



Comments of Pacific Gas and Electric Company on CAISO Proposal for a Third Category of New Transmission Facilities for Renewable Generators

These comments are submitted in response to the CAISO's request for input concerning the white paper entitled "Third Category or Alternative Treatment of New Transmission Facilities for Renewable Generators" dated June 28, 2006. PG&E appreciates this opportunity to provide comments to the CAISO and looks forward to working with the CAISO and other stakeholders to further develop this proposal.

General

As noted in the 2005 Integrated Energy Policy Report, renewable resources are often located far away from the existing grid infrastructure. The high cost of initial transmission investments needed to tap renewable resources in these areas can act as a barrier to development of these resources and attainment of Renewable Portfolio Standard (RPS) goals to the extent they are needed to attain these goals. The CAISO should work with regulatory authorities, PTOs, and purchasing LSEs to plan transmission facilities that result in the least cost and best fit for consumers in light of renewable portfolio standards.

PG&E appreciates the CAISO's effort to develop a proposal to stimulate discussion on how to lessen the impact of transmission development costs to support future development of renewable generation within California. PG&E supports focused efforts to resolve the so-called "chicken and egg" problem relative to development of renewable resources and necessary transmission facilities.

Subject to the following comments and clarifications, PG&E would support changes to provisions of the CAISO Tariff addressing the initial and subsequent cost responsibility for bulk transmission reinforcements necessary to interconnect significant concentrations of renewable generation with the CAISO grid. If implemented properly, changes to the CAISO Tariff could expedite attainment of California's renewable portfolio standards.

Eligibility For Alternative Rate Treatment

Eligibility for participation should be linked to the existence of State or Federal policies outlining specific goals, objectives, and timelines for attaining renewable portfolio standards or renewable resource requirements. Qualifications for renewable power resources must be clearly defined under such a program.

In carrying out a program for new transmission for renewable generation, the CAISO should abide by the relevant findings of State regulatory authorities and accommodate input from the load serving entity (or entities) that are procuring renewable resources to comply with State and Federal policies. The CAISO should not have a role in determining the extent of the “potential” for renewable energy or what quantity of renewable generation constitutes a “large amount” under the proposed eligibility criteria. Furthermore, the anticipated new renewable resources should be likely to become operational within a reasonable time after the development of the new transmission facilities. To implement the program efficiently, the load serving entity (or entities) that are procuring renewable resources should be responsible for proposing potential projects to the CAISO where the eligibility criteria are satisfied.

PG&E generally supports the basic criteria proposed by the CAISO with regard to the size and cost effectiveness of renewable resources eligible for participation. The CAISO will need to work with stakeholders to clarify certain aspects of eligibility, *e.g.*, what quantity of capacity would be considered “significantly smaller” for assessing the eligibility individual renewable resources.

PG&E supports inclusion of a prerequisite based upon forward procurement contracts with LSEs. Potential for a large quantity of renewable generation alone should not be sufficient to support CAISO approval. To minimize any risks to consumers of unnecessary transmission development and to ensure commercial feasibility, forward procurement contracts for a significant percentage of the initial transmission facility “trunk line” capacity must be in place prior to approval. Furthermore, to ensure that CAISO and PTO customers receive benefits in return for the investment in transmission,

there must be a high probability of full generation development within the area being tapped in order to qualify for alternative rate treatment.

The CAISO's approval of a generation "trunk" line project should be conditioned upon the demonstration of the "trunk" line project's need (either reliability-driven or economically-driven), as it is for network transmission facilities. As with economically-driven network transmission facilities, a party's commitment to pay for the "trunk" line facilities (without rolling development costs into the TAC under this proposal) would be an acceptable demonstration of need. In addition, procuring LSEs, at a minimum, must have the ability to review and comment on any CAISO analysis before conclusions are finalized.

As much potential for renewable generation lies outside of the CAISO footprint, eligibility under the proposal should not be limited to transmission projects within the CAISO footprint.

Comments on Cost Recovery and Allocation

In keeping with the intent of the whitepaper, PG&E believes that any cost recovery proposal for third Category Facilities must focus on solving the "chicken-egg" problem, such that expected capacity is available for each generation project as it comes online, without one single project shouldering the costs of future projects. Furthermore, the cost recovery proposal should be consistent with the policies of the federal and state regulatory agencies. Therefore, to be consistent with current FERC policy, generators must bear the ultimate cost responsibility for "direct assignment" or "interconnection facilities." Similarly, the recent 399.25 CPUC decision (D.06-06-034) states "We emphasize that our intent in granting 399.25 cost recovery to the utilities is not to relieve the generators from their ultimate cost responsibility for upgrade costs for gen-ties, but instead is to facilitate up-front funding of economically sized upgrades wherever possible, and to ensure that sufficient transmission exists to meet RPS goals." Lastly, any cost allocation proposal should be easy to understand and administer.

In accord with these principles, PG&E proposes the following cost recovery method for third Category Facilities:

Initial Capital Cost and Ownership

The sponsoring PTO will provide upfront funding of the full cost to construct the third Category Facility and retain ownership and maintenance responsibilities. The third Category Facility will be turned over to the CAISO for operational control consistent with the sponsoring PTO's participation in the CAISO and execution of the Transmission Control Agreement (TCA).

