

Following is a summary of group #5 discussion at the TPP-GIP workshop on the allocation of TPP approved transmission. You will note that I have included some details that did not make my “allocation options highlights” summary yesterday.

Group #5 included investor owned utilities, a municipal utility, the CPUC, and large and small project developers of renewable and thermal technologies.

General Comments and Observations

- There is concern that the utility practice of procuring in excess of the RPS need will result in unused allocations by projects that get a PPA and fail – meaning LSE’s need to try and do a better job of picking projects that WILL get developed.
- There is strong agreement that issues other than related to “allocations” need to be addressed/fixed in the interconnection process – in particular the significant shortcomings with the current Phase 1 study process that results in infrastructure/costs that are clearly unrealistic (i.e. everyone knows that much of what is identified in Phase 1 will never get built).
- There is strong consensus that without a long term PPA, no project will get built (i.e. there is an extremely low probability that a new generation project will actually get built as a merchant selling only into the CAISO or other short term markets).
- Planning is iterative and changing/cancelling a prior plan element is sometimes the right decision for consumers (it is quite possible that a TPP approved element will not get the necessary approvals) and the CAISO should not be prevented from changing a prior plan, of course recognizing there are sunk costs that need to be appropriately addressed.
- There is broad concern that the TPP may not be taking advantage of the latest market information regarding competitively priced generation in determining where policy driven transmission should be constructed (i.e. the TPP projects may go to the wrong places).
- There is strong consensus of the need to significantly increase the coordination/integration of transmission planning and resource procurement along with the need for a good/current TRCR coming out of the TPP to inform procurement decisions of incremental transmission system costs to add resources at various locations (locations would be identified from the queue).
- No project will be built without a reasonable expectation of appropriate recovery of all of the costs of generation and transmission; this means for transmission upgrades subject to refund, the transmission costs will be in the TAC and for transmission facilities not refunded, the costs will be included in the price paid to the generator. Hence, consumers will always incur generation and transmission costs associated with a project from which power is being purchased.
- A project allocated transmission for deliverability needs to be properly recognized in the market operations (i.e. it should not be curtailed ahead of, or even pro rata with, energy only projects)
- One party expressed concern that an LSE that has already met its RPS requirements will be “subsidizing” those who need new, expensive transmission facilities in order to meet their requirements when such transmission is recovered in the TAC

Allocation Options (general comments followed by specific comments on each of the options)

- Linkages between the allocation and other parts of the interconnection and transmission planning processes make it impracticable, or even impossible, to select/design the allocation process in isolation (discussion of the options kept leading back to other IC and TPP issues/concerns)
- Regardless of the allocation method, allocations should only go to projects that have a high probability of being constructed which means projects receiving an allocation must have a PPA (or for anyone interested in building a non-PPA'ed merchant facility, a willingness to make the requisite at risk deposits/investments and meet stringent milestones knowing their network upgrade costs will probably have to be collected in their power sales price)
- Unless other parts of the IC process are changed, allocations may trigger significant security deposits with refunds for network upgrades occurring only after the generation project is operational
- All projects receiving an allocation will have to meet strictly enforced milestones
- Capacity allocated to a project that subsequently fails (misses a milestone) goes back into the next allocation window

LSE Option - there was broad support for this option with the following caveats and observations

- ✓ An LSE should not be able to allocate capacity to a project that does not have a PPA
- ✓ The Phase 1 study must provide accurate cost estimates in order for the best PPA options to be selected
- ✓ The timeline does not appear to allow sufficient time for the allocation process after the TPP is finalized
- ✓ If capacity allocated to one LSE is not utilized, that capacity should be available to any other LSE that has a PPA it wants to use such capacity (i.e. capacity should not remain unallocated when there is an LSE that wants/needs it for a PPA and the CAISO cannot force procurement to only TPP approved lines)
- ✓ The LSE should not be prevented from purchasing from a project not allocated "policy driven capacity" if that is the least cost option (i.e. the LSE can choose to trigger an upgrade paid for by ratepayers when that is the economic procurement decision)

Ranking Option – there was some support for this option with the following caveats and observations

- ✓ The ranking criteria must be transparent to all parties
- ✓ A project with a PPA will have already gone through a similar, though not fully transparent, ranking process and the CAISO should not be second guessing the LSE (and CPUC or Board) decisions
- ✓ Ranking information must be as current as possible (should use information as close as possible to the date the final allocation is made)
- ✓ Unless currently confidential information is made public (which seems unlikely), the PPA status is limited to no PPA, only an executed PPA , or an executed PPA with no pending approvals.

- ✓ The ranking criteria should be multiplied rather than added (especially for the PPA and permitting pieces) so that a project which cannot be permitted or which does not have a PPA will not get an allocation.

Auction Option – When the basic allocation details were understood, there was no support for this option but some observations included

- ✓ It is the only option that takes advantage of market forces and a project's willingness to pay
- ✓ Is consistent with "skin in the game" and probably increases the requirements (but there is already significant "skin" required)
- ✓ There would likely be significant advantages to developers with large checkbooks
- ✓ Reduced participation (limited big player participation) could result in market power issues/problems
- ✓ There are likely to be increased developer costs that will result in higher prices to consumers
- ✓ There would be no apparent efficiency improvements and it may be impractical with the proposed timeline

Pro Rata Option – There was no support for this option other than as a possible back stop if nothing else worked

- ✓ Receiving a fractional amount of the proposed project capacity is probably not useful but would certainly require a "no penalty" downsizing opportunity with the ability to go back up if another project's allocation was forfeited (a re-allocation of fractional amounts??)

Queue Clearing

- There was strong support for the CAISO efforts to remove deadwood from the existing queue
- Consideration should be given to incentives to get projects to voluntarily move to the new process (Cluster 5). Ideas included offering a refund of deposits that are currently non-refundable, not requiring new study deposits, retaining the current non-network IC approach/cost, wait out projects that have milestones, use forfeited security deposits to "buy out" existing queue projects that cannot otherwise be removed, and just ignore the queue based on the belief projects will not go forward without a PPA but will get any needed network capacity when/if they get a PPA or build as a merchant.

Please let me know if you have any questions. And, I welcome any additions/clarifications other group members may have.

Doug Davie

Wellhead Electric

(916) 447-5171 - office

(916) 719-3454 - mobile