INDEPENDENT
ENERGY
PRODUCERS

April 8, 2010

To: CAISO Staff
Re: Interconnection Standards Initiative – Draft Straw Proposal, Dated March 25, 2010

I. General Comments:

IEP appreciates the opportunity to comment on the CAISO Interconnection Standards Review Initiative Draft Straw Proposal, dated March 25, 2010. According to the proposed schedule for this Initiative, the CAISO intends to work with stakeholders to finalize the interconnection standards by the end of April 2010, seek Board approval in May 2010, and file any necessary changes at FERC in June 2010. While IEP recognizes that the CAISO has restricted the scope of this initiative in order to meet this aggressive schedule, the CAISO should not risk jeopardizing uniform interconnection standards both regionally and nationally in order to create a process of its own separate from the NERC and WECC processes. IEP requests that the CAISO demonstrate the actual risk that the CAISO will face if it waits for NERC/WECC to adopt their renewable interconnection standards. Evidence suggests that (a) making any changes, particularly in light of the NERC/WECC proceedings, may have destabilizing impacts from a renewable development and investment perspective, and (b) rushing into any changes on interconnection standards for renewables is neither necessary nor warranted by "the facts on the ground."

Moving Forward Now Risks Wasting Time and Resources Unnecessarily. Given that the results of NERC/WECC processes may supersede the CAISO requirements, IEP recommends that the CAISO pause its own proceeding and coordinate with the WECC and NERC to avoid implementing diverging requirements. As noted in the Draft Straw Proposal, the CAISO requirements "may be subject to change in the event that NERC or WECC adopt requirements covering the same subject matter and the ISO and/or generation facility are required to comply with such NERC or WECC standards."[1] It will be particularly unhelpful if the CAISO is in the process of changing its own tariff at the precise time stakeholders are being asked to address these very issues before NERC/WECC. At a minimum, the "paralleling" of these two processes could foster a great deal of market uncertainty and potentially undermine crucial investment in renewable resources. This uncertainty would only be exacerbated if the CAISO were to modify its tariff today and then, subsequent to a NERC/WECC determination, initiate yet another process to further amend its tariff to make it consistent with the outcome of the NERC/WECC investigation.

Furthermore, it is not apparent that reliability concerns are immediate enough to warrant executing this process apart from the NERC/WECC evaluation. While the CAISO suggests that sufficient renewable capacity capable of satisfying California's ambitious 33% renewable goals is nearing completion in both the serial group and the transition cluster portions of the

[1] CAISO Interconnection Standards Review Initiative Draft Straw Proposal, page 3.

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interconnection queue, as a practical matter, new renewables are being developed at such a slow pace within the CAISO balancing authority that IEP would be wholly surprised if any new development actually posed a reliability concern to the CAISO prior to 2013-2015 *at the earliest*. The most recent CPUC "Renewables Portfolio Standard Quarterly Report, Q1 2010," indicates that in 2009 only 357 MWs of new renewable capacity was added to the grid and only 254 MW of this total was located in-state.[2] It is doubtful whether the 254 MWs of new in-state renewable capacity falls wholly within the CAISO service territory. Indeed, since 2003, only 1049 MWs of new renewables have been added to the overall statewide grid across multiple balancing authorities. On average, only 150 MWs of new renewable capacity have become operational each year since inception of the California RPS. Over the past three years, the average is only 274 MWs. At this pace of in-state renewable development, it is doubtful that unmanageable reliability risks loom on the horizon.

II. Specific Comments Regarding the Draft Straw Proposal and April 1st Workshop:

1. Effective Date of the Tariff:

As IEP understands the CAISO Interconnection Standards Initiative, the effective date of the change in tariff as proposed by the CAISO is upon FERC approval; and once approved by FERC the tariff changes are not meant to apply retroactively.[3] To be specific, facilities that are (1) operational or (2) have an executed LGIA, before changes are approved by FERC, are subject to the interconnection standards in effect at the execution of the LGIA. In addition, resources without an executed LGIA prior to the FERC approval date may be grandfathered on a case-by-case basis as a function of their ability to demonstrate significant capital investment procured prior to FERC approval of the tariff changes.

While IEP understands the standards of the existing tariff to be in play until FERC approves otherwise, the presentation materials are unclear on whether it is the filing date or the approval date that deems the tariff changes effective. For example, in the presentation materials[4] the voltage ride through requirement only exempts facilities that are operational as of 6/1/2010, which is the expected CAISO ***filing*** date with FERC. If the effective date of the tariff is the FERC approval date, the date of exemption should also be upon FERC *approval*. **IEP recommends that the effective date of the proposed tariff changes be equivalent to the date of FERC approval such that exemptions are also equivalent to the date of FERC approval.**

2. Exemptions for Qualifying Facilities.

In the CAISO presentation materials, staff notes that facilities that are "online and operating as of 6/1/2010 under a QF contract as of FERC filing are exempt until expiration of QF contract and/or Type I and II facilities. All other Type III and IV facilities shall be required to meet the standards by the later of their online date or December 31, 2011."[5] In further discussion of this topic during the CAISO workshop, staff suggested that once a QF contract expires, the QF becomes a market participant subject to these new rules and requirements. **This logic is inherently flawed.**

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[2] CPUC, Renewables Portfolio Standard, Quarterly Report, Q1 2010, p. 3.
[3] CAISO Interconnection Standards Review Initiative Draft Straw Proposal, page 3.
[4] CAISO Workshop April 1, 2010: slide 15.
[5] CAISO Workshop April 1, 2010: slide 17.

