

Stakeholder Comments Template

Integration of Transmission Planning and Generator Interconnection Procedures (TPP-GIP Integration)

Draft Final Proposal, posted February 15, 2012

| Submitted by | Company | Date Submitted |
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This template is for submission of stakeholder comments on the topics listed below, which were discussed in the TPP-GIP Integration Draft Final Proposal posted on February 15, 2012, and during the stakeholder meeting on February 22, 2012.

Please use the list of topics and questions below to structure most of your comments. At the end of the document you may offer comments on any aspect of this initiative not covered by the topics listed. When you state a preference for a particular approach on a topic or issue, your response will be most helpful if you clearly explain the reasoning and business case for your preference.

Because the draft final proposal mostly retains the major design elements and provisions of the previous proposal, the topics identified below concentrate on provisions that are new or revised.

Section 1. Overall support for the draft final proposal.

Please select one of the following options to indicate your organization’s overall level of support for this proposal: (1) fully support, (2) support with qualification, or (3) oppose. If you choose (2) please describe your qualifications or specific modifications that would allow you to fully support the proposal.

SCE supports with qualification the CAISO’s TPP-GIP Integration Draft Final Proposal. Although SCE is supportive of the CAISO’s efforts to rationalize the generator interconnection queue to perform more realistic technical studies at a level which would yield more meaningful results in terms of identifying needed transmission and the associated costs to meeting California’s 33% RPS goals, there still remains the need for the CAISO to provide additional clarity on several critical implementation issues. The clarifications needed in each of the specific issues identified below are crucial in order for the implementation of the TPP-GIP Integration to be achievable and for at least some, if not all, of the desired effects and objectives of the TPP-GIP Integration to come to fruition.

One additional theme the CAISO should consider is the level of uncertainty of obtaining resource adequacy (RA) under this proposal may be higher than the current status quo. This has the effect of reducing the ability and confidence to transact for RA. If there is a lack of confidence in obtaining RA throughout the life of the asset there will be a significant change in the relative attractiveness of wind over solar.¹ While SCE is technology neutral with regard to renewables, it is important to note that without confidence in the ability to obtain RA, the bilateral wholesale markets will likely shy from the RA product long term, which can significantly change the type of resources that will be brought to the CAISO's grid. SCE believes that the CAISO can provide confidence but urges the CAISO to consider this concern in designing the new process.

Section 2. Major differences between the 2/15 draft final proposal and the earlier 1/12 second revised straw proposal.

1. In response to stakeholder concerns about the previous proposal that ratepayers would reimburse customers fully for all reliability network upgrades (RNU), the draft final proposal will determine whether a project is eligible for full, partial or no reimbursement in a manner that aligns with the allocation of TP deliverability under this proposal.

Both the costs for deliverability and reliability network upgrades must be considered when evaluating the total cost impacts to ratepayers, through eventual reimbursement, of interconnecting additional generation to the electrical grid. An alignment of reimbursable costs for RNU in a manner that is consistent with the approach for the allocation of TP deliverability would be a prudent policy approach to ensure that ratepayers are not burdened with potentially high RNU costs for a project that does not propose to interconnect at a point identified through the transmission planning process as providing ratepayer-funded deliverability.

2. Projects that submit energy only interconnection requests and do not seek deliverability will be reimbursed for RNU up to a maximum of \$40,000 per MW of generating capacity.

SCE sees a flaw in the CAISO treatment of refunds for RNU. SCE understands that placing a cost per MW cap on RNU is seeking to send correct price signals for RNU. SCE can support such a cap, but has other concerns about this proposal.

SCE does not believe it is fair to treat one set of EO customers/applicants different than another set of EO customers in relation to the provision of refunds of RNU. IC refunds of RNU have a well-defined history and precedent at FERC. Up to this point, FERC policy has reflected the fact that RNU provide overall system benefits, and ICs are provided refunds of RNU largely to reflect the societal benefit of the IC's expenditures (in addition

¹ It is important to note that the IOUs procurement is based on relative rankings among different technologies. SCE pays renewable generators based on their contract price multiplied by a time-of-day factor (TOD). Given a contract price of \$100/MWh for both a wind and a solar plant the post-TOD average payments would be roughly \$95/MWh and \$130/MWh, respectively. That's a \$35/MWh difference in costs between these two products and is really only justified if solar can provide, with confidence, RA credits and on-peak energy over the entire life of the contract. Without confidence in RA the economics of wind projects can become more attractive in a relative ranking to solar projects.

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to the reliability benefits/needs required to interconnect the triggering IC). Therefore, SCE does not support the notion that an Option A generator should lose refunds of RNU if it switches from FC to EO during the interconnection process. Such an IC should have the same refund provisions as those ICs that chose EO from the outset of the process.

