumptions in the study process is needed. NextEra understands this concern and believes it is critical to be able to use realistic study assumptions of transmission in each subsequent study process. We believe this concern can be addressed in two ways: 1) higher hurdles to enter the process; and 2) an auction to allocate limited transmission capacity. These efforts will serve to filter out less committed developers and increase the financial stake of those in the process. The higher the degree of investment a developer has in the process, the more the ISO should be able to rely on them to meet their transmission and generation commitments. Increasing upfront financial commitments is far preferable to making assumptions based on inflated transmission needs.

b. The information available to interconnection customers at each decision point in the process.

No comment.

c. The “soft” nature of the GIP cost caps, whereby interconnection customers and ratepayers will have shared responsibility for upgrade costs that exceed the cost cap. Comment on both (i) the appropriateness of sharing this cost responsibility, and (ii) the ISO’s specific proposal for how the costs would be shared.

No comment.

4. In the revised straw proposal, the ISO identifies four options by which allocation of ratepayer funded upgrades could be allocated.

- a. ***Please rank the options, Option 3A, 3B, 3C, or 3F, from 1 (most appropriate) to 4 (least appropriate) your organization believes to be the most appropriate means for determining the allocation of ratepayer funded upgrades. Please explain the reasons for your preference? If there other options the ISO should consider, please describe them and explain why they could be superior to the other options.***

Option 3C (an auction) appears to be the cost efficient means to allocate capacity to those that prize it most. However, the timing of the auction and details about the auction structure are necessary to further evaluate this option.

Option 3A (allocating on a first-come-first-served) may be an appropriate mechanism if viable, objective, and quantifiable milestones can be identified. Security and other means of increasing the financial stake of developers in the process is the only truly effective means to screen projects. NextEra believes finding valid milestones is likely to be complex and controversial, making this option difficult to implement efficiently. Moreover, the use of a signed PPA is not an appropriate indicator of project viability. While over-subscription of the ISO queue is clearly a problem, there are also issues in the procurement process with developers underbidding projects and requiring subsequent price adjustments or in the extreme example, under performance that leads to contract termination. To the extent the ISO uses non-financial means or milestones to allocate rate payer funded transmission, it provides further incentive for developers to underbid projects in the utility solicitation.

NextEra would highlight that project viability is a consideration in the utilities' procurement process. One of the key factors of project viability in the utility assessment is generator progress in the ISO's interconnection process. In other words, the utilities are looking to the ISO's process to screen many of the less viable projects. To substitute what has been a successful ISO means to screen projects through financial thresholds with qualitative assessment would not improve the process. If a project is truly promising, there should be no reason the generator would not be willing to post security or participate in an auction. As is stands, the ISO's interconnection process has been the single most effective mechanisms for assessing whether the generator believes its project is viable enough to move forward into Phase 2 of the interconnection process.

Option 3F (allowing the LSE's to allocated capacity) requires further detail before NextEra can state an opinion.

3B (pro rata allocation) does not allow the CAISO the needed flexibility to alter allocations based on changing project circumstances. NextEra is opposed to this option. This option does not seem likely to efficiently allocate limited transmission capacity. Capacity should be based on how much the generator values it based on their assessment of their project value. A pro rata approach is unlikely to effectively meet the need of the IC or allocate capacity effectively.

- b. Based on stakeholder feedback during the September 19 stakeholder meeting, many parties stated the ISO would likely need to utilize more than one of the identified options. Please provide comment regarding what combination of these options will best facilitate the efficient allocation of ratepayer funded transmission capacity. Please provide as much detail as possible.**

NextEra prefers Option 3C. If Option 3C is designed and implemented effectively there should be no need for a bifurcated approach to allocating capacity.

- c. If Option 3A is selected, what are appropriate milestones to determine which projects are the “first comers?” In particular, some stakeholders have suggested that only projects with signed PPA should be allowed to qualify. Please comment on the appropriateness of this criterion and any others that might be needed.**

As mentioned, NextEra does not think Option 3A is the best option. However, if the ISO proceeds with it, NextEra strongly opposes using signed PPAs as a means to allocate ratepayer funded transmission. This approach provides extremely perverse incentives to underbid projects in the utility solicitation process, a problem that already exists. In addition, while a PPA is certainly helpful in taking a project to completion, a PPA on its own does not indicate project viability as evidenced by the large number of renegotiated, amended, and terminated RPS contracts to date. In addition, on a contract basis there is already enough capacity to fulfill the 33% RPS today. In California, and other areas of the west, the contract failure rate can be as high as 50%.

We urge the ISO to look to indicators such as site control, commercial operation date, financial viability, permits to construct and operate, and others means that correlate to a developer’s ability to finance and construct a project. We note however that none of these are effective unless coupled with meaningful security deposits.

- d. If Option 3B is selected, what is the appropriate metric and methodology upon which pro rata shares should be determined?**

As stated above, NextEra does not view Option 3B as workable. The CAISO needs screens for project viability before allocations are determined. This option is the least appealing of those listed in the straw proposal and NextEra would be opposed to its implementation.

