

7 September 2010

Mason Willrich
Chairman
Board of Governors
The California Independent System Operator (CAISO)
110 Blue Ravine Road
Folsom, CA 95630

Dear Mr. Willrich,

In our July 19, 2010 correspondence to the CAISO, we and other signing parties wrote to express our concerns with the CAISO proposal to eliminate the **Small Generator Interconnection Procedure (SGIP)**, which is the streamlined interconnection process for 20 megawatt (MW) and smaller energy projects. As we mentioned previously, one of the major benefits of such projects is the ability to rapidly develop and interconnect new generation, creating jobs and helping to meet Renewable Portfolio Standards more quickly than under the traditional central station model for renewables. We believe that the CAISO proposal threatens to substantially slow the deployment of renewable energy and discourage investment in the most promising market segment that exists for renewable energy within the next 10 years and likely beyond.

Since our July 19th letter, the CAISO staff requested a meeting that was conducted on August 26th. Although very late in the process, the FIT Coalition appreciated the opportunity to explain in depth why the staff proposal is unacceptable due to the negative impact it would have on the Wholesale Distributed Generation market segment, and to all 20 MW and smaller projects more generally. Based on the staff's indication that the proposal was already finalized, the proposal that will be submitted to the CAISO Board of Governors remains far too unfavorable, unsubstantiated, and restriction-laden to be acceptable for the 20 MW and smaller project market segment, which currently benefits far more from the existing SGIP.

While we understand that the existing SGIP process is burdened, we believe that the CAISO's reform process has been data-starved and far too focused on replacing the SGIP rather than improving it. Nevertheless, we are hoping to collaborate on an acceptable solution and would like the Board of Governors to direct its staff to spend the next several months working with us and others to achieve a truly comprehensive solution. While this would seemingly insert some delay, we believe that all parties would benefit from a delayed solution that proves viable instead of an expedient but suboptimal solution that is ultimately rejected by FERC or legal proceedings.

In the spirit of collaboration, we specifically suggest that the Board pursue the following modifications to any Final Proposal prior to Board approval:

1. While we acknowledge that Wholesale Distribution Access Tariffs (WDATs) fall outside the CAISO's domain, we believe there is substantial value in the CAISO stating publicly that this CAISO proposal is not intended to be a "de facto" WDAT reform proposal. Accordingly, we request that the CAISO final proposal include specific language stating the CAISO's intent that the SGIP reforms not be translated into WDAT reform without the Participating Transmission Owners (PTOs) first conducting public stakeholder processes.
2. The criteria for the Independent Study Process (ISP) are currently out of line with the realities of smaller project development schedules and should be reconsidered and clarified in order to better accommodate the development timeline for smaller developers. We suggest that a working group of CAISO staff and interested stakeholders be invited to participate in such a process.
3. Similarly, we request that the CAISO proposal includes a commitment to create a web-based portal for developers to quickly check available transmission capacity at each substation and on each transmission line. Ideally, this would be a collaborative process with the PTOs and would thus also disclose available distribution capacity on distribution substations and lines. The CAISO should explicitly state its expected strategy and timeline for providing this capacity information to the developer community.
4. While we applaud the expansion of Fast Track to 5 MW, and the elimination of the 10th screen, we have seen no data on how many projects would successfully access Fast Track under the nine remaining screens. Considerable existing data should be available from CAISO and/or the utilities as to how many projects have historically passed any of the screens. This could potentially help substantiate that the elimination of only the 10th screen would actually improve the nearly 100% historical failure rate for projects to achieve a Fast Track designation. It is worth emphasizing that the CPUC, and other parties, submitted comments that even the first 9 screens make Fast Track untenable. We believe that the Fast Track screens should be completely rationalized to an electrical isolation test only, similar to the proposed ISP; and we request that the CAISO convene a working group of informed stakeholders to revise the CAISO proposal accordingly.
5. Although we have no data on the systems and staffing structure for the current SGIP process, anecdotally it appears there are substantial grounds for improvement, in both software and staff procedures. As you are undoubtedly aware, FERC commentary on queuing reform requires that ISOs first consider whether they have taken all effective steps under their current tariff. For that reason, we request that the CAISO commit within the proposal to hiring an outside auditor to review the CAISO and PTO interconnection processes and determine if changes in systems and staffing could materially improve timelines.
6. Given that there can be challenges with serial interconnection processes, we request that CAISO consider an alternative clustering methodology that accounts for the differences in small and large project development. Several alternatives, such as mini-clusters and carve-outs, have already been suggested in FIT

Coalition comments, and prior FERC orders have explicitly requested such considerations.

7. Finally, the CAISO should commit that the restarted CAISO process will provide far more historical data, including time taken for applicants to pass through each stage of the interconnection process, costs of each study phase (for both applicants and the actual costs to CAISO and PTOs in conducting the studies), information on delays in the process, and information on how many applicants apply for Fast Track, the associated acceptance rates, and a compilation of the reasons for all historical Fast Track rejections. The same projects should be run through the interconnection mechanisms of any new CAISO proposal so that anticipated results can be compared to historical results. This type of information, which has been completely unavailable to participants in the current process, will allow all parties to determine if a newly proposed process would result in improvements.

While we are disappointed that the CAISO staff seems likely to propose the elimination of the SGIP without proper due diligence, we remain committed to helping achieve a far more optimal solution that is based on a prudent level of due diligence. It is clear that the current staff proposal harms the interests of 20 MW and smaller projects, which is contrary to FERC Order 2006. By taking some additional steps, however, to incorporate the above recommendations, we believe that an optimal solution will be reached which would satisfy FERC precedents along with FERC's high burden of proof threshold for "just and reasonable changes." CAISO can do far better than its current staff proposal to achieve a solution that benefits all developers, market segments, technologies, the State of California, and the rest of the nation, which will likely follow any successful example that California sets.

The FIT Coalition stands ready to discuss the recommended steps in detail. Further, all of the listed parties look forward to working with you to address these important issues.

This letter is also available at: <http://www.fitcoalition.com/caiso+signon+2ndLetter>.

Sincerely,

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* Please note that this reflects an individual position rather than the position of the City of Santa Monica.

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