Stakeholder Comments Template

Integration of Transmission Planning and Generation Interconnection Procedures (TPP-GIP Integration) Revised Straw Proposal, September 12, 2011

Submitted by	Company	Date Submitted
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This template is for submission of stakeholder comments on the topics listed below, covered in the TPP-GIP Integration Straw Proposal posted on September 12, 2011, and issues discussed during the stakeholder meeting on September 19, 2011.

Please submit your comments below where indicated. Your comments on any aspect of this initiative are welcome. If you provide a preferred approach for a particular topic, your comments will be most useful if you provide the reasons and business case.

Please submit comments (in MS Word) to TPP-GIP@caiso.com no later than the close of business on September 29, 2011.

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.

   STFC and CCA support the CASO's efforts in revising and integrating the GIP with TPP. We believe it is necessary to have a comprehensive transmission plan for California that supports both the load growth and access to the renewable resources. We also support the CAISO's efforts to revise GIP to allow viable renewable developers to move forward with their development.

   We believe that objective 4 should be expanded, or a new objective be added, to specify that the CAISO has a fiduciary responsibility to CAISO consumers to find the most economical way of providing the transmission needed to achieve California's RPS requirements. This means the CAISO must identify and evaluate feasible wires and non-wires solutions on an

economic basis. The CAISO should only authorize cost recovery of transmission upgrades through the CAISO's Transmission Access Charge (TAC) mechanism where such upgrades are determined to be more economical than other wires and non-wires solutions. This will limit the exposure of transmission ratepayers to the costs of building transmission upgrades that are inefficient or under-utilized.

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.

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.

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

    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.

    The proposed allocation rule may not be appropriate since PTOs have an incentive to provide a low cost estimate in the Phase 1 studies. By providing the CAISO with low cost estimates for network upgrades which are not in the TPP, the PTOs create for themselves an additional opportunity to share in the cost and add to their rate base even though the network upgrades identified in the TPP are the only ones that have been determined to be economical for CAISO consumers. The costs for network upgrades that are not included in the TPP should be entirely the responsibility of the ICs requesting them.

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.

3B (as modified below), 3A, 3F, 3C.

We have picked option 3B as we believe it has more benefits than the other options (as stated below). However, in choosing option 3B we have assumed that the ICs have an ability to recover the cost of additional network upgrade in their negotiated PPA prices. But if that is not the case, (i.e., for clusters 3 and 4 with ICs who have already signed fixed price PPAs) then we would go with option 3A as the preferred option, and propose similar qualification requirements as for the modified option 3B described below (i.e., PPA, and depending on the aggregate amount of remaining ICs, site control).

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.

We believe option 3B is the most appropriate provided that the allocation is made only to the projects with a PPA. If after this requirement the remaining GWhs in aggregate is higher than the RPS goal of 33%, we can support a secondary qualification requirement (e.g., site Control) or more if necessary. Once appropriate qualification requirements are added, the chance of oversubscription diminishes as there should be no reason why projects with PPAs were not identified in the studied TPP portfolio to begin with. The ICs requiring more deliverability than is provided by the ratepayer funded TPP network upgrades can request and pay for the additional upgrades to make them fully deliverable.

To be able to make an informed request, the ICs need to know the cost of next upgrade allocated to them. Therefore it seems the CAISO, as the next step, has to provide an estimated cost share of providing full deliverability to each IC with a PPA who has received a ratepayer funded TPP network upgrade deliverability award. The ICs would then decide "yes or no" for absorbing their portion of the upgrade cost. Since some ICs would choose not to absorb the cost (would accept partial deliverability) the costs for the ICs who still

want full deliverability would be higher. This option does not differentiate amongst the projects with PPAs in a study area and eliminates the need for different set of rules to deal with oversubscription. It provides a better price signal to the developers than option 3A, and should help reduce the number of infeasible projects. Also, since, in operation, the CAISO does not distinguish between generators with full RA, partial RA or no RA (energy only), the pro rata allocation matches actual CAISO congestion management.

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.

We agree that only projects with signed PPAs should be allowed to qualify. But, if the projects with signed PPAs, in GWh aggregate, are higher than the RPS goal of 33%, we can support a secondary qualification requirement (e.g., site Control) or others as necessary.