- e. If Option 3C is selected, then how should such an auction be conducted? Specifically, the ISO seeks comments regarding whether an auction should be an open bid or closed bid and held in a single round or an iterative bidding process? Please provide as much detail as possible.**

NextEra supports an auction which is both open and iterative. The auction would need to be sufficiently open so that parties could value the transmission in relation to other bidders and their assessment of project value.

- f. Should the ISO conduct separate auctions for large projects and small projects? If so, how should the ISO determine how much transmission capacity should be available in each auction?**

More information about the auction is needed before a determination can be made.

- g. If Option 3F is selected, how shall transmission capacity be allocated to the LSEs? In particular, is the existing methodology for allocating import capacity to LSEs for RA (tariff section 40.4.6.2) applicable in the present context? If not, how should it be adapted?**

NextEra believes that this issue needs further vetting. Issues to be evaluated may include, but are not limited to: how the proposal impacts the overall planning of the system for capacity; how would small LSEs utilize small shares; does it impact how the RA must-offer obligation would apply to resources because it may lead to an increase in partial RA resources.

All of the options provided could create opportunities to buy/sell allocations of capacity created by ratepayer funded projects. Is there a need for the ISO to set up rules to prohibit or manage such sales?

NextEra strongly supports the ability to buy and sell allocations and would encourage the CAISO to ensure that any necessary rules to facilitate this outcome be included as part of the proposal. Being able to buy and sell allocations is particularly important to assure the transmission capacity is utilized. If a failing developer is able to sell its allocation to a developer that can bring a project to fruition, the system benefits.

- 5. In cases where an IC pays for a network upgrade and later ICs benefit from these network upgrades, the ISO has proposed two options, Options 3E and 3G to resolve the “first mover-late comer” problem.**

NextEra applauds the CAISO for removing Option 3D, which limited CAISO compensation to congestion revenue rights.

NextEra strongly supports Option 3G, upfront ratepayer funding for excess transmission capacity. NextEra is not opposed to Option 3E, but prefers the certainty of rate-payer funding. In either case, the CAISO will need to be the clearing house and mechanism for the transfer of funds related to excess network capacity.

- a. Does the ISO need to select one of these options or should both be implemented? If both, please explain or give an example of how the two could work together.**

The CAISO should select Option 3G. It is unclear what the benefits of implementing both proposals would be.

- b. If only one option is to be chosen, which option does your organization favor and why?**

The CAISO should select Option 3G.

- c. In option 3G, should the “late comer” be responsible for paying back ratepayers for the portion of the network upgrades already covered by ratepayers or simply take over paying for the portion of the network upgrades covered by ratepayers moving forward?**

To the extent possible, the ISO should not overbuild at the expense of IC. However, if excess transmission is built, then the IC should have ability to recoup incremental investments. The ISO should allow the IC to determine how much it can charge, as long as there is no violation of FERC rules.

- 6. In order to transition from the current framework to the new framework, the ISO proposes that the entire existing queue including Clusters 3 and 4 proceed under the original structure, and that Cluster 5 would proceed using the new rules.**

- a. Does your organization support this transition approach? If not, please indicate how it should be modified and provide the justification for your proposal.**

NextEra supports the transition approach.

- b. Given the potential size of clusters 3 and 4, if these clusters proceed under the existing rules is there a need to create new rules that would strengthen the incentives for less viable projects to drop out of the queue rather than proceed into the GIP phase 2 study process? If so, please offer concrete suggestions and explain why your suggestions would be effective and reasonable.**

NextEra has consistently and vigorously stated that the primary mechanism for increasing efficiency of the interconnection process consists of strengthening incentives for less viable projects to drop out of the queue. That said, NextEra recognizes the potential detriment to project development if the approach creates regulatory uncertainty and a precedent that changes the rules “mid-stream”. As such, a potential mechanism that sufficiently looks forward in terms of more rigorous milestones in Appendix B of the GIP for cluster 3 and 4 resources may be a more appropriate approach. This would signal that only those resources confident of their ability to bring a project to fruition should proceed to Phase II.

- 7. Some stakeholders expressed interest in determining only the reliability upgrades and costs in the GIP studies and to consider the need for delivery upgrades in the TPP. The ISO seeks comment regarding the feasibility/desirability of separating the assessment of reliability and delivery upgrades in this manner. In particular, how**

would this approach improve the process of identifying delivery upgrades that ICs would be required to pay for?

NextEra is conceptually supportive of this approach. Under an appropriate transmission planning process, it is conceivable that ICs would be not required to pay for delivery upgrades because system capacity would be assured and maintained through planning. Without a transparent market for resource adequacy in which the resource can assess the value of becoming a Full Capacity resource, the notion of assigning RA responsibility to the generator is misplaced.

- 8. Stakeholders have expressed concerns about the appropriate time to restudy the needs for and costs of network upgrades when projects drop out of the queue. Therefore the ISO seeks concrete suggestions for when and how restudies should be conducted.***

As noted above, the original queue reform process attempted to mitigate the impact of restudies by making the requirements for proceeding through the process extremely rigorous. Those requirements have been weakened. If the requirements for entry into the queue were sufficient and coupled with an appropriately timed auction, NextEra believes that the issue of restudy would be greatly diminished.

- 9. Please offer any other comments on the revised straw proposal, including any suggestions for improvement of the proposal or other issues your organization believes the ISO must address in this initiative.***

Please see answer to question 1.