Cost Recovery Mechanism

The sponsoring PTO initially would recover the annual revenue requirement associated with the third Category Facility through the HV transmission access charge (TAC) and the HV Wheeling Access Charge. The PTO would file for a FERC-approved charge for the "trunk" line facility, with the intent that the rate will be assessed to each generator for its share of the capacity of the third Category Facility as those generators come online. Payments received from generators will be credited to the TAC customers through the PTO's TRBA. Thus, only the costs of the unsubscribed capacity would fall on all users of the CAISO Grid. This unsubscribed capacity is expected to be small because safeguards would be in place to ensure the proper timing and size of the "trunk" line facility.

According to the FERC-approved charge, the PTO would assess a monthly \$/kW rate applicable to generators interconnecting with the third Category Facility. Consistent with current FERC-approved rates for other direct-assignment facilities, this rate would be calculated by multiplying a cost-based carrying charge by the gross plant costs of the third Category Facility, and dividing that amount by the kW capability of the third Category Facility. Each generator would be billed this charge each month based on its contract demand level in kW, which is equivalent to the maximum capability of the generator; or, if the generator chooses, an equivalent one-time payment. In this way, each generator will pay only a pro-rata share of the monthly revenue requirement associated with the third Category Facility.

This approach would be consistent with FERC and CPUC policy in that it assesses the costs of third Category Facility to the purchasers of the power through the interconnecting generators. To the extent that the capacity of the third Category Facility is not fully subscribed, the TAC customers would be responsible for any residual revenue requirement. To the extent the line is fully subscribed, TAC customers will not shoulder any costs of the facility. This is a balanced approach in that it ensures that generators and their customers are held responsible for the portion of the capacity of the third Category Facilities that they require, yet it does not result in generators being assessed for the costs of unsubscribed capacity.

PG&E does not support alternative cost allocation proposals that would transfer cost responsibility to a subset of PTO customers after an initial period of time. Renewable generators should provide unique, grid-wide benefits towards meeting the state's renewable initiatives. All CAISO customers would be eligible to purchase renewable generation from resources developed under the proposal and obtain direct benefits and credit towards meeting renewable goals. Even entities that do not have specific RPS requirements are obligated under state policies to pursue renewable resources. Accordingly, the costs should be born by all CAISO users.

In order to assess congestion hedging impacts, PG&E requests more information from the CAISO concerning how trunk lines constructed to tap renewable generation would be treated under locational marginal pricing. For example, would congestion costs be calculated for nodes within the trunk line or only at the point of interconnection with the CAISO network?

Comments on Procedural Issues

Even though a Petition for Declaratory Order to FERC could result in useful and timely guidance, PG&E is concerned that a process involving this step would cause unnecessary and deleterious delay. Proceeding directly with a Section 205 filing to modify the CAISO Tariff would most quickly achieve the anticipated benefits towards meeting RPS goals. In contrast, filing two proceedings before FERC – first for a Declaratory Order and second for a Tariff amendment – would give intervenors the

opportunity to make the same objections in both proceedings, potentially significantly delaying the process with little attendant benefit. Furthermore, the CAISO will have already received and considered the concerns of interested parties regarding the CAISO's proposal in developing a Tariff amendment. First, the CAISO has initiated informal discussions with interested parties (including FERC staff), held a stakeholder meeting on July 7, 2006, and will consider written comments submitted by July 14, 2006. Second, the CAISO would receive and consider additional comments during the development process of a proposed CAISO Tariff amendment. Additional concerns of intervenors will be addressed directly in a FERC proceeding on the proposed Tariff amendments.

No time would likely be saved through seeking a Declaratory Order, as FERC's order on the CAISO's specific proposed Tariff changes would likely require a subsequent compliance filing by the CASIO, even if the CAISO were to seek a Declaratory Order. For these reasons, PG&E recommends that the CAISO work with stakeholders to develop proposed Tariff Amendments for a Section 205 filing to take place within the next sixty (60) days, rather than take additional time and effort to first prepare, file, and await a decision on a Petition for Declaratory Order.

Under FERC Order 2003, independent entities such as RTOs or ISOs may propose "independent entity variations" (paragraph 26, 104 FERC ¶ 61,103). Specifically, "For a Transmission Provider, such as an RTO or ISO, that is an independent entity, the Commission continues to allow flexibility regarding the interconnection pricing policy that each independent entity chooses to adopt, subject to Commission approval." (paragraph 698). Using this existing framework, the third category proposal can be seen as a variation of existing FERC interconnection pricing policy related to gen-ties, specific to these special types of multi-use gen-ties to foster new renewable generation.

Other comments:

To avoid discrimination or potential abuse of the new transmission category, any ability of developers of non-renewable generation to benefit from the proposed trunk line rate treatment, in cases where their location near renewable sources may permit, must be clearly defined and reasonably limited.

Existing ISO Tariff provisions (Section 24), which obligate a PTO to construct all transmission additions and upgrades needed in accordance with the provisions of Section 24, should be incorporated into new tariff provisions governing the third category for justification of transmission.

When considering the feasibility and of trunk line facilities under the renewable transmission category, the CAISO must also consider the cost of network upgrades that support integration of power from the trunk line collection facilities. Both trunk line and network facility costs should be included in the analysis justifying need.

PG&E recommends the term “intertie” be excluded from any nomenclature used to identify trunk lines for collection of renewable generation (*e.g.*, the term “bulk-transfer generation intertie lines” has been used previously). Use of the term “intertie” is confusing with respect to its more common use in describing links between two or more control areas.