

Stakeholder Comments Template

Generator Interconnection Procedures Phase 3 (“GIP 3”)

Issue Paper, posted March 1, 2012

Please submit comments (in MS Word) to GIP3@caiso.com no later than the close of business on March 23, 2012.

Submitted by	Company	Date Submitted
Shannon Eddy (shannon@consciousventuresgroup.com) Kristin Burford (Kristin@consciousventuresgroup.com)	Large-scale Solar Association (LSA)	March 23 rd , 2011

For the seven topics listed below, we ask that you rank each with a score of 0, 1, 2, or 3 in the space indicated (a more detailed description of each topic is contained in the issue paper posted at <http://www.caiso.com/informed/Pages/StakeholderProcesses/GeneratorInterconnectionProceduresPhase3.aspx>).

Please ascribe the following definitions to your scores:

- 3: For topics that are high priority and urgent (i.e., the topic is a candidate for the first phase of GIP 3).
- 2: For topics that are high priority but of less urgency than a score of 3 (i.e., the topic is a candidate for the second phase of GIP 3).
- 1: For topics that have low priority (i.e., the topic could wait until the next GIP stakeholder initiative subsequent to GIP 3).
- 0: For topics that are not appropriate to address in a GIP enhancement initiative.

Stakeholders need not score, or comment on, every topic but are encouraged to do so where they have an opinion. The ISO will assume that a stakeholder has “no opinion” on issues for which no score is provided.

In addition to scoring each topic on which you have an opinion, please also provide your comments on each. Also, if you disagree with the characterization of any particular topic in the issue paper, please explain how you describe the issue, how this compares to the existing rules, and what the objective on that topic should be in this initiative. Also, provide specific proposals to address each of the topics you have given a score of 3 (i.e., high priority and urgent topics). For those topics you have given a score of 3, please provide the reasons and the business case for your perspective on the relative priority of the topic (e.g., explain the commercial impacts of not treating the topic as a Phase 1 high priority item in GIP 3).

Please also identify those topics which you believe may require a long time to address and therefore be candidates for work groups.

Please also provide any additional topics that you believe should be considered within the scope of the GIP 3 initiative; but, do not provide a score for these (the ISO will compile these into one composite list and use a survey process to request stakeholders to score them). For any additional topics that you provide in your comments, please provide specific proposals to address them.

Your comments in this regard will assist the ISO in the development of the Straw Proposal (on the Phase 1 high priority items) to be posted on April 10, 2012.

Comments on Items listed in GIP 3 Issue Paper:

1. **Downsizing** The potential need for an Interconnection Customer (“IC”) to downsize or and/or delay in the late stages of the interconnection process may arise for various reasons (both for commercial reasons and those beyond an IC’s control). An IC’s primary recourse may be to withdraw from the queue and re-enter a later cluster. The current tariff prohibits the ability to downsize or delay the commercial operation date if a later queued project is adversely affected. There is no allowance for an IC to build in the option to downsize or, compensate/indemnify materially affected later-queued projects, or to remedy material impact in any way. The objective of this topic would be to identify and explore potential remedies.

Score 0-3: 3.

This is a very high-priority issue for LSA members, and for developers generally. Developers need project-size flexibility because interconnection and transmission lead times are much longer than generation-development timelines. As explained in more detail below, the potential for losing an Interconnection Request (IR) or a GIA because of a need to downsize or cancel a portion of the project later (the so-called “partial termination” issue) has caused developers severe financing problems.

Comments:

It is not commercially reasonable to expect a developer to know with precision the exact size of its project when it files its IR. At the time an IR is filed, the project is not permitted, the developer will not have secured a Power Purchase Agreement (PPA), and environmental and/or other key studies may not be conducted or completed. Numerous other factors could also cause a change in the project size.

Moreover, the new Deliverability Assessment methodology and the TPP-GIP Integration proposal should reduce the impact of downsizing individual projects. Because the CAISO is focusing on constructing transmission necessary to meet policy goals – and not to accommodate all IRs – LSA believes that the CAISO can allow projects to have more flexibility, with little or no harm to the process or to other projects.

