

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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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.

OPPOSE unless modified - The Final Straw Proposal ("FSP") is a major step backwards from the second revised proposal. Without modification, the proposal does not address/correct significant fundamental flaws with the interconnection process as discussed below. The key problems are:

Allocation of Available Deliverability

The FSP, has created some clear and unacceptable inconsistencies in the interconnection procedures. The CAISO has clearly acknowledged that many projects in the queue, as well as many that have a PPA, will not be developed (there are many reasons a project may not get developed including they are unable to get permitted, they are not financially viable, or the PPA has milestones/requirements which cannot be met). And the CAISO has used this knowledge as a basis for retroactive changes to the initially identified deliverability network upgrades under prior cluster studies (i.e. the CAISO is removing upgrades previously identified/required to accommodate all projects in the queue). The FSP ignores this reality and will allocate deliverability to projects simply because they have a PPA and a GIA. This directly conflicts with the CAISO's stated desire to ensure deliverability is not be held by projects that will not actually achieve commercial operation. The prior straw proposal had it right – 1) deliverability would be allocated to projects when they are "shovel ready" and 2) any project with a PPA was assured of getting deliverability (although there was a potential for some delay in the timing since there may be a need for certain upgrades to go through an additional TPP cycle). That structure provided clear and transparent assurance for financing purposes and did not have any negative impacts to projects that were still working on needed permits and financing to begin construction (including getting a PPA for type A projects).

The prior proposal also had the added benefit of avoiding what will otherwise be unfair/unjust treatment of projects in prior clusters that made business decisions based on the CAISO's then current rules (and in some cases based on input from CAISO management that reducing the queue size was very important and no rule changes should be anticipated). With the proper approach to allocating deliverability as outlined in the prior straw proposal, all projects will be on a level playing field – get to shovel ready status and you will get deliverability.

Additionally, in conjunction with the retroactive changes to deliverability requirements for prior clusters which significantly reduce costs/risks, the FSP is undermining the CAISO's stated

desire to manage the queue size – the retroactive changes can only result in more projects remaining in the queue. The CAISO should not be sending mixed, ever-changing signals to generation project developers.

Changes to the Classification of Network Upgrades

Wellhead understands the CAISO's desire for more granularity in defining what kinds of system upgrades are deemed to automatically receive full cost recovery in the TAC. However, providing that further granularity 1) must provide a transparent definition/methodology for determining when a project is "local" versus "area" and 2) must not conflict with the CAISO clear objective to provide meaningful study results that can be relied upon by LSE's and LRAs in making procurement decisions. The CAISO has correctly recognized that prior cluster studies were seriously flawed because they assumed all projects in the queue would be developed. The FSP will continue this clearly flawed assumption in determining Local Deliverability Network Upgrades ("LDNUs") and Reliability Network Upgrades ("RNUs").

Using flawed assumptions to identify local and reliability network upgrades is simply wrong; it perpetuates the problems associated with providing bad information to procurement efforts and creates unreasonable costs/risks to developers. It is a problem that must be corrected.

In evaluating Area Deliverability Network Upgrades (ADNUs), the CAISO will be generating information about the incremental costs of providing additional deliverability. Similarly, the CAISO must provide generation developers and procurement decision-makers the amount of generation that can be accepted at a particular location without triggering LDNUs or RNUs as well as the cost of incremental upgrades. This information is essential so that procurement efforts can select the least total cost option(s) available. By way of example, Wellhead is aware of a situation where a proposed project was competitive in a solicitation based on the generation project costs but was deemed non-competitive because the interconnection study did not provide appropriate network upgrade cost information. In this case, the primary interconnection cost was a \$700 million upgrade that the project was able/willing to avoid by downsizing nominally. However, there was no way for the procurement process to be informed of this reality. The lack of complete/accurate information from the CAISO study process hurts consumers because competitive projects are incorrectly rejected.

Declaration of Type A and Type B Projects

Wellhead fully supports the CAISO's proposal (in the prior straw proposal and the FSP) to require projects to identify themselves as i) willing to go forward only if they get a PPA or ii) committed to go forward as a merchant without a PPA from a LSE. However, Wellhead believes that the CASIO should require that declaration at the time of the Interconnection Request (rather than after the Phase 1 Study) for several reasons including: 1) a project developer will know at the time of the IR whether it is willing to go forward with a new generation project without a PPA; 2) the CAISO will be able to define Phase 1 study scenarios more closely reflecting reality thus improving the quality of the results (a clear objective of the current interconnection reform initiative); and 3) there will be no change in a project's costs for withdrawing prior to Phase 2 but it will have better information on which to base the decision.

