

SOUTH WESTERN

Power Group

A MMR Group Company

April 16, 2012

Kevin Dudney, Analyst
Generation & Transmission Planning
California Public Utilities Commission
Energy Division
505 Van Ness Avenue, 4th Floor
San Francisco, CA 94102-3298

Neil Millar, Executive Director
Infrastructure Development
California Independent System Operator
Market and Infrastructure Development
250 Outcropping Way
Folsom, CA 94630

Re: Resource and Transmission Portfolio Assumptions

Dear Messrs. Dudney and Millar,

SouthWestern Power Group (SWPG) is an independent developer of utility-scale generation and transmission in the desert southwest. SWPG is developing the SunZia Southwest Transmission project to bring cost-effective renewable energy to California load-serving entities as well as to neighboring southwestern states. As you are aware, SWPG is committed to working closely with the CPUC and the CAISO to ensure that California's transmission planning and RPS processes are workable and produce the most effective RPS solution for Californian ratepayers. Our particular interest is to ensure that the CPUC and CAISO processes provide fair and equitable means by which the RPS requirements can be satisfied by renewable projects from the southwest to the extent that doing so produces an optimal RPS solution (including transmission costs) for California.

SWPG appreciates the opportunity to provide input to the renewable portfolio assumption and transmission planning processes. We also appreciate the information the CAISO, CPUC and CEC have offered thus far about the proposed portfolios and the basis behind the selection of those portfolios. SWPG offers comments and/or questions in several general areas:

1. The revised portfolios seem highly dependent on the inclusion of REAT resources, and the basis for inclusion this year and/or exclusion in prior years is unclear

The CPUC indicated that one of the major changes to this year's portfolio determination was the inclusion of 214 additional projects as a result of considering projects the Renewable Energy Action Team (REAT) is following. Many of these newly included projects have low (good) rankings in terms of permitting status. It is unclear why these projects were not included in years past.

SWPG would like further information about why 214 projects may have been omitted in the past, yet included at this point of time. This is particularly important given the impact these projects seemingly have on the portfolio selection, since many of the projects are placed in non-CREZ areas and thereby not assigned any transmission cost burden. (See item 2 below, for a more complete discussion of this point.)

2. Assumptions that non-CREZ resources have no transmission burden unreasonably bias portfolios toward such non-CREZ projects

The CPUC indicates that in this year's portfolio selection, significant resources have been added to non-CREZ areas. As a simplifying assumption, the CPUC assumed that no transmission upgrades are required for these non-CREZ areas. Given the level of resource additions in these non-CREZ areas, this assumption of no needed transmission upgrades significantly underestimates the likely transmission costs in some or all of these non-CREZ areas. This in turn results in the RPS calculator selecting these resources as being more desirable relative to resources located in CREZ areas that the calculator captures with realistic transmission cost assumptions.

Rather than assuming no transmission costs are required in the non-CREZ areas, SWPG recommends the CPUC assume average transmission costs or otherwise work with the CAISO to perform some high-level assessments of the relative level of expected transmission needed in each non-CREZ area to establish a more appropriate starting assumption for expected transmission costs in these areas.

3. Assumptions that the best out-of-state renewable projects first meet the host states' needs unreasonably bias portfolios towards California-based projects

In this year's portfolios, no resources have been selected to fulfill California's RPS needs from several states outside of California despite prior year's calculators showing that such resources scored well. This outcome is likely a result of the changed assumptions addressed under points 1 and 2 above. Nevertheless, SWPG is now aware that the calculator discriminates against desirable (low scoring) out-of-state resources for meeting California's RPS needs. This discrimination occurs through allocating the best resources in an external state to meet that state's RPS needs first. The calculator selects resources in this manner regardless of whether the resource may have a PPA with a California load-serving entity.

Many RPS facilities outside of California are being developed solely because of California's RPS needs. There is no basis for assuming that the best resources will serve native state's needs first, nor even that there would be any reason why competitive renewable sources would have any tendency to be used for native states' needs over California's needs. As you know, there are several large solar projects in Arizona that have secured PPA's with California load-serving entities which could have secured PPA's with Arizona load-serving entities instead. SWPG requests that the CPUC maintain competition for renewable resources on a regional basis and re-run the portfolio selection without this bias.

4. Transmission costs from New Mexico and New Mexico wind bus bar costs are significantly higher than those known to SWPG.

The current calculator captures transmission costs from the New Mexico area of approximately \$70/MWh. These costs are much higher than those that SWPG anticipates, by 100% or more. Similarly, wind generator bus bar costs seem significantly higher than those generally anticipated for the New Mexico area. These assumptions, especially when coupled with the CPUC's placement of generic resources inside CA in non-CREZ areas, artificially result in a bias toward in-state resources and away from areas such as New Mexico. This unwarranted bias should be corrected.

5. Reductions in solar PV project costs appear high and bias portfolios away from other renewable resource types.

The CPUC reduced the cost of all PV technologies by 30% while keeping the cost of other technologies constant. No rationale has been offered for this decrease nor an explanation of why the costs of other renewable technologies have also not been adjusted. Further, this reduction in cost does not appear to consider the differences in the quality of the renewable resources inside and outside of California. Clearly, the quality of the solar resource in northern California is not as good as that in Western Arizona or Southwestern New Mexico. Similarly, the quality of the wind resource in California cannot compare with that of New Mexico. SWPG requests further detail be provided for this assumption and/or that the CPUC consider revising the cost estimates if no such rationale exists.

6. CPUC portfolio development process should be adjusted for stakeholder input.

The CAISO and the CPUC have characterized the portfolio development and transmission planning processes as open and transparent and have encouraged SWPG to be involved in the public processes around portfolio development. However, despite the proposed portfolios being dependent upon several new assumptions and modified methodologies, the CPUC suggests that there is little opportunity to modify the portfolios based on stakeholder input.

SWPG is concerned about the lack of an open process related to this year's portfolios and encourages the CPUC staff to reconsider the selection methodology based on input. To the extent that the CPUC does not modify the portfolios, SWPG strongly encourages the CAISO to further adjust the portfolios based on the collective input of stakeholders.

We thank you for your consideration and look forward to continuing to participate in the CPUC and CAISO stakeholder processes.

Sincerely,

A handwritten signature in blue ink that reads "David A. Getts". The signature is written in a cursive, flowing style.

David Getts
General Manager