That being said, SCE has stated in comments in previous reform efforts, and reiterates the same view today, that SCE is concerned about large amounts of EO requests entering the market, leading to increased congestion which would in turn result in the driving up of power prices for market participants. If this is a concern shared by other market participants as well as the CAISO, and is driving the CAISO's RNU refund methodology, then by extension, SCE sees the only other fair way in dealing with this issue would be to move completely to a participant funded model wherein no refunds are paid to ICs that finance RNU. To do otherwise would provide unbalanced favoring of one set of customers over another.

Similarly, when it comes to EO versus FC interconnections, the CAISO ought to consider curtailing EO generators before FC generators. This can be accomplished rather simply in the CAISO systems and rewards generators who contribute with network upgrades that reduce congestion.

3. The proposal distinguishes between area delivery network upgrades (ADNU) and local delivery network upgrades (LDNU), where ADNU are generally identified through the TPP to provide deliverability to a targeted MW amount of generation in an area, while LDNU are identified through the GIP studies to provide resource-specific deliverability.

The CAISO needs to establish clear definitional criteria for ADNU versus LDNU. For example, it is not completely clear what constitutes an ADNU or a LDNU when multiple interconnection customers are triggering the need for deliverability, but yet it appears the CAISO proposal would have these upgrades identified as LDNU, when these interconnection customers could conceivably be grouped to make the deliverability need an ADNU. Also, while it is true that ADNU are typically identified through the TPP, Phase 2 of GIP would also identify ADNU for Option B generators.

4. The process for allocation of TP deliverability will be the key determinant of whether a generation project is required to post security and/or pay for a share of ADNU costs after phase 2. All projects will be required to post security for their shares of RNU and LDNU costs. Eligibility for ratepayer reimbursement of these security postings after commercial operation begins will align with whether the project was allocated TP deliverability and then meets the criteria to retain the allocation.

Identifying ratepayer-funded DNU through the transmission planning process is predicated on the CAISO relying on the CPUC's resource portfolios, which is presumably the amount needed to meet California's 33% RPS. Consistent with the TPP-GIP Integration objective of limiting the potential exposure of transmission ratepayers to the costs of building transmission additions and upgrades that are inefficient, all of the transmission required to ensure reliability of the electrical system and deliverability of a targeted MW generation amount, must be considered when evaluating the total costs to interconnect a generation project. Projects allocated TP deliverability are interconnecting at a point on the grid which will contain costs within an

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amount that is needed to meet California's energy policy goals, and should be eligible for reimbursement of their RNU and LDNU costs incurred to reliably interconnect to the electrical grid and to attain full deliverability status. Projects not allocated TP deliverability would trigger deliverability and reliability network upgrades not needed to meet the 33% RPS goal and should be responsible for all of the transmission costs, with no reimbursement upon their commercial operation date.

5. The allocation of TP deliverability to generation projects under this proposal will occur for the first time at the end of the GIP phase 2 study process for cluster 5, i.e., during the first quarter of 2014. Before the ISO allocates TP deliverability to any cluster 5 projects, the ISO will first determine how much of the TP deliverability provided by the most recent transmission plan must be encumbered by projects in the existing queue (serial through cluster 4) that are in good standing with respect to their PPAs and GIAs, any expansion of MIC that was addressed in the TPP, and any deliverability for distributed generation (DG) allocated to regulatory authorities under the DG Deliverability initiative in progress. After accounting for these encumbrances, the remaining amount of TP deliverability will be available for qualified projects in cluster 5.

SCE supports the allocation of TP deliverability occurring at the latest possible point in the TPP-GIP Integration process to allow generators additional time to progress towards meeting significant commercial milestones and to have the CAISO allocate TP deliverability to the most viable projects. The CAISO deferring the allocation of TP deliverability from the previous proposal between GIP Phase 1 and 2 until after the completion of Phase 2 is a move in the right direction. The reservation of TP deliverability for projects in the existing queue with legitimately effective PPAs and GIAs, any expansion of MIC, and deliverability needed for DG must be done in such a way to not eliminate some amount of deliverability which should be made available to a viable project in QC5 which has a high probability of coming online due to its contracting appeal to an LSE. The less stringent eligibility criteria for TP deliverability in the draft final proposal provides an increased likelihood that such a project in QC5 will be apportioned some amount of TP deliverability.

6. If there is some TP deliverability available for allocation to projects in the current cluster and to option (A) projects in the prior cluster that opted to park for a year, such projects must at least meet the minimum threshold criteria of being included on an active LSE short list and having submitted the necessary permit applications in order to be eligible for the allocation of TP deliverability.