Wellhead understands the value to developers of maintaining optionality as long as possible. However, the CAISO's objectives are properly focused on ensuring its process is clear, transparent, and provides the best possible results about transmission infrastructure costs.

Coordination with Procurement

The CAISO has acknowledged the importance of coordinating its activities with procurement authorities to ensure that consumers costs are not excessive. However, Wellhead is very concerned that the FSP is significantly blurring what should be clear lines between reliably operating the electric system and making long term decisions that are in the consumers best

interests. The interconnection process is the CAISO activity from which procurement authorities (LSEs and LRAs) should get accurate information as to what costs will be incurred if generation projects are located at particular locations in the electrical system.

The CAISO does not have visibility to the total costs that consumers will face from LSE procurement from a particular generation project. The prior straw proposal appropriately recognized the proper flow of information and decisions. The CAISO needs to provide accurate transmission system facilities cost information to procurement authorities and the subsequent procurement decisions that achieve least cost for consumers need to be accommodated/implemented by the CAISO. That clear delineation of authority was present in the prior straw proposal because all projects that received a PPA and proceeded with construction were provided deliverability (if needed/required by the procurement decision). The only uncertainty was when any needed upgrades would be completed so that the project was fully deliverable. The FSP leaves “shovel ready” projects uncertain as to whether they will obtain needed deliverability.

The CAISO is adding yet another layer of “approval” before a project with a PPA will be able to obtain financing and proceed with construction and will create the clear possibility that a highly viable project will die simply because of the CAISO’s flawed process. The CAISO should go back to the methodology/provisions in the prior straw proposal where a type A project that is shovel ready with a PPA knows it will get deliverability (i.e. the process is transparent and unambiguous).

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.

Transmission costs are only one component of the costs that must be considered by authorities responsible for making long term procurement decisions. The CAISO is not one of those entities and this change inappropriately inserts the CAISO into the middle of procurement decisions by creating uncertainty as to whether transmission costs need to be included in a procurement contract or whether they are recovered in TAC. It is the primary responsibility of the CAISO’s to provide accurate transmission cost information to procurement decision-makers. The CAISO should subsequently implement the procurement decision(s) they make. The CAISO should not be denying deliverability to a project that was contracted after consideration of any associated transmission costs.

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.

This appears to be an arbitrary cap but it is a clear/transparent value that can be properly reflected in a procurement contract PROVIDED the CAISO produces accurate/reliable cost information for RNU’s (which will not happen with the FSP).

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.

This appears to add unnecessary complexity and would be expected to frustrate procurement efforts. The distinction is not clear/transparent and it appears the LDNUs and RNUs will continue to have the serious flaw of being excessive and unrealistic (which is inconsistent with the objective of providing accurate/reliable cost information to procurement activities). Any upgrade that is allocated to more than one project, by definition, should be subject to full refundability and the CAISO must always provide information as to what the MW limitations would be to avoid the LDNU; this is essential for procurement decisions to be well founded and in the consumers best interests.

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.

If the CAISO produces good information regarding transmission availability and incremental upgrade costs, refundability would be a non-issue as procurement decisions would be made in such a way as the total costs to ratepayer would be minimized. As such, any project with a LRA-approved PPA should be eligible for reimbursement of all payments made for network facilities.

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.

The CAISO had it right in the prior straw proposal – any type A project that has a PPA in good standing and is shovel ready is assured of getting deliverability and being reimbursed for all network cost payments. The CAISO has acknowledged that not all projects with a PPA will get built. By reserving deliverability for all projects that simply have a PPA, the CAISO is ignoring the principle that deliverability is to be made available to projects that are going to make it to commercial operation. It is well-known that the LSE's have contracted for more MW than will get built because they know there is a failure rate. In effect, the CAISO is stepping into the procurement process and telling the LSEs and LRAs it will over-ride their PPA decisions by withholding deliverability to projects in Cluster 5 or later. This is not a proper role for the CAISO.