The determination of interconnection requirements for QFs does not reside with the CAISO, whether or not a QF is or has been under contract; that authority is delegated by FERC to the California Public Utilities Commission in 18 C.F.R. § 292.308:

> *"Any State regulatory authority (with respect to any electric utility over which it has ratemaking authority) or non-regulated electric utility may establish reasonable standards to ensure system safety and reliability of interconnected operations. Such standards may be recommended by any electric utility, any qualifying facility, or any other person. If any State regulatory authority (with respect to any electric utility over which it has ratemaking authority) or non-regulated electric utility establishes such standards, it shall specify the need for such standards on the basis of system safety and reliability."*

The CAISO is correct that it cannot invade a pre-existing contract, and its proposal respects that. Responsibility over QF operation and standards, including interconnection standards, however, resides with the CPUC because the projects are QFs; it does not revolve on the additional presence of a contract. That said, the CAISO proposal also ignores the likely probability that the CPUC will authorize new contracts with QFs, effective after the 6/1/2010 date proposed by CAISO, which will be subject to the same protection as existing arrangements. Moreover, while the CAISO as "any other person" is free to recommend interconnection standards to the CPUC, it is the CPUC's role to consider and reject, adopt or modify those recommendations. In context of other potential CAISO requirements, the proper exercise of this authority has occurred most recently in D. 07-09-040 where the CPUC determined: "QFs larger than one megawatt in dependable capacity will be responsible for scheduling coordination with the CAISO. However, at the election of the QFs, the utilities must provide that service for a reasonable cost" D.07-09-040 at 121.

3. Further Justification is Needed to Warrant Costly Investments.

The CAISO Draft Straw Proposal establishes a default power factor requirement for *all* resources, in place of the current process which requires a system impact study to justify the need for power factor requirements. While the CAISO's intent in applying a default power factor is to avoid the necessity of a system impact study, a default power factor, unlike a system impact study, does not establish with certainty that these power factor requirements are indeed needed. As many of these new requirements will substantially increase the incremental costs to generators, it is essential to demonstrate that these new costs are indeed warranted.

In fact, in a recent case (February 26, 2010) between Nevada Power and El Dorado Energy, LLC on the interconnection of the Copper Mountain Solar (CMS) I project, FERC ruled that *before Nevada Power may require El Dorado's facility to be capable of providing reactive power, Nevada Power must show, through a system impact study, that such a requirement is necessary to ensure the safety or reliability of the grid.*[6]

In this case, Nevada Power expressed concern that although granting an exemption to El Dorado's facility may not cause a substantial impact on Nevada Power's transmission system with respect to providing reactive power support, the cumulative effect of additional exemptions that may follow El Dorado's will be to degrade

[6] FERC Order Conditionally Accepting Interconnection Agreement, page 11. Docket No. ER10-508-000.

reliability.[7] In contrast, El Dorado argued that photovoltaic solar generators differ from conventional generators in that they are not inherently capable of providing reactive power. In order for its solar generator to provide reactive power, it must install expensive equipment, while conventional generators are capable of providing reactive power at little or no cost.[8] Accordingly, El Dorado requested that before it was required to incur the substantial expense associated with the procurement and installation of this equipment, that Nevada power be required to undertake a study to establish whether the disputed requirements were actually needed to ensure system reliability, consistent with Commission precedent for other types of renewable generation.

Taking into account FERC's ruling which required Nevada Power to conduct a system impact study to demonstrate that the capability of El Dorado to provide reactive power is necessary to ensure the safety or reliability of the system, it is not appropriate for the CAISO to implement a default power factor requirement in lieu of a system impact study for all resources. Essentially, there is not enough analysis or support to justify these costly investments at this time.

4. The Technology Must Be Available Before Standards Are Required.

In recognizing that some of the proposed standards are currently unattainable for certain renewable resources, IEP has concerns about setting a deadline by which these standards must be met. As proposed, this Interconnection Initiative would implement basic capability requirements for the power management of a generation facility, to be met by the later of the online date or December 31, 2012. Because these power management standards are not yet commercially deployable or are still in the development phases,[9] it does not seem prudent for the CAISO to issue in the tariff a deadline related to these technologies that are still under development. Instead, IEP recommends that the CAISO implement the December 31, 2012 date as a ***goal*** for implementing these standards; recognizing that the final deadline may need to be modified depending on the best technology/equipment actually available. Furthermore, if the technology is available but very cost prohibitive, IEP recommends that the CAISO evaluate whether the cost impacts outweigh the benefits of imposing such a requirement.

5. Inability to Recover Costs

Many of the projects that will be executing LGIAs in the near future have already executed Power Purchase Agreements to support that commitment. The remaining projects likely are in advanced stages of obtaining PPAs (i.e., have already submitted bids, been short-listed, and are completing the negotiation process). Consequently, their contract prices are already fixed and they have no ability to recover any additional costs imposed by the proposed requirements.

Accordingly, it is essential that the CAISO ensure that any additional burdens placed on generators through this process are genuinely needed for reliability and are the most cost-effective way to obtain the needed capability. The CAISO has not yet made either of these demonstrations.

[7] FERC Order Conditionally Accepting Interconnection Agreement, page 4. Docket No. ER10-508-000.
[8] FERC Order Conditionally Accepting Interconnection Agreement, page 5.
[9] CAISO Workshop April 1, 2010: slide 17.

IEP appreciates the opportunity to participate in the Interconnection Standards Review Initiative. We look forward to working further with the CAISO on this matter.

Respectfully submitted,

	
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