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Board of Governors
California Independent System Operator
151 Blue Ravine Road
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September 8, 2009

RE: Final Proposed LGIP Tariff Language

Chair Willrich, and Governors Capuano, Doll, and Page:

Terra-Gen Power wishes to express its concern about an element we believe should be added to the proposed Large Generator Interconnection Process (LGIP) changes that will be considered at the upcoming Board Meeting on September 11.

We urge the Board to adopt a cap on the financial-security posting for Interconnection Facilities costs that is separate from, but identical to, that proposed for Network Upgrades – the lower of 15% of estimated costs, $20K per MW, or $7.5 million (but not less than $500K).

Terra-Gen Power commends the CAISO staff for its latest proposal, and we support many of the proposed changes, including the recommended cap on financial security for Network Upgrades. Effectively, the cap recognizes the fact that the combination of financial-security posting requirements in the current Tariff and extremely high cost estimates in the recent Transition Cluster Phase 1 Interconnection Studies had the potential to eliminate even strong and economic projects from the CAISO interconnection queue.

Mitigation of initial Network Upgrade financial-security requirements will let the CAISO and stakeholders revisit methodological questions that arose in the course of the recent studies before Phase II Studies are performed. For example, we believe that Serial Group projects, which should be assumed operational in the Transition Cluster studies, were included in the base cases without the upgrades that they require; thus, at least some upgrades and costs assigned to Transition Cluster projects (a significant amount, for some clusters) are really needed for Serial Group projects, not Transition Cluster projects.

However, there is one gap in the current process that is not yet addressed in the proposed LGIP changes – the lack of a similar cap on posting requirements for Interconnection Facilities (facilities needed to transmit power from a generating plant to the transmission (or, in some cases, distribution) grid). Unlike Network Upgrades to the transmission system, plant developers must pay the actual cost of Interconnection Facilities, i.e., they receive "good-faith" cost estimates in the interconnection studies, but their ultimate cost responsibility is not capped by any study results.

As with Network Upgrades, relevant questions remain with respect to the methodologies used to assign costs for certain Interconnection Facilities including:

- The potential interdependence between Serial Group projects and Transition Cluster projects
- Whether certain upgrades classified in the recent studies as Interconnection Facilities (i.e., lines between two transmission network points) should be classified as Network Upgrades

- The potential LCRIF status of certain Interconnection facilities. The CAISO's LCRIF framework would allow renewable generators in promising areas to share Interconnection Facilities funded up-front by Participating Transmission Owners, paying their share of going-forward fixed costs as they hook up.

We understand that the CAISO and PTO staffs exerted a monumental effort to produce the numerous Transition Cluster studies and know that certain simplifying assumptions probably helped expedite their completion. Also, LCRIF contractual and technical requirements may not be met in all situations. Thus, we are not seeking methodological changes related to Interconnection Facilities in this immediate process, nor any premature determination of LCRIF feasibility.

Instead, we urge the Board to adopt a reasonable cap on the amount of financial security posted for Interconnection Facilities that will avoid driving viable projects in promising renewables areas out of the queue before these significant issues can be addressed. Specifically, the CAISO should apply a cap on the financial-security posting for Interconnection Facilities costs that is separate from, but identical to, that proposed for Network Upgrades – the lower of 15% of estimated costs, \$20K per MW, or \$7.5 million (but not less than \$500K). Both caps should be approved and implemented in time to protect participants in the current Transition Cluster group that are ready to enter into Phase II.

Posting of the proposed security for Interconnection Facilities at this early stage, in addition to any posting required for Network Upgrades under the CAISO proposals, should be more than sufficient to demonstrate project strength and viability at this point. This will allow time to revisit the study assumptions and methodologies before Phase II, and to determine the potential for early interconnection of viable renewable projects that can be ready before all the upgrades are complete.

Failure to act before the initial financial postings are due in November will likely mean the premature loss of otherwise-viable projects. This would be detrimental to stakeholders, including the developers, CAISO, the buyers, and the state of California, and confound progress toward meeting the state's Renewable Portfolio Standard (RPS) goals.

We appreciate the ability to communicate these concerns to you and hope you will consider them as you assess the CAISO LGIP proposals. Our team will be attending the September 11th Board meeting and I will be happy to address any questions at that time, or please feel free to contact me before then at the phone number in the above letterhead.

Sincerely,

B. Raemy

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Vice President, Business Development

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