

**Comments of
Southern California Edison Company
Dated August 3, 2007**

CAISO Straw Proposal for Remote Resource Interconnection Facilities (RRIF)

Southern California Edison Company (SCE) appreciates the opportunity to provide comments on the California Independent System Operator (CAISO) straw proposal dated July 23, 2007, to implement Remote Resource Interconnection (RRI) policy, preparatory to its Section 205 tariff filing at FERC.

SCE continues to support the CAISO straw proposal from both a technical and procedural perspective and believes the principles embodied in the straw proposal are sound and should achieve their intended purpose – that is to remove financial barriers to the interconnection of resource-constrained energy resources and to assist the achievement of California’s renewable energy goals.

SCE provides the following comments per section of the straw proposal:

Section 3.1: What is the minimum percentage of capacity of eligible projects that must be subscribed pursuant to executed Large Generator Interconnection Agreements (LGIAs) before construction can commence?

CAISO proposal: 25% minimum level of capacity accounted for by signed LGIAs from multiple applicants (plus the appropriate showing of additional interest in Section 3.2).

SCE comments: SCE proposed a lower minimum threshold of 15% subscribed pursuant to signed LGIAs, but will accept the higher 25% threshold.

In the stakeholder meeting held on July 27, 2007, SCE discussed the issue of timing in relation to lowering the perceived financial barriers to interconnection of remote resources. For the written record, SCE will restate its point herein.

To wait until LGIAs, PPAs or other agreements are signed before being assured of RRI treatment may still create a barrier to the development of remote generation. A stated goal of the RRIF principles is to remove the burden of upfront funding transmission upgrades for remote resources from the generators (in essence, shifting the financial burden from generators to TAC payers) until such time as the generators interconnect to the RRIF and fill the capacity of the transmission facility. What still might be missing from the principles is a mechanism to pre-determine eligibility for the RRIF early in the development process. SCE is surprised that generators have not been more vocal about the need for a pre-determination of eligibility for the RRIF. Since the signed LGIAs come at the end of the queue study process, and some of the proposed “additional interest” items, such as PPAs, are not negotiated until later stages of a project’s development lifecycle, the CAISO might want to consider adding

into its tariff language a process whereby a proposed energy resource area (ERA) and its attendant RRI can be pronounced “eligible” for this financing treatment well before the hurdles in Sections 3.1 and 3.2 are met. In this manner, SCE seeks to eliminate a perceived barrier to development of remote resources. SCE is willing to discuss this issue further with the CAISO at any time.

Section 3.2 What are the appropriate criteria for demonstrating “additional interest” (i.e. interest more than the requisite minimum percentage of LGIAs) for an eligible project?

CAISO proposal: Four categories of potential “showings” count towards “additional interest”

- 1. LGIAs that surpass the 25% minimum threshold in Section 3.1 above*
- 2. Signed PPAs*
- 3. Project in the interconnection queue at the Facilities Study phase.*
- 4. If a generator has satisfied at least one condition in each of the following categories:*

- Reside in the generation queue, or*
- Sign a declaration of intent, or*
- Participate in an open season*

AND

- Submit a deposit based on \$/kW of the project’s capacity,*
- Own the land,*
- Own the mineral rights, or*
- Submit payment for the System Impact Study (\$50,000)*

SCE comments: SCE proposed many of the same criteria, including completion of the System Impact Study, PPAs, and a monetary deposit or bond based on a minimum percentage of the generator’s pro-rata share of the cost of the RRIF. SCE agrees in principle with the CAISO proposal, but makes some comments on specific items:

Item 2. Include both CPUC-jurisdictional PPAs, as well as non-jurisdictional PPAs.

Item 3. In the interconnection queue, having **commenced the Facilities Study**. (being “at the Facilities Study phase” could be confused with either having started, or having completed the Facilities study.)