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

Based on prorated share of the expected output at the time of peak.

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.

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

We did not pick this option because of the considerable time and effort likely required for implementation. Option 3C, in our opinion, could provide a better price signal than the other options except for the fact that the auction payment is going to be reimbursed, thus removing the underlying economic connection between the auction price and the value of the network upgrade. Instead it would allow for a correlation between the bid price and the IC's own evaluation of risk of their project success.

f. 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?

Option 3F makes sense, however, in practice, may prove unworkable since an LSE will favor the allocation to its own PPAs, rather than to other ICs who happen to interconnect to the LSE but have PPAs with another LSE.

g. 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?

No. Can be done in bilateral markets among the developers.

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.

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 ISO should select one. We think 3D was an appropriate option as well since the ICs are already getting the cost plus their rate or return back through their PPAs -- they would not have signed those PPAs if that were not the case. Therefore, getting both their minimum required rate of return through their PPAs and the CRR revenues is more than fair. This is better than what the PTOs' shareholders get (they only get a rate of return and not the CRR revenues – CRR revenues go to ratepayers). Furthermore determination of who is going to benefit, and by how much, from a particular network upgrade is very difficult to determine. That is why FERC elected to spread the transmission cost amongst all the PTOs. Options 3D and 3E can be combined to provide CRRs to the original ICs, and also allow for reimbursement by newer ICs benefitting from the upgrade if such benefit could be determined.

We cannot support option 3G since it is inconsistent with the stated ISO objective 4:

"Limit the potential exposure of transmission ratepayers to the costs of building transmission additions and upgrades that are inefficient or under-utilized."

If only 100 MW is needed in addition to the network upgrades in the TPP, but the next logical size network upgrade is 1000 MW, ratepayers would be forced to absorb the costs for 900 MW if, and until, later ICs show up. In this case ratepayers are paying for upgrades that, by definition, are "inefficient" and "underutilized;" i.e., if they were efficient and adequately utilized, they would have been in the TPP.

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

3D or 3E.

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?

We do not support option 3G. See above. If the IC cannot afford to pay for the NU, then that IC needs to wait till other developers show up. Otherwise ratpayers are exposed to stranded investment. 3G would create inefficient price signals and encourage ICs to locate without regard to the cost of transmission upgrades. If the IC is not willing to pay for the cost of upgrade, neither should ratepayers.

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.

To be workable, the new rules should apply to as many of the existing interconnection requests as possible. Some opt-in options could be provided. Most ICs should want an opt-in option in order to get an opportunity to obtain RA deliverability from network upgrades funded and paid for by ratepayers.

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.

Yes. The application of the options proposed above -- payment responsibility by ICs and required qualifications (PPA and site control) -- should result in significant reductions in the interconnection queue and allow the remaining projects to move forward.

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?

It appears to us that the TPP already is going to determine the deliverability network upgrades necessary for the aggregate of generation projects in each CREZ. This means for the generators receiving NU allocation from the TPP there should not be any need for additional new deliverability network upgrades, unless the deliverability studies done in the GIP are done under a different set of assumptions than the ones done under the TPP. Unless there is a good justification for such differences, there should be no difference. The ISO proposal already moves the deliverability assessment under the TPP, at least to the extent of meeting RPS needs. Therefore we can support the idea.

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.

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.

The objective of achieving a least-cost solution for meeting California's RPS requirement should be explicitly stated. Also, the CAISO needs to address a fundamental flaw in the GIP; namely, the failure to perform any benefit/cost assessment for Delivery Network Upgrades. Where

transmission upgrades, including Delivery Network Upgrades identified in the GIP, are built without any demonstration that the economic benefits of the upgrades (compared to other feasible wires and non-wires alternatives) are less than the costs of the upgrades, electricity costs for consumers will be higher than they need to be. Unnecessary increases in electricity costs make consumers poorer and California's businesses less competitive. The result is less overall economic activity and fewer jobs.

Overbuilding does not make economic sense. This is an unsupported concept that does not meet and CAISO stated objectives and should not given any credibility by repeating it.