If the CAISO remains concerned about project “right sizing,” it can incent developers to make reasonable sizing decisions by imposing financial penalties for downsizing where harm is caused to other projects. The appropriate remedy for downsizing is not termination of the IR or GIA.

Specifically, the GIP-3 should consider the following enhancements to this item:

- **Clarify the CAISO definition of “harm” to other projects**, in the context of downsizing or delays. For example, if a project continues to pay for Network Upgrades per the schedule and other terms in its GIA, could downsizing/ COD delay still materially harm a later-queued project?

- **Broaden the definition of “material” adverse impact to include projects in the same cluster**, not just later-queued projects, e.g., if there is a reasonable chance that downsizing or dropouts could significantly increase costs or delay CODs for other projects.
- **Allow projects to downsize and/or delay their CODs generally**, if there is no adverse material impact on other projects in the queue or if the developer mitigates any adverse material impact. There are many factors that could be unknown at the time that the GIA is executed that could make downsizing a necessity or a commercially reasonable course of action, including PPA issues (e.g., failure to gain a PPA or loss of a PPA) and financing problems.

2. **Distribution of forfeited funds** Non-refundable portions of the IC study deposits and financial security postings are distributed in the same manner as are penalties assessed market participants (i.e., distributions are made to scheduling coordinators). Current procedures provide for retention of certain portions of IC study deposits and financial security postings upon withdrawal from the queue. The objective of this topic would be to investigate/explore whether there is a more appropriate way to distribute these funds.

Score 0-3: 3.

LSA supports inclusion of this item as high-priority in GIP-3. The current approach of distributing IFS funds to Scheduling Coordinators (SCs) does not appear to be just and reasonable. It is unclear why it is appropriate for SCs to be entitled to funds paid by developers for interconnection studies or transmission construction; rather, as described below, these funds should go toward actual interconnection studies or transmission construction.

For example, access to IFS proceeds (or the use of those funds to offset resulting cost increases) could be a critical means to mitigate potential impacts of project withdrawals on Option B projects under the proposed TPP-GIP Integration framework. Potential cost-allocation increases after GIA execution may make financing Option B generation projects difficult or impossible, and access to the Interconnection Financial Security (IFS) posting amounts could greatly mitigate the risk for these projects and keep them viable.

Comments:

Study Deposit funds are generally refundable, less an offset if the project withdrawal occurs past certain deadlines. The retained offsets should still be used for interconnection-related studies, however, e.g., for compensation to other projects in the study cluster.

The cost of interconnection studies is typically divided evenly between projects. Since many study costs remain the same regardless of the number of projects studied, project withdrawals before studies are complete would likely increase study costs for the remaining projects. Thus, forfeited Study Deposit funds should be used first to cover the portion of the study costs that the withdrawn projects would have borne. Any extra funds can be applied to re-studies needed later to reflect later dropouts.

Likewise, proceeds from liquidating IFS should be used first to cover the costs that would otherwise be shifted to other developers due to project withdrawals, e.g., for IC-funded upgrades or other non-reimbursable costs under the proposed TPP-GIP Integration rules. Any leftover funds should be used to reduce the cost of transmission attributed to remaining developers in the queue, either through direct disbursements (where developers are paying for the transmission) or through reducing the developer cost responsibility (where the ratepayers ultimately pay for the transmission).

- 3. Independent study process** The determination of independent study process (“ISP”) eligibility heavily relies on cluster study results which can result in delays meeting tariff timelines. Under existing rules, interconnection requests (“IRs”) must satisfy the eligibility criteria set forth in Section 4 of the GIP (Appendix Y). The objective of this topic would be to investigate the potential for improving the ISP determination process to allow projects that are electrically independent to move forward on a faster pace than the annual cluster process would provide.

Score 0-3:

Comments: LSA has no comments on this item.

- 4. Fast track study process** The current eligibility screens were designed for distribution rather than transmission. Under existing rules, an IR must satisfy the eligibility screens set forth in Section 5 of the GIP (Appendix Y). The objective of this topic would be to investigate eligibility screens that may better suit the intent of the fast track study process (i.e., allow qualified projects to move forward on a faster pace than the provided by the annual cluster study process).