Item 4. Does legal “control” of the land and mineral rights (through a lease) count for “ownership”? If so, the language should probably read **control**, instead of “own” the land and mineral rights. Separately, if the generator has already been required to have commenced the Facilities Study in requirement #3 above, will not the generator have already paid the System Impact Study deposit of \$50,000? SCE believes the deposit based on \$/kW of the projects capacity to be the most effective method to show “additional interest” in item #4 above.

SCE is also seeking clarification in regards to Section 3.1 and 3.2: What about the case where only one LGIA is executed resulting in more than the 25% threshold, and

there is a showing of interest from other developers? What if a single generator with a signed LGIA would use more than 60% of the capacity of the line, but there is still a showing of additional interest from other parties? In either case, would the line still qualify as an RRIF even though only a single generator exceeds the minimum threshold capacity?

Section 3.3: What is the minimum percentage of “Additional Interest” that should be shown for an eligible project before construction can commence.

CAISO proposal: The minimum percentage should be 35%, which when combined with the minimum percentage under Section 3.1 above, would sum to 60%.

SCE comments: SCE suggested 25%, and is comfortable with a simple majority (51%) for the combination of the two prongs of the “additional interest” test. But SCE will accept the higher minimum threshold of 35%, and 60% for the combined test.

Section 3.4: Do wheel-through customers receive benefits from a remote resource interconnection facility? Should the costs of a RRIF be included in wheel-through rates? Why or why not?

CAISO proposal: CAISO believes that wheel-through customers benefit in several ways from RRI projects, but does not specify if wheel-through customers should pay (SCE believes CAISO, in an error of omission, simply left out the statement that such customers should pay the cost of RRIFs in the TAC .)

SCE comments: SCE stated in earlier filed comments that it believed wheel-through customers do indeed benefit from additional generation resources, through increased reliability and supply diversity and saw no compelling reason for exempting wheel-through customers from paying for RRIFs in the TAC.

Section 3.5: What are the key elements of and consideration for a transmission planning process for the remote resource interconnection policy?

CAISO proposal: CAISO considers the RRI policy to be a critical component of the CAISO’s overall Transmission Plan, along with the other categories of reliability and economic driven projects. CAISO’s proposal includes the following elements:

- 1. Establishment of Remote Energy Resource Areas (ERAs) – also known as Competitive Renewable Energy Zones (CREZ) by the CPUC and others. CAISO looks to the CEC and CPUC to identify potential ERAs.*
- 2. Inclusion of ERAs and RRIs in the CAISO annual Transmission Plan process*
- 3. A relative ranking of ERAs should be performed by state regulatory agencies, and includes a list of appropriate criteria for that ranking (12 items, not reproduced here).*

4. *Supports the plans for RRIFs to be flexible and robust, to allow expansion into network facilities in the future to accommodate potential maximum buildout of the resources*
5. *Include input from other non-PTOs in California (such as IID, SMUD, LADWP) in the planning process, and suggested the appropriate venue for such input be the newly formed California Sub Regional Planning Group (CASPG).*

SCE comments: SCE agrees with items #1-5 and wants to express clear support for the nascent California Renewable Energy Transmission Initiative that is being developed to evaluate ERAs/CREZs. SCE also reiterates its position that the RRI and ERA process must be additive and not be considered as duplicating or replacing, existing transmission planning processes in California. The last thing California needs is another collaborative transmission planning process.

In the stakeholder meeting, CAISO requested stakeholders provide in their comments their opinions regarding which of the ERA ranking criteria are most important. SCE notes that ranking of the ERAs will be one of the primary goals of the nascent California Renewable Energy Transmission Initiative. But to comply with the CAISO's request, SCE submits the following regarding ranking criteria:

Most important:

1. As much as possible under the current LGIP, the most cost-effective remote generation resources should have the highest priority for study, development and interconnection.
2. Priority should be given to integrating the maximum potential capacity for location-constrained generation, using a master plan that is sufficiently comprehensive to interconnect the entire economically feasible renewable resource potential. The master plan should include not only RRIFs (gen-ties) but also the network facility upgrades required to deliver the remote resources to load. The master plan must be able to be implemented in phases as generators come on-line to minimize the risk of creating stranded investment. Additionally, the master plan should accommodate the potential need to expand an RRIF in the event that additional generation comes into a region with an existing RRIF in place.
3. Maximum potential energy for meeting the State RPS goals.

