

**Comments of  
Southern California Edison Company**

**CAISO Proposal for a Third Category or Alternative  
Treatment of New Transmission Facilities for Renewable Generators**

Southern California Edison Company (SCE) appreciates the opportunity to provide comments on the California Independent System Operator (CAISO) Proposal for a Third Category or Alternative Treatment of New Transmission Facilities for Renewable Generators. Overall, SCE supports the CAISO proposal from a technical and procedural perspective. Further, SCE supports the concept that a CAISO determination of the trunkline facilities being necessary for the efficient development of renewable energy resources to meet state RPS standards should be the justification for up-front cost recovery in the Transmission Access Charge (TAC) charge by Participating Transmission Owners (PTO).

While SCE generally supports the proposal, SCE believes there are areas of the proposal that should be developed further or revised. From a procedural perspective, SCE encourages the CAISO to obtain additional stakeholder input and then move directly into the section 205 application development stages of this process rather than using valuable time to first develop, file and receive an order from FERC on a petition for declaratory order. It was apparent at the July 7, 2006 stakeholder workshop that the CAISO proposal needs further development. SCE is concerned that if the CAISO files its application for a petition for a declaratory order without further input from stakeholders, the proposal could lack important details which may result in FERC denying the CAISO request. SCE believes the CAISO should begin further stakeholder discussions to develop a section 205 application immediately to work through many of the details that remain to be addressed. However, if the CAISO chooses to continue with its proposal for a petition for declaratory order, SCE recommends that the CAISO at least sponsor concurrent stakeholder talks on tariff development while the CAISO is waiting for FERC to issue its declaratory order. SCE acknowledges that the stakeholder process for tariff development will need to address numerous details of the proposal and may be contentious. As such, the process should begin immediately rather than waiting for FERC action on a petition for declaratory order.

SCE believes the CAISO's preferred cost recovery treatment, where the transmission facilities' revenue requirements not recovered through charges to interconnecting generators utilizing the facilities are rolled-into High Voltage TAC charges paid by all CAISO users, is the most equitable and reasonable approach to allocating the costs of these facilities. The CAISO must make clear in its proposal that the CAISO will not be recovering 100 percent of the facilities costs from the ratepayers. Rather, as proposed, ratepayers would only be responsible for the portion of the revenue requirement not paid by generators and that it is envisioned, once the line is fully

subscribed, the ratepayers would no longer be paying for these facilities directly through TAC charges.

Further, SCE believes that the CAISO should not wholly rely on the California Public Utilities Commission (CPUC) and the Public Utilities Code Section 399.25 backstop cost recovery mechanism for these facilities. Section 399.25 is intended to supplement the existing process in circumstances where the current process somehow impedes the development of transmission infrastructure and where transmission capacity increases exceed the capacity requirements of the typical renewable generation project. While SCE certainly supports the backstop recovery mechanisms available under section 399.25, and agrees that they may be applicable to facilities like the Antelope transmission project, SCE believes a mechanism established at the federal, rather than the limited state jurisdictional level will better facilitate the construction of transmission facilities to meet Renewables Portfolio Standards (RPS) requirements in California. The location of a renewable generator or generators should not dictate which utility benefits from or pays for the costs of upgrading the transmission system to accommodate the renewable generation. RPS generation benefits all users of the grid and payment for these benefits should not fall solely on the ratepayers of the utility where the facility is required by Mother Nature to locate.

SCE does not support the first alternative to the preferred option raised in the CAISO whitepaper, (i.e., providing for a phase-out from TAC recovery after five years of the residual costs incurred by the utility that are not recovered from generators). As the CAISO is aware, a major issue related to the development of renewable generation today is that transmission owners are reluctant to build new transmission lines without generators paying for the initial costs of building the facility. Conversely, generation developers are reluctant to pay for generation tie lines and to provide up front funding of network transmission facilities that are needed to connect new generation resources to the transmission system, particularly when those facilities are optimally sized for the anticipated needs of multiple generators. The resulting stalemate has been labeled the “chicken and egg” problem. If this alternative proposal is adopted as-is, due to the uncertainty to the utility of continued cost recovery (there being no guarantee that a line will be fully subscribed by generators within five years), the PTOs will likely require the interconnecting generator to pay for the facilities up front, thus ensuring the continuation of the status quo. Further, this approach is not as equitable as the preferred option of allocating the residual costs to all CAISO ratepayers in that it would require cost recovery from a limited group of ratepayers, while other beneficiaries of the RPS program (and the expanded transmission grid) would avoid any residual cost responsibility.

SCE also does not support the second alternative approach raised by the CAISO for cost recovery. As SCE states above, RPS generation benefits the entire population of CAISO grid users and transmission developed under the CAISO proposal would provide access to renewable resources too all. These benefits should not come at the expense of a limited group of ratepayers. The CAISO should not be swayed by comments that those entities not required under state legislation to purchase

renewable generation are also not benefiting from the renewable generation. It is clear that there is the possibility that non-CPUC jurisdictional entities may at some point in the future, be required to purchase renewable energy under state legislation. Further, as one of the stakeholders indicated at the workshop, they would be willing to pay their pro rata share of the costs of the trunkline facilities if they in fact purchase the generation from the renewable facility connected to a trunkline. SCE believes this is truly a case of trying to have one's cake and eat it too – the non-CPUC jurisdictional entities look to the benefits of the availability of the renewable generation without their customers contributing to the overall infrastructure development that makes these resources deliverable.

SCE also believes that any attempted bifurcation of the costs of facilities being rolled-into the TAC charge based upon a utility's jurisdiction will be a cumbersome and unmanageable undertaking for the CAISO. Further, SCE questions how the bifurcated costs would be allocated when a non-CPUC jurisdictional entity purchases the output of a generator on the trunkline.