Score 0-3:

Comments: LSA has no comments on this item.

- 5. Behind the meter expansion** Some stakeholders have expressed interest in behind-the-meter (“BTM”) expansion for phased generation interconnection projects. Under existing rules BTM expansion meeting business and technical criteria is studied using the independent study process track; however, the expansion can only happen after the original facility is in service. The objective of this topic would be to investigate/explore criteria and procedures that could enable BTM expansion before the entire original facility is in service.

Score 0-3: 1.

LSA generally supports revisiting the current framework in GIP-3 to consider allowing BTM expansions as the original technology is installed (e.g., for phased projects, as each phase is complete). However, this is not a high-priority item for LSA members.

Comments: This initiative should be expanded to also allow BTM expansions before all Network Upgrades are complete, to the extent that other projects are not adversely impacted.

- 6. External transmission lines** Generator projects interconnecting to a gen-tie external to the ISO-controlled grid cannot obtain deliverability on the ISO grid (either directly or through the gen-tie developer). The objective of this topic would be to investigate/explore the development of rules under the GIP enabling the developer of such a gen-tie to offer deliverability (on the ISO grid) to generating projects interconnecting to the gen-tie.

Score 0-3: 0.

This item is likely to be very complex and should be addressed in a separate initiative, for the reasons described below. Generation projects in other areas connecting through a third-party-owned gen-tie can already participate in the GIP, e.g., Nevada projects connecting through the Terra-Gen Dixie Valley Line. Without careful thought, this proposal could give the generation developers served by the subject lines the deliverability certainty of Option B generation projects (under the proposed TPP-GIP Integration Initiative framework) without any of the costs or obligations of generation inside the CAISO footprint.

Comments: Given the large amount of actual generation projects already in the CAISO queue, this change may not be needed for a 33% RPS. Moreover, it could likely entail a large amount of work by stakeholders and must overcome several very problematic hurdles, among them:

- How to model the potential generation projects that do not yet exist;
- What would happen if the eventual generation mix connecting through the gen-tie does not match the assumed mix, or if it never develops;
- How the gen-tie developer would make the required initial and annual viability demonstrations for TP Deliverability assignment and retention under the proposed TPP-GIP Integration Initiative (most notably, compliance with the PPA-based criteria);
- Retention of deliverability by the gen-tie developer for what could be long periods of time before the new generation develops; and
- Undue discrimination issues compared to similarly situated entities inside the CAISO footprint, e.g.:
 - Exclusion of gen-tie developers connecting to generation inside the CAISO footprint from such treatment; and
 - Up-front receipt of deliverability by generation served by such outside gen-tie developers, while projects inside the CAISO footprint would still have to go through the long and uncertain TPP-GIP Integration process to get it.

Given these and other issues, LSA does not believe that this is an appropriate item for consideration in GIP-3. If the CAISO believes that addressing this topic would be worthwhile, LSA recommends that it be addressed through a separate stakeholder process.

7. **Timeline for tendering draft GIAs** The large volume of IRs is making it difficult to tender draft GIAs within the 30-day timeline of the GIP. Under current rules, section 11 of the GIP requires tendering a draft GIA within 30 days after the ISO provides the final phase II results. The objective of this topic would be to investigate/explore potential modifications to the timeline for tendering a draft GIA.

Score 0-3: 1.

This item is not needed, because the PTOs currently take all the time they need to tender GIAs without consequence, and LSA believes that they should have an incentive to do so promptly after the Phase II Study is issued.

Comments: LSA would only support including this item in the GIP in conjunction with a day-for-day delay of the Second IFS Posting and a day-for-day extension in the negotiating period if the PTO provides a draft GIA agreement more than 30 days after the Phase II Study is issued. If ICs are going to be held to Tariff timelines, then PTOs should be held to those timelines as well.

