



Transmitted via electronic mail

February 29, 2012

Board of Governors  
California Independent System Operator Corporation  
250 Outcropping Way  
Folsom, CA 95630

Re: Cost Impact of CAISO Transmission Infrastructure Decisions

Dear Board of Governors:

I write to urge you to direct CAISO staff to apply the Transmission Planning Process and Generator Interconnection Procedure integration framework to all projects with unsigned Large Generator Interconnection Agreements (LGIA) and all inactive LGIAs as of the effective date of the new TPP-GIP policy. This action is needed to protect ratepayers from significant unnecessary transmission cost increases.

The City and County of San Francisco (San Francisco) is concerned about the CAISO's failure to ensure cost effectiveness for the current queue of major transmission network upgrades associated with new generation. Ensuring that projects are cost effective is essential to the successful development of a sustainable, renewable electric system in California. The lack of such an analysis for the nearly 55,000 MW of generation capacity in the existing generation interconnection queue risks burdening the state's ratepayers and economy with unjust and unreasonable costs for unneeded transmission and, potentially, stranded investment. The CAISO should not consider including investments of this magnitude in CAISO-wide transmission rates without ensuring the most basic feature of just and reasonable rates – cost effectiveness.

San Francisco supports the NCPA/BAMx letter to you on this topic, dated February 2, 2012 and attached for your convenience. NCPA/BAMx discussed the fact that the High Voltage Transmission Access Charge (HV TAC) rate has risen roughly 400 percent in the past ten years and will nearly triple again in the next ten years based on 11,000-13,000MW of additional renewable capacity needed to meet the State's 33 percent RPS goal. The current generator interconnection queue (Serial through Cluster 4) represents about 55,000 MW of

proposed generation projects. Exempting this existing generation interconnection queue means they will continue to be treated under the old planning process despite the sea change in state and federal policy in favor of comprehensive transmission planning, the current initiative to integrate transmission planning with the generator interconnection process, and the fact that 55,000 MW of new generation projects far exceeds the capacity needed to meet the 33% RPS.

San Francisco and other stakeholders have repeatedly asked the CAISO to evaluate the cost effectiveness of pending projects through some form of economic assessment applied to the current interconnection queue. Despite these requests, the CAISO has provided no effective remedy to the expected dramatic increase in rates that will result from interconnecting the projects currently in the queue, including in its most recent draft proposal issued on February 15, 2012. As proposed, none of the provisions developed to integrate the planning analysis with the generator interconnection request processes will be applied to any project prior to Cluster 5.

San Francisco urges the Board to set aside staff's decision in favor of fulfilling your public interest duties to prudently manage the CAISO-controlled grid by taking a first step to ensuring the cost effectiveness of the multi-billion dollar public expenditure for transmission infrastructure represented by the projects in the current queue. Please apply the Transmission Planning Process and Generator Interconnection Procedure integration framework to all projects with unsigned LGIAs and all inactive LGIAs as of the effective date of the new TPP-GIP policy.

Sincerely,



Barbara Hale

attachment

C: CPUC Commissioners  
Stephen Berberich  
Keith Casey  
Karen Edson  
James Pope, NCPA  
John Roukema, SVP  
Valerie Fong, Palo Alto  
Girish Balachandran, AMP  
Keith White, CPUC





February 2, 2012

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California Independent System Operator Corporation  
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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 Group<sup>1</sup> ("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.<sup>2</sup>

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

<sup>2</sup> 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.<sup>3</sup> 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 proposal<sup>4</sup> 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.<sup>5</sup> NCPA and BAMx appreciate the CAISO Staff’s most recent proposals to effectively manage the generation queue; namely the *Technical Bulletin on Queue Management*<sup>6</sup> and the *Delivery Requirements for Cluster 1 & 2 Discussion Paper*<sup>7</sup>. 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

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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.

<sup>3</sup> 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.

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

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

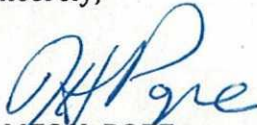
<sup>6</sup> *Technical Bulletin - Generator Interconnection Queue Management*, CAISO, October 18, 2011.

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

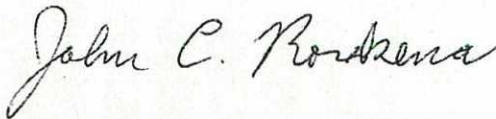
steps, there will still likely be numerous transmission projects going forward at ratepayers expense far beyond what is needed to reach the state's renewable energy goals.

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  
General Manger  
Northern California Power Agency



John Roukema  
Electric Utility Director  
Silicon Valley Power



Valerie Fong  
Electric Utility Director  
City of Palo Alto



Girish Balachandran  
General Manager  
Alameda Municipal Power

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**