### **SCE Responses to CAISO Discussion Questions**

#### **Specific Criteria**

SCE believes it is very important that the CAISO develop explicit requirements for the CAISO-proposed alternative treatment of transmission facilities. These requirements should include:

1. Any facilities afforded the alternative rate treatment must be constructed and operated in support of RPS goals within the state and not merely be considered “renewable” generation.
2. The CAISO must require that once operable, the transmission facilities afforded the alternative rate treatment be subject to the CAISO's control. These facilities will generally be operated in parallel with the transmission grid and will play an integral part in delivering energy to load. As such, these facilities should have a minimum operating voltage of 200 kV.
3. Prior to any PTO being required to start the facility permitting and construction processes, the CAISO and FERC must agree that the facilities qualify for the alternative rate recovery.
4. The CAISO must determine and quantify the technical operating characteristics of the line (i.e., the line capability or capacity) prior to its subscription by any generator. The amount of capacity must be established before the PTO can determine and file with FERC the rate that it charges the interconnecting generators.
5. If the trunkline ultimately becomes a network facility (through additional grid upgrades), the PTO will file at FERC to eliminate, on a prospective basis, the charges that previously had been assessed to the generator for use of the facility.

- i. The CAISO should ensure the generators interconnected to the line are not eligible for any type of refund as the generators' payments were made based upon prior usage of the line.

### **Required Benefits for Alternative Treatment**

SCE believes a benefit a proposed line should be required to show to be eligible for the alternative rate treatment includes the requirement that the line provide for the integration of a large amount of renewable generation within a limited geographic area that is a reasonable distance from the existing grid. As the CAISO is aware, in California, wind generation development is limited to a few distinct geographical areas, including the Tehachapi area, approximately 50 miles northeast of Los Angeles, in SCE's service territory. The line may provide reliability and economic benefits as well; however, these benefits should not be a requirement for the facility to be eligible for the alternative treatment.

### **CAISO Specific Questions**

1. Should only non-network facilities be eligible for alternative treatment?

SCE believes that only non-network and non-traditional generation interconnection facilities should be considered for the alternative rate treatment. Generally, FERC's long-standing policy permits a transmission provider to require a generator to fund network upgrades (i.e., the facilities needed at or beyond the first point of connection to the grid) necessary for the interconnection of the generator. Funding by generators is later reimbursed by the transmission providers through credits. Additionally, FERC policy assigns full cost responsibility for gen-tie facilities (i.e., lines from the generator to the first point of interconnection with the grid) to the generator. Transmission facilities associated with renewable generation often straddle the line between FERC's traditional definition of network and gen-tie facilities. Often times, wind and other renewable generation is located a substantial distance from the grid, requiring the construction of millions of dollars in facilities to deliver the renewable generation to the ultimate customers. While many of these transmission facilities are considered "gen-ties" and not "network facilities" under FERC definition and would therefore be funded by generators without refunds through credits, they are not gen-ties in the traditional sense of the word due to their higher cost, capability to provide for the needs of multiple generators, and greater length when compared to traditional gen-tie facilities. Many generation developers lack the resources and capital requirements for construction of these facilities. If a utility decides to construct and pay for the facilities to interconnect and deliver renewable generation, to meet RPS requirements, the utility runs the risk that FERC will deny cost recovery of the facilities, even if construction of the facilities was based upon reasonable forecasts of potential renewable generation. Reasons for FERC's denial of cost recovery and ultimate stranded investment may include (i) FERC's conclusion that these facilities are gen-ties that should have been paid for by generators, (ii) a smaller facility should have been built because the full increment of forecast generation never applied for interconnection, and (iii) FERC's denying recovery of 50% or more of the facilities under FERC's abandoned plant rules due to potential generation never materializing

after facilities have been built and paid for by the utility. As such, SCE believes the CAISO proposal must cover only those facilities which fall into the “void” created by FERC generator interconnection policy.

2. Should signed contracts between LSEs and renewable generators be a prerequisite for eligibility for alternative treatment?

The provisions of SB 1038 and SB 1078 specifically address transmission facilities that are needed to integrate generation that is required for fulfilling the State’s RPS goals. The special treatment therefore requires some showing or validation that the proposed facilities are in fact to be constructed for valid renewable resources that have commitments to meet the RPS requirements. Generally, this showing would be made through a signed Power Purchase Agreement. Further, to prevent abuses of the queue rules and the CAISO interconnection mechanism, signed Power Purchase Agreements should be required.

3. Is the proposed cost allocation mechanism equitable?

SCE believes the CAISO’s preferred cost allocation mechanism is equitable. However, the two options to the preferred cost allocation mechanism proposed by the CAISO are not equitable. SCE believes renewable generation benefits the entire population of California directly, by providing cleaner air and diversity of fuel resources, and reducing reliance on conventional thermal fuels. This reduced reliance on primarily gas-fired generation should result in reducing cost of fuels for the whole population in the state. As such, the economic burden of developing transmission facilities to deliver renewable generation should not fall upon a limited number of ratepayers. Indirectly, there is a secondary benefit from the state’s reduced demand for natural gas as this reduction benefits the entire nation by making more supply available to consumers in other states.

Overall, the main benefit for the trunkline concept proposal really is the environmental benefit of avoiding proliferation of numerous gen-tie facilities running in parallel on a narrow corridor to the nearest available connection substation. With the CAISO proposal, one big trunkline would instead serve as the collector. The economies of scale dictate that the larger line accommodating a large amount of renewable energy results in reduced overall costs for delivered energy to the buyers. Again, since this is a statewide goal, the costs should properly be spread to all ratepayers or consumers.