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 is not workable because LSE short-lists are confidential (projects are forbidden from even saying they are on the short-list). The prior straw proposal had it right - shovel ready status (which includes a PPA for type A projects) should be the threshold for getting any allocation of deliverability. And construction progress should be required to retain any such allocation.

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 is simply creating a process that will be an administrative nightmare, is not completely transparent and is not necessarily indicative of whether the project will make it to commercial operation. The “shovel ready” threshold in the prior straw proposal should be reinstated as it provides clear transparent certainty to project developers and financiers.

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 is 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.

Remaining “status quo” is not good enough. Progress towards commercial operation is essential to ensure deliverability is not held by non-viable projects. With allocations at a “shovel ready” state, construction is how progress is demonstrated.

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.

With the FSP, a shovel ready project with a PPA may not get a deliverability allocation for several cycles. Such projects should be able to remain in the parking lot as long as the PPA is in good standing.

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.

This is acceptable because a type B project makes the decision to go forward as a merchant facility.

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.

It's not clear why a type A project should ever have to forfeit any of its security postings. Since a type A project will not go forward without a PPA, it is impossible for such a project to cause excessive or unnecessary costs on consumers UNLESS the CAISO either misinformed the LSE/LRA procurement decisions and/or required the construction of excessive or unnecessary facilities.

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.

As suggested in the stakeholder meeting, the CAISO should consider moving the IR window a month earlier so that the immediately ensuring TPP would have market intelligence from the IR filings. The deadline for withdrawing without penalty is correct.

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

13. GIP Phase 1

The CAISO must put primary attention on its responsibility to provide accurate transmission facilities cost information to proposed projects so that good development and procurement decisions can be made by those liable/responsible for such decisions.

14. Transition from Phase 1 to Phase 2

15. GIP Phase 2

16. Allocation of TP Deliverability Post Phase 2

The CAISO must hold true to the principle of providing deliverability (and associated cost responsibility of consumers) to projects that will go forward. Deliverability should be allocated only to shovel ready projects and progress towards operation should be required to retain allocations of deliverability.

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.

Conventional Generation is overlooked

The FSP appears to have overlooked the fact that new thermal generation must go through the same interconnection process and these needed resources may also require transmission upgrades. This is another reason why the prior straw proposal for allocation of deliverability and assurance of cost reimbursement must be the option implemented. The “shovel ready” criteria is indifferent to the generation technology for the purpose of receiving deliverability and the assurance of network upgrade payment reimbursement for projects with LRA approved PPAs.

Queue Management

There continues to be significant discussion about the need to proactively manage the queue and ensure non-viable projects are removed. This is because the current interconnection study methodology incorrectly assumes all of the projects will be developed. However, a well-designed study process, as outlined in the prior straw proposal and discussed above, will not make that invalid assumption thus making the size of the queue irrelevant. By way of example, having 500 applicants for a single job opening is only a problem if you have to conduct an in-person interview with all 500 applicants. A well-designed hiring process requiring only a few interviews makes the number of job applicants immaterial. Similarly, a well-designed interconnection study process makes the size of the queue immaterial. The process the CAISO is proposing to determine ADNU’s is the correct one and will make the queue size irrelevant (of course the same methodology must be applied to the determination of other network upgrades). The open/transparent transmission planning process will provide incentives for projects to locate in areas judged to be the most viable/attractive and the interconnection study process will identify costs of appropriate incremental transmission infrastructure needs above that considered in the TPP. The only thing the CAISO will have to rely upon (to avoid unnecessary transmission costs to consumers) is that authorities responsible for procurement will make decisions that are in the best interests of consumers after consideration of all of the relevant costs.

And though Wellhead believes queue size should not be an important issue, there are actions the CAISO could take to incentivize turn-over in the queue. One obvious way is for the CAISO to require that any project wanting to take advantage of retroactive changes to the interconnection procedures be governed by the TPP-GIP rules which include making a decision as to whether they are type A or B and either proceeding as EO or withdrawing if they are not awarded deliverability in one of the next two allocation windows.

Wellhead also observes that the CAISO is sending a clear message that reducing the queue size is not important since the CAISO is making retroactive changes to the interconnection process that make it less costly and less risky to remain in the queue.