Other Comments:

1. Please list any additional topics that you believe should be considered for the scope of GIP 3; but, do not assign a score (the ISO will use a subsequent survey process to invite stakeholders to score additional topics). For any additional topics that you suggest, please provide the reasons and the business case for your perspective on the relative priority of the topic (e.g., explain the commercial impacts of not treating the topic as a Phase 1 high priority item in GIP 3). Also, identify those topics which you believe may require a long lead time to address and therefore be candidates for work groups. And lastly, please provide specific proposals to address each additional topic you have suggested.

LSA response: LSA recommends that the CAISO consider the following additional items for inclusion in the GIP-3 initiative:

- **Interest rate for transmission-cost reimbursement:** GIP-3 should include consideration of the interest rate applied to transmission-cost reimbursements. The FERC rate currently used is far below independent developers' cost of capital, and there is considerable justification for using a higher measure, e.g.:
 - **The actual PTO interest rate**, because it is inappropriate for developers' funds to be a net revenue source for the CAISO; or
 - **The PTO's rate of return**, because: (1) ratepayers would be no worse off than they are for PTO transmission investments; (2) that is the rate that PTOs will receive on these developer investments once the refunds are paid and the facilities are placed into the TAC; and (3) if that is a fair return for the PTO, there is no reason why developers (who by any measure take more risks generally in their business, and usually have even higher financing costs) should be paid less than PTOs (who did not take most of the development risk).

Despite their higher capital costs, developers have been required to fund massive Network Upgrades – with uncertain timing for refunds – at an extremely low interest rate. This requirement is a hurdle for even the most well-capitalized companies. When Order No. 2003 was issued, the FERC interest rate was more commensurate with market rates, but at 3.25%, that is no longer the case. Moreover, it was not clear at that time that developers would be triggering NUs costing several hundred million dollars, and it is simply not reasonable to expect a renewable developer to finance those dollars – with virtually no control over the reimbursement timing – at a little over a three percent interest rate.

- **Unresolved PIRP solar issues:** Expansion of PIRP to solar projects was raised by the CAISO some time ago, and changes were made to the relevant CAISO tariff and BPM language related to meteorological data and equipment requirements. However, the CAISO postponed discussion of forecasting methodology and other details at the time, stating that these issues could be deferred because large-scale solar projects would not be coming on-line for several years. Such facilities will start becoming operational in the next couple of years, and it is time to address those issues.
- **PTO cost estimation and benchmarking:** GIP-3 should address two aspects of PTO costs – cost estimation and benchmarking of actual costs – as described below. The proposed reimbursement limits in the TPP-GIP Integration Initiative, and removal of cost caps from Area Delivery Network Upgrades in those proposed rules, make cost uniformity and reasonableness even more critical to generation-project viability.

Developers effectively have no choice but to pay these costs, and the new rules will likely cause them to be a much higher proportion of generation-project costs in the future. Failure to address them in GIP-3 will leave the justness and reasonableness of CAISO's TPP-GIP Integration Initiative proposal open to challenge at FERC; moreover, assurance to developers of reasonable costs should be a matter of basic fairness.

- **Cost estimation:** In the recent stakeholder conference call on 2012 PTO Per-Unit Costs, the CAISO stated that it was rescinding its GIP-2 commitment to impose some degree of uniformity on PTO cost-estimation practices. The CAISO justified this position by saying that the current disparate PTO cost-estimation methodologies had been approved by the CPUC.

LSA agrees that the CAISO should work with the CPUC in rationalizing PTO cost-estimation-methodology, but that should not be an excuse to back-pedal on this commitment. This was a hard-fought element of the GIP-2 effort, and LSA strongly believes that the CAISO should proceed in this area.

This element is particularly important in light of the proposed \$60K/MW Reliability Network Upgrade (RNU) reimbursement limit in the TPP-GIP Integration Initiative. Without cost-estimation uniformity, for example, generation projects in the SCE area would likely receive reimbursement for a far lower proportion of their RNU costs than those in other PTO areas.

