Comments on the ISO's Third Category of Transmission Proposal
Submitted By Mirant
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Mirant appreciates the opportunity to comment on the ISO's proposal to develop a third category of transmission to facilitate renewable development. Mirant supports the State's renewable policy objectives and the fuel diversity and environmental goals it seeks to implement. It seems that the ISO's proposal is attempting to address a concern that access to transmission infrastructure is a hindrance to implementation of State's renewable targets and that renewable generation interconnection warrants a deviation from existing and well-established interconnection and cost responsibility policy. The comments below are intended as constructive suggestions to assure that costs associated with the proposed transmission facilities required to interconnect renewable generation are as transparent and economical as possible.

Issue 1: What is the magnitude of the transmission investment and associated costs that will fall under this new Category?

The existing FERC interconnection rules and cost responsibility policy have undergone years of rigorous discussion and stakeholder process. The proposed third category of transmission appears to be a substantial change in the overall generator interconnection policy in that it: 1) provides for investment before the generation facility is 'used and useful'; and 2) alters the interconnecting generator cost responsibility for the generation tie. Building transmission before the generation is developed holds the possibility for a consumer burden if they are forced to pay for transmission that ultimately goes unused. Indeed, this has been the reason for FERC's 'used and useful' standard. The question then is what is the magnitude of the problem and does it warrant such a large diversion from FERC precedent and can it be dealt with in a more isolated way? One of the reasons for the question is that the transmission facilities to renewable regions, such as Tehachapi and Imperial Valley, are considered network upgrades, which are not subject to this policy. Therefore, what is the magnitude of the transmission upgrades necessary to other potential resource areas that may warrant this major policy change?

Issue 2: Renewable costs and associated subsidies should be transparent.

Mirant supports the State's renewable policy goals and understands the ISO's intent to facilitate renewable development in remote, but renewable rich resource areas. It is critical however that every effort be made to meet the renewable goals in the most cost effective manner possible. In order to economically optimize RPS implementation, the costs of the policy, including the transmission subsidies embodied in the ISO proposal, should be explicit. Without a cost tracking mechanism, the ratepayers will have no idea of the program costs and whether the implementation of the renewable policy is taking place in the most economically efficient manner possible. Mirant therefore recommends that rather than rolling the costs into TAC, a separate category 3 transmission accounting mechanism be established.

Issue 3: Cost recovery should be structured to facilitate full recovery from beneficiaries

The CAISO proposal calls for new generators interconnecting to the subsidized line to pay only the "going forward" portion of their share of the transmission facility costs as opposed to their proportional share of the total costs of the line. In other words, the later the developer comes online the less it has to pay. There are a number is questions and concerns with this cost responsibility approach:

1) It appears that one of the reasons for this approach is the ISO's concern that requiring interconnecting generators to pay their proportional share of the total costs might reduce the incentive for generators in later years to locate in the area. It is unclear why this would be the case since the purpose of building transmission to renewable rich areas is because renewables by their nature are location specific. In other words, where else would they go and why would an approach that requires a fair share the transmission cost responsibility drive developers elsewhere?

2) Allowing renewable developers in later years to pay less to interconnect than generators in early years is likely to result in preserve incentives. The going forward cost proposal provides an unintended incentive for developers to delay their projects to minimize their potential cost exposure. Alternatively, a payment cap could be established such that early developers are responsible for their proportional share of the line capacity (e.g. a 10 MW developer of a 100 MW line would pay 10% f the cost) and would pay off their share sooner than later developers. In this way individual developers are not hurt or helped by the timing of their interconnection. A later developer would pay its share over a longer period of time, in effect repaying TAC subsidies. Under this repayment process, TAC ratepayers would only be at risk for the total amount of development, and all generation would pay the same share of the costs, regardless of when they interconnect.

Issue 4: The ISO must implement safeguards against the risk of stranded transmission costs

While the CAISO suggests that proponents "demonstrate adequate commercial interest among multiple generation developers," a more definitive showing of commitment should be required. A project should not proceed until some significant percentage (e.g. 40 or 50%) of the expected resources has made binding financial commitment to the project. Without a subscription threshold, the stranded costs risk to ratepayers is unreasonably high.

Issue 5: Can this issue be resolved by market mechanisms instead of subsidies?

The third category proposal is the equivalent of a merchant transmission project built "on spec" in that it is built in the anticipation that it will be needed. Market mechanisms are a more efficient and cost effective answer to the issues facing renewable development and transmission interconnection. In other words, private investors are better equipped to manage the risks of investing to meet renewable demand. Indeed, the Sagebrush

merchant transmission project to the Tehachapi area is a good example. Under the ISO proposal, ratepayers bear all the risks of the transmission investment if the renewable development does not materialize or only partially materializes. The renewable policy has created a demand for transmission facilities. It seems that what is missing is the pronouncement of what is needed and the opportunity for merchant entities to bid to take on the development risks. The ISO should exhaust merchant opportunities to manage the renewable transmission risk before ratepayers are forced to bear all the risks and associated costs.