Important:

Most of the cost/benefit-related criteria listed in the straw proposal fall in this category.

- Distance to the nearest possible CAISO transmission bulk facility
- Potential viable transmission route
- Transmission cost per MW for full delivery to load centers
- Realistic commercial operating dates
- Potential impact on the TAC
- Potential operational/congestion/reliability benefits
- Stranded cost risk and potential impact

Least important:

SCE views the following criteria as the lowest in the priority ranking pecking order:

- Position in the interconnection queue
- Fuel diversity
- Alternative means of transmission access from the ERA to the CAISO grid

Section 3.6: What principles should be applied and factors considered to ensure that a proposed RRIF will result in a cost effective and efficient interconnection of resources to the grid?

CAISO proposal:

1. Flexible and robust RRIF master plan
2. Least cost solution
3. Inclusion in RA and RPS goals
4. Resource diversity
5. Potential synergy with other TO's transmission plans

SCE comments: SCE agrees with the list in Section 3.6 but SCE also suggests adding to item #2 above, additional language that incorporates into the least cost solution the following two additional items:

- 1) the likelihood of constructability
 - 2) any potential permitting issues
- to the extent that either of these qualifiers are known in advance.

For example, the least-cost solution will usually be a straight line. However, if known permitting issues (such as an environmentally sensitive area) require an alternative, circuitous route around the sensitive area, the least cost solution should evaluate the alternative route and eliminate the straight line route from consideration if unattainable.

Section 3.7: How should energy resource areas be selected?

CAISO proposal: CAISO proposes selection of ERAs by the CEC and CPUC, and suggests that the CRETI process currently underdevelopment may be the ideal forum to do that. However, CAISO is reluctant to memorialize the CRETI process in its tariff, as it may not be formal or durable enough.

SCE comments: The CRETI process is an outgrowth of SCE's Advice Letter that requested memo accounting treatment to study the feasibility of developing transmission facilities to interconnect four renewable-rich areas within or near SCE's service territory. Although it may be true that the CRETI process is in its infancy, SCE believes that CRETI is a model of the type of top-down, open, and comprehensive evaluation and development of transmission needed to interconnect renewable resources in California.

Section 3.8: Should the CAISO consider tariff changes to its existing authority to “cluster” interconnection studies to enhance its ability to efficiently evaluate locationally-constrained resource areas?

CAISO proposal: Although not discussed at the stakeholder meeting (will be subject of a later conference call), CAISO reiterated that clustering is already allowed under its LGIP proceedings. However, CAISO also acknowledges that the large number of interconnection requests currently in the queue has brought the serial interconnection study process to its knees. CAISO suggests adopting the Midwest ISO model of “group studies” as a possible solution, but also indicated that further discussion of this issue is warranted.

SCE comments: SCE reiterates its position that the interconnection queue process is broken down and needs substantial reform. Two separate issues need to be addressed. First, the currently clogged queue needs to be unclogged in an expedited manner. Second, a go-forward process needs to be established to regularly identify clusters of projects that enter the queue in fixed intervals, for study as a group. Establishing the latter, without fixing the former, will not solve the current impasse.

Section 3.9: Other stakeholder comments

SCE comments: It appears that the CAISO does not intend to revisit the size of the 15% of net plan investment cap. SCE is concerned that the 15% investment cap might limit the amount of transmission projects that could be developed under the RRI program. SCE believes the investment cap should be reconsidered for two reasons. First, if the California Legislature succeeds in increasing the overall RPS program to require 33% renewables by 2020, much more generation (and corresponding transmission) will undoubtedly be required. Second, the amount of interconnection requests from renewable generators continues to grow. Not all of these projects will interconnect to RRIFs, but many of them might. SCE notes that the existence of the 15% investment cap makes the prioritization of projects even more important, to ensure that CAISO ratepayers receive the most “bang” for their “buck”.