- **Cost benchmarking:** LSA understands that construction costs and conditions differ between the PTOs, and within different areas of PTO service territories. However, those differences do not preclude some degree of cost benchmarking with other areas. The CAISO itself has conducted cost and other benchmarking efforts with other ISOs, even where functions and organizational structures differ substantially from the CAISO's, and LSA rejects the contention that such benchmarking is impossible for common types of PTO construction-related facilities and costs.
- **Partial Termination issues:** As noted above, CAISO staff's position in GIP-2 that a GIA could be fully terminated, even if part of a project is already operating, if a later phase or other portion of the project is cancelled (the so-called "partial termination" issue) has caused severe financing problems. This should be a separate GIP-3 item if it is not addressed as LSA recommends under Item #1 above.
- **Affected System (AS) coordination:** The study of upgrades for these entities should be incorporated into CAISO studies and processes, or at least coordinated better with them, because the current chaotic and ill-defined practices can drag out the interconnection-study process and increase uncertainty for developers.

AS impacts are now regularly identified in CAISO Phase I and Phase II Studies. However, AS entities typically do not become active until after the Phase II Study is issued, and then they essentially begin the whole study-and-agreement process over again on an individual-generator basis – a significant problem for developers that must make key IFS posting decisions in the CAISO process and try to close project financing (and begin construction) in the face of risk for unknown and (typically) unreimbursable AS costs.

Potential solutions could include active collaboration with common AS entities (e.g., CCSF, MID, TID, IID), perhaps through a GIP-3 workshop effort, to enable the following:

Comments Template for GIP 3 Issue Paper

- Inclusion of AS studies and mitigation in CAISO study, agreement, and IFS posting processes;
- Concurrent or coordinated timelines of AS study, agreement, and posting processes; and
- Re-assessment of AS impacts (and the need for mitigation) in (or on coordination with) CAISO re-studies, as projects drop out of the CAISO interconnection queue.

This effort should include agreement on a requirement for timely commencement and conduct of AS studies. If those activities are not performed within the agreed-upon time period, for example, the AS entity should be deemed under the GIP to have waived its rights to claim and receive compensation for mitigation of interconnection impacts.

- **Additional time for post-Phase I project decisions:** CAISO rules currently provide an early opportunity to downsize and/or reduce the deliverability in an IR after the Phase I Study Results Meeting, within 5 Business Days of the meeting. However, this information is not really used by the CAISO or PTO for the Phase II Study until much later.

GIP-3 should include consideration of allowing more time for developers to make these important decisions. Often, the Results Meeting minutes are not finalized (or even received in draft form) by the current deadline, and key follow-up information from the meeting may not have yet been provided to, or sufficiently considered by, the developer. Finally, as noted above, the CAISO or PTO do not need this information until much closer (or even after) the first posting deadline.

- **Project parking:** This item would allow an Option A project in the proposed TPP-GIP Integration Initiative process to “park” indefinitely (paying for any re-studies needed while they are parked), or to withdraw and re-apply and then move directly into Phase II. Since RNU costs are expected to be largely project-specific and the CAISO would not be reserving any TP Deliverability for these projects, there is no harm in allowing them to remain parked until they are ready to proceed.
- **GIP process refunds:** This item would examine IFS releasability in the GIP process and consider changes that would tie releasability to the burden imposed on other projects. For example, in many cases, no party would be harmed by an Option A project withdrawal from the queue before the allocation of TP Deliverability, and some may even benefit. In such cases, the IFS should be returned to the IC – where there is no harm, there should be no penalty. (This item could be a candidate for a workshop effort.)

- **Coordination with CPUC (and perhaps other LRA) procurement efforts:** LSA continues to be concerned that the GIP (including the changes proposed in the TP-GIP Integration Initiative) is not well-coordinated with the CPUC procurement process and mechanisms.

Current tariff provisions do not always accurately reflect the timing or the product requirements, of CPUC-approved procurement mechanisms. For example, annual, temporary, and/or partial deliverability allocations do not meet the objectives of any current CPUC-approved procurement mechanisms. Moreover, the timing of queue cluster results often does not match the timing of shortlist notifications, etc.

LSA recommends a GIP-3 workshop effort to identify ways to better align the GIP with current CPUC procurement mechanisms (and other LRA procurement mechanisms, if those entities are also interested in better coordination).

2. If you have other comments, please provide them here.

LSA supports revisiting GIP reform annually and is happy to see the CAISO proceeding on that basis.