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GENERAL COUNSEL



February 2, 2012

Board of Governors
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Subject: Cost Containment of Transmission Infrastructure

Dear Board of Governors:

Northern California Power Agency ("NCPA") and the Bay Area Municipal Transmission Group¹ ("BAMx") are writing to bring to your attention a ratepayer impact issue that has been severely underpublicized. Namely that transmission costs have already risen by roughly 400 percent in the past ten (10) years, and are set to nearly triple again in the next ten (10) years.

NCPA and BAMx support the goals of reducing the impact of greenhouse gas emissions on our environment and the state mandated renewable portfolio standard ("RPS") requirement of 33 percent by 2020. NCPA and BAMx understand that meeting the 33 percent RPS will likely increase electricity prices. But decisions need to be made with a view to the total integrated costs. The state's ratepayers see the total cost of their delivered energy and so it is this total cost that has to be evaluated.

It is critical that the decision-makers charged with protecting the public interest on behalf of all ratepayers, being the CAISO and the CPUC in the first instance, take into account the total cost of these purchases: generation costs, and all transmission and integration upgrade costs made to accommodate renewable energy. The new Transmission Planning Process-Generation Interconnection Process ("TPP- GIP") integration framework should be immediately applicable to as many generation projects in the CAISO generation interconnection queue as possible in order to protect the public interest.

Recent studies have all concluded that expected increases in transmission upgrades, and interconnection and integration costs, represent an enormous and unprecedented new statewide infrastructure investment in our industry. The transmission cost component is currently recovered from all load connected to the CAISO grid via the Transmission Access Charge ("TAC"). Just the High Voltage ("HV") portion of the TAC has gone up in the last ten (10) years from \$1.40/MWh in 2001 to \$6.80/MWh in 2011, and it is expected to increase to nearly \$17/MWh by 2020 based upon the CAISO's 2010-11 transmission plan to meet 33 percent RPS by 2020.²

¹ BAMx consists of Alameda Municipal Power, City of Palo Alto Utilities and the City of Santa Clara's Silicon Valley Power.

² **Exhibit A** includes Historical PG&E Area and CAISO-wide HV TAC (\$/MWh) for 2001-2011 and Projected CAISO-Wide HV TAC (\$/MWh) for 2012-2020 based on the CPUC/E3 LTPP Evaluation Metric Calculator, Dated

Since 2005, the CAISO has approved billions of dollars of transmission Network Upgrades (“NU”) to interconnect specific large-scale renewable generators. Yet it has done so without utilizing any economic test to determine the reasonableness of these investments.³ The CAISO’s current policy, for committing ratepayer-funded transmission for much of the generation interconnection costs, results in inefficient price signals for generation developers. By socializing the cost of the associated NU, the generation owners or developers do not realize the true cost of the decisions they make in locating their generation. This lack of proper price signals has resulted in having a very large amount of generation seeking interconnection through the CAISO’s generation interconnection queue, which has in turn driven the justification for further unneeded NUs.

The CAISO staff is proposing changes to its existing tariff to correct this problem via the TPP-GIP integration initiative. As you are aware, FERC approved the CAISO’s Revised Transmission Planning Process (“RTPP”) in December 2010, when the CAISO began implementing the new Transmission Plan in earnest. The fundamental reform instituted by the RTPP is the examination of proposed transmission projects for which ratepayer funding would be appropriate in the context of a statewide comprehensive planning analysis, not simply on a project-by-project assessment at the time of new generation interconnection.

Despite this entirely new and comprehensive regulatory change, the CAISO Staff has put forward its most recent straw proposal⁴ that would exempt more than 55,000MW of generating capacity currently in the CAISO generation interconnection queue from this new tariff framework. This is a volume of new generation that exceeds the CAISO’s all-time peak demand and appears to ignore all existing generation that is available. The proposal was made despite the fact that only 11,000-13,000MW of additional renewable capacity is needed to meet the 33 percent RPS goal.⁵ NCPA and BAMx appreciate the CAISO Staff’s most recent proposals to effectively manage the generation queue; namely the *Technical Bulletin on Queue Management*⁶ and the *Delivery Requirements for Cluster 1 & 2 Discussion Paper*⁷. NCPA and BAMx believe that these efforts are steps in the right direction in order to reduce the size of the generation queue and related delivery NUs. Despite these positive

April 29, 2011. The combining Low Voltage (“LV”) TAC and HV TAC in the PG&E TAC area is projected to be as high as \$25/MWh (\$17 HV TAC + \$8 LV TAC) by 2020.

³ The Federal Energy Regulatory Commission (“FERC”) governs CAISO transmission rates, but it relies on the CAISO to determine whether new transmission is needed. In its compliance with FERC Order 2003, the CAISO proposed an economic test for Large Generator Interconnection Process (“LGIP”) NUs to enable the CAISO to determine whether or not to approve, and how to allocate the costs, of high-cost NUs where the benefits to ratepayers are relatively small. In July 2005, in its order on the CAISO’s filing, FERC rejected the proposed economic test on the grounds that the CAISO did not provide sufficient detail for the Commission to evaluate it. The CAISO failed to address this issue until very recently.

⁴ *TPP-GIP Integration - Second Revised Straw Proposal*, CAISO, January 12, 2012.

⁵ CAISO Board of Governors *Briefing on Renewable Generation in the ISO Generator Interconnection Queue* by Keith Casey, October 28, 2011.

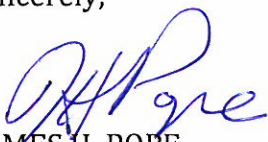
⁶ *Technical Bulletin - Generator Interconnection Queue Management*, CAISO, October 18, 2011.

⁷ *Delivery Requirements for Cluster 1 & 2 Discussion Paper*, CAISO, January 10, 2012.

steps, there will still likely be numerous transmission projects going forward at ratepayers expense far beyond what is needed to reach the state's renewable energy goals.

In summary, NCPA and BAMx believe that the TPP-GIP integration framework should be immediately applicable to as many generation projects as possible. Therefore, NCPA and BAMx request that the Board of Governors require the new TPP-GIP integration framework to apply to all unsigned Large Generator Interconnection Agreements ("LGIA") and all inactive LGIAs as of the effective date of the new TPP-GIP policy.

Sincerely,



JAMES H. POPE
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John Roukema
Electric Utility Director
Silicon Valley Power



Valerie Fong
Electric Utility Director
City of Palo Alto



Girish Balachandran
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cc: Keith Casey
Karen Edson
Steve Berberich

Exhibit A
Historical PG&E Area and CAISO-wide HV TAC (\$/MWh) for 2001-2011 and Projected CAISO-Wide HV TAC (\$/MWh) for 2012-2020 Based on the CPUC/E3 LTPP Evaluation Metric Calculator, Dated April 29, 2011