The CAISO has significantly reduced the minimum threshold eligibility criteria in its draft final proposal. Although the less stringent TPP deliverability eligibility criteria provides a greater opportunity for a generator to be allocated TP deliverability, it now becomes increasingly critical that the CAISO monitor generators which receive TP deliverability so as not ensure they do not backslide on the criteria which was originally used to deem them eligible and ensure they are making progress on meeting their GIA milestones. In situations where there is a reversal in the generator's eligibility criteria and/or a breach in the GIA, the CAISO must act promptly to recover the allocated deliverability and re-allocate it to other viable projects.

It is critical that the CAISO establish clear and objective ranking criteria for allocating TP deliverability so that they are reflective of a project's ability to come online.

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In addition, the CAISO's proposal assumes that the IOUs will make their short-list information available to it. This information is highly sensitive confidential information. Thus, SCE does not object to providing this information to the CAISO provided adequate confidentiality protections are put in place that ensure this information will remain confidential. Without these protections, SCE cannot support a criterion that requires SCE to disclose its short-list.

7. If the volume of projects that meet the threshold exceeds the amount of TP deliverability available, the ISO will calculate a numerical score for each project based on the criteria and point values presented in the proposal, and will allocate deliverability to the highest scoring projects without regard to whether the project chose option (A) or (B).

The CAISO should consider modifying the allocation methodology to provide that the IOUs rank their short-listed projects with respect to who should receive an allocation of deliverability. These rankings could be the basis of the deliverability allocation, or factor into the analysis. The IOUs rankings themselves would be based not only on viability, but economics as well. Using this information, would help solve a situation where the most expensive project, which happens to be the most viable, receives deliverability, and, a project that is only slightly less viable, but much more economic, does not. By taking into account both the economics of a project and viability, the CAISO can better ensure that deliverability is being allocated to the best and most viable projects. Furthermore, allowing the IOUs to rank projects will enable the IOUs to identify those projects that they believe they are most likely to execute a PPA with. For most projects, whether a project actually obtains a PPA can be the single largest variable as to whether a project will come on-line. Taking into account the IOUs preference for contracting will only further ensure that the most viable projects receives an allocation of deliverability. .

However, if the CAISO does not make the change described above, the CAISO should modify this allocation methodology to provide that projects with a power purchase agreement (PPA) in good standing should receive a more significant point allocation. As stated above, whether a project has a PPA is vital to a project's viability. While the "Project Finance Status" screen makes this differentiation, SCE believes the point allocation should be adjusted to give those projects with a PPA more credit.

In addition, the CAISO must use clear objective ranking criteria as part of its allocation methodology. In SCE's experience, viability analysis has proven to be very subjective. Questions will arise as to whether the CAISO's rankings are correct from those that believe they are being ranked unfairly. To help alleviate this concern, the CAISO should require the IOUs, and the Independent Evaluator for the RPS solicitation for the IOUs, to provide a viability score for each of the short-listed projects. These scores should then be taken into consideration as part of the CAISO's final analysis.

8. A project that is allocated TP deliverability under the proposed approach will be required to demonstrate annually that it meets the criteria for retaining the allocation; i.e., (i) no regression with respect to criteria on which it received the allocation; (ii) executed GIA in good standing (no ISO notification of breach); (iii) no delay of COD unless for reasons beyond customer's control. If a project loses its allocation, it must either withdraw from the queue or convert to energy only deliverability status.

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Please see response to Issue #6 above. SCE also agrees that if a project loses its allocation, it must either withdraw from the queue or convert to Energy Only deliverability status

9. An option (A) project that does not receive TP deliverability after parking for one year must either withdraw from the queue or execute an energy only GIA. To allow parking for a longer period would complicate the GIP study process by maintaining a backlog of projects to be studied for RNU and LDNU that may not be making progress but have little incentive to withdraw.

Providing generators one subsequent GIP cycle to receive their desired TP deliverability is a fair balance between providing sufficient time for the CAISO to expand the amount of deliverability to account for the commercial realities of more viable generation than was accounted for in the TPP resource portfolios showing up in a particular resource area and the need for generators to make a timely decision in terms of whether they will remain in the queue or withdraw. Any consideration to provide a longer period for generators to park would only prolong the existence of a burgeoning queue which would continue to result in unrealistic technical study assumptions, yielding the identification of unrealistic needed network upgrades and associated costs. The CAISO should not sacrifice the goal of rationalizing the interconnection queue to a meaningful level for what can be an open-ended wait by the generators to receive ratepayer-funded deliverability.

