

Cluster 1 & Cluster 2 Deliverability
COMMENTS OF ENXCO ON REVISED DISCUSSION PAPER
December 24th, 2011

enXco submits these comments in response to the CAISO's January 10th document "**Generation Interconnection Procedures: Deliverability Requirements for Clusters 1 & 2 – Revised Discussion Paper**" (Paper), and the discussion about the Paper at the January 17th stakeholder meeting. The Paper proposes revisions to the Cluster 1-Cluster 2 (C1/C2) Phase II Study, and similar changes to the methodology for the upcoming Cluster 3-Cluster 4 (C3/C4) Phase II Study.

These revisions would address the current situation where generation capacity in the CAISO interconnection queue far greater than is likely to ever be built, and which have triggered (in interconnection studies) expensive and long-lead-time transmission upgrades that also are unlikely ever to be needed. The Paper proposes to resolve this problem by:

- **Removing several expensive Delivery Network Upgrades (DNUs) that will probably not be needed from those studies**, by limiting generation flows to those that could be accommodated without those upgrades. This, in turn, would remove those upgrades (and their costs) from the Second Interconnection Financial Security (IFS) postings and C1-C4 Generation Interconnection Agreements (GIAs).
- **Addressing those DNUs later, if they are triggered by greater-than-expected generation development in the affected geographic areas**, by:
 - Treating them as policy-driven upgrades in the annual CAISO Transmission Planning Process (TPP), with no additional costs imposed on generators; and
 - Reducing Net Qualifying Capacity (NQC) for "new" generating capacity in the affected area(s) until the relevant upgrade(s) is built and in service.

The CAISO stated at the stakeholder meeting that it intends to proceed with this plan in the absence of a "fatal flaw" revealed in stakeholder comments. While enXco commends the CAISO's efforts to confront the immediate problems with the C1/C2 second IFS posting, enXco believes that there may, in fact, be "fatal flaws" in the Proposal, with significant potential longer-term consequences that should be assessed before it is implemented.

The Proposal points out two potential risks to the CAISO plan:

- Generation projects that might otherwise have withdrawn from the interconnection queue might remain if their IFS posting amounts are reduced; and
- Later triggering of the DNUs removed from the C1-C4 studies, with possible temporary "NQC haircuts" due to the delays in commencing construction of those upgrades.

enXco strongly urges the CAISO to evaluate the longer-term implications of these risks further before proceeding with this plan, as discussed further below. The CAISO should not implement these changes without additional evidence that they would actually improve the current situation.

Retention of non-viable generation projects

The CAISO has admitted a significant problem with the presence of large amounts of probable non-viable generation projects in the interconnection queue. It would be imprudent to risk adding to the problem by significantly reducing the IFS postings of C1-C4 projects and, therefore, shifting their financial risks to ratepayers through the TPP process.

First, the Proposal ignores a large part of the problem – non-viability of pre-C1 projects, and especially projects very early in the queue.

The CAISO’s current Queue Management effort is an attempt to: (1) ensure that earlier-queued generation projects that have been in the queue for many years without reaching commercial operation are at least in compliance with the rules in effect when they entered the queue; and (2) to update their GIAs (if they exist) to reflect necessary changes that are allowed under those rules. enXco, and most other stakeholders, support the CAISO’s efforts in this area.

However, based on the CAISO’s statements in the Proposal, it is obvious that these efforts will not be enough to remove the non-viable projects in that group from the queue. It is highly likely that this non-viable group is much larger than the 700 MW that have been removed from the queue so far, and that the CAISO will have to take additional measures (including tariff filings at FERC) to require additional viability demonstrations from these projects. Such measures could include, for example, IFS postings equivalent to those required for later-queued projects.

enXco maintains that the proposed contortions of the study methodology in the Proposal might not be needed with a more stringent Queue Management process. The current CAISO efforts should be expanded to truly “weed out” non-viable projects before “ends justify the means” methodology changes are imposed.

Second, as SCE pointed out in the stakeholder meeting, it is highly likely that C1/C2 project problems obtaining Power Purchasing Agreements (PPAs) are related, not only to high interconnection costs, but more to the fact that the large Load-Serving Entities (LSEs) are fully contracted through 2015 or 2016 and simply do not need large quantities of additional generation capacity (renewable or otherwise).

The Proposal does not address this fundamental issue. If the primary C1/C2 PPA contracting problem is lack of LSE procurement needs, the proposed study methodology revisions will not help. Moreover, the additional retention of potentially non-viable C1/C2 projects will only hurt the prospects of potentially viable C3/C4 projects.

Moreover, by retaining more non-viable projects in the queue (pre-C1 and C1/C2), the Proposal would increase the likelihood that the DNU’s removed from the C1/C2 studies would be triggered later by C3/C4 projects (see below), and that the latter would suffer deliverability timing risks as a result. Thus, there would be an imbalance of benefits and costs, with C1/C2 projects receiving those benefits but C3/C4 projects bearing disproportionate costs.

Later triggering of DNU’s and then approval in TPP

Removal of significant DNU’s from interconnection studies would result in fewer transmission upgrades, and lower costs, in GIAs. That would seem to facilitate additional PPAs for the projects that benefit, but this result is unlikely given the realities of PPA contracting in today’s market.

Those realities require certainty of both costs and timing. The Proposal addresses the issue of cost certainty, but it makes the issue of timing uncertainty – already a significant problem – even worse.

The risk that those DNU’s will be triggered later, and the potential RA deliverability delays, would have to be addressed in the PPA and project financing processes. Both the provision of RA deliverability and the timing of that deliverability are important issues in these processes.

Buyers have become much less willing to absorb the risks of deliverability delays or, if they are willing to do that, those risks are reflected in the prices that they are willing to pay. So, either the buyer will only offer a lower price to projects facing potential deliverability-delay risks, or the seller will have to absorb those risks, e.g., through possible market RA capacity purchases (at uncertain prices) to cover the DNU delays. The first would damage project economics up front, while the latter would make it difficult or impossible to finance the project.

In either case, the result is that the Proposal might not really facilitate execution of additional PPAs by the impacted projects. The CAISO should consider these serious issues before moving ahead to implement a proposal that might not even help the situation overall.