10. An option (B) project that does not receive TP deliverability within the allocation process immediately following its phase 2 study results must either withdraw from the queue or execute a GIA committing it to pay its share for all required network upgrades without ratepayer reimbursement.

SCE agrees that an Option (B) project that does not receive TP deliverability after the Phase 2 study results must either withdraw from the queue or execute an interconnection agreement committing to pay for its share of required network upgrades without ratepayer reimbursement. In order for an Option B project to demonstrate that it is serious in electing to be an Option B generator, and convey that it is willing and able to fund without reimbursement for its required network upgrades, it must either stand ready to pay for its network upgrades or withdraw from the queue, once it has not received TP deliverability. This will also help to rationalize the queue to a more meaningful level.

11. Projects that withdraw from queue after the phase 2 study results may be eligible for partial refund of their first financial security postings in accordance with existing tariff provisions, as expanded by the following new eligibility conditions: (1) An (A) project will be eligible if it fails to be allocated TP deliverability; the period for “early” withdrawal under this condition will be 18 months from phase 2 study results. (2) A (B) project will be eligible if its phase 2 cost estimate for ADNU exceeds its phase 1 estimate by the smaller of 20 percent or \$20 million. The “early” withdrawal period will be 180 days from phase 2 study results.

The period for what constitutes an “early” withdrawal for an (A) project (i.e., 18 months from Phase 2 study results) is justifiable to accommodate the additional one year an (A) project can “park”, until the next TP deliverability cycle, in hopes of being allocated its

needed share of ratepayer-funded deliverability network upgrades in addition to the initial 120-day allocation period plus 60 days. Given that an Option B generator would not have the ability to “park” until the next TP deliverability cycle, it would be appropriate to provide an Option B generator twelve months less than an Option A generator to drop out of the queue and still qualify as an “early” withdrawal.

12. The ISO will maintain the March 31, 2012 closing date for the cluster 5 request window, in contrast to April 30 as stated in the previous proposal. In recognition of the possibility that FERC’s order may significantly modify the proposal that the ISO Board rules on in March and the ISO files shortly thereafter, the ISO’s filing will include a provision to allow parties to withdraw requests up to 10 days after the FERC order without any penalty applied to the refund of their initial study deposits.

SCE supports the CAISO including a provision in its filing at FERC to allow parties to withdraw requests up to 10 days after the FERC order without any penalty applied to the refund of their initial study deposits.

Section 3. Please provide any additional comments on major structural components of the proposal.

13. GIP Phase 1
14. Transition from Phase 1 to Phase 2
15. GIP Phase 2
16. Allocation of TP Deliverability Post Phase 2
17. Subsequent to the Allocation Process

Section 4. Please use the space below to offer comments on any other aspect of the proposal not covered above.

A. The ability of the CAISO to properly identify the needed deliverability network upgrades through the TPP is predicated on the CPUC’s resource portfolios being carefully developed, as key inputs into the transmission planning process. It is essential that the development of the resource portfolios be done through a robust stakeholder process. Recognizing that the CAISO does not control the actions of the CPUC, the CAISO should strongly encourage that the CPUC seek input from all potentially impacted stakeholders and integrate their perspectives in the development of the resource portfolios, which are the primary drivers for identifying deliverability network upgrades.

B. In situations where the combined amount of deliverability for both the generating projects reliant on ratepayer-funded deliverability and those willing to fund their deliverability network

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upgrades exceeds the amount of TPP deliverability available in a particular study area, the CAISO proposes that the LSEs and regulatory authorities will have information to assist procurement decisions as a possible mitigation option. This mitigation option implies the LSEs have an ability to coordinate their procurement activities. SCE has concerns with such a proposal, and reiterates here its comments submitted on a similar issue in response to the CAISO's QC1/QC2 revised discussion paper.

SCE strongly encourages the CAISO to work with the CPUC to provide as much information as possible regarding TP deliverability committed to existing PPAs the interconnection customers have negotiated with LSEs in order to minimize the likelihood that an LSE, through its procurement activities, would trigger the need for additional deliverability network upgrades beyond those which are identified through the TPP.

C. In cases where an Option B project pays for its own network upgrades and elects an independent transmission company to build these upgrades, it is not clear in the draft final proposal if the CAISO intends for this provision to apply to upgrades within the PTO's rights-of-way and/or its existing facilities. The CAISO needs to be explicit that Option (B) generators are not being granted rights to build DNU on PTO facilities, consistent with FERC Order 1000. Interconnection customers and/or their contractors would be able to build only those upgrades that reside outside of the PTO rights-of-way and existing facilities (i.e., "green field" projects).