Pacific Gas and Electric Company®

Comments of Pacific Gas and Electric Company on the CAISO's Location Constrained Resource Interconnection Near-Final Proposal and September 21, 2007 Conference Call

This paper is submitted in response to the CAISO's request for comments about its near-final proposal, dated September 14, 2007, and the stakeholder conference call on September 21, 2007 for the Location Constrained Resource Interconnection (LCRI) policy. PG&E appreciates this opportunity to provide comments and looks forward to the continued collaboration with the CAISO and other stakeholders to develop the LCRI policy.

Overview

On April 19, 2007, the FERC issued its Order granting the CAISO's Petition for Declaratory Order regarding multi-user interconnection facilities, now called Location Constrained Resource Interconnection Facilities (LCRIF). The CAISO proposed a new financing mechanism for facilities designed to interconnect location-constrained resources, including renewable resources such as wind, solar and geothermal, to the grid. The proposal was created in order to address the "chicken and egg" problem between the development of renewable resources and the construction of necessary generation tie line facilities.

PG&E strongly supports the CAISO's proposal and this initiative. If executed with the proper controls, the LCRI policy could expedite the interconnection of renewable resources to the transmission system in order to help California meet its Renewable Portfolio Standards. PG&E provides the following comments and looks forward to further opportunities to help refine the LCRI policy and the upcoming tariff language.

Energy Resource Area Designation

PG&E supports case-by-case CAISO board approval for proposed projects that meet all criteria except Energy Resource Areas (ERA) designation prior to the completion of the CPUC and CEC joint certification process for ERAs. Furthermore, PG&E would support case-by-case CAISO board approval on an ongoing basis for projects that are not designated as ERAs but would fit into the ERA model and that meet all other LCRI criteria.

Application Process for Proposed LCRIFs

PG&E generally supports the open season process proposed by the CAISO. PG&E believes that clarification is required regarding which party would be financially responsible for the studies outlined in section 3.5.1 (studies that include power flow, short circuit and transient stability analyses). In the traditional interconnection framework, queue participants fund system impact studies as part of the LGIA process.

If it is expected that adequate commercial interest criteria can be satisfied late in the application process (or after the application is approved), it is unclear that there would be participants in the interconnection queue earmarked for specific projects to finance studies at this early stage of the application process. It also does not seem reasonable for these initial study costs to be borne solely by a proposed project's early adopters. If the PTO is expected to front the initial study costs, cost recovery for projects that have been rejected or are languishing as part of the application process should be provided for in the tariff language.

If the CAISO's vision is that adequate commercial interest must be satisfied by the time an application for a proposed LCRIF is submitted, then it seems reasonable that study costs would be borne by queue participants expressing commercial interest.

Adequate Commercial Interest

The CAISO proposal to satisfy the adequate commercial interest criteria is a two-pronged test. The first prong is the requirement that 25% of the LCRIF's capacity be "subscribed" pursuant to Large or Small Generator Interconnection Agreements (LGIA or SGIA). The second prong is a minimum showing of 35% of the capacity (above and beyond the subscribed percentage) in "additional interest."

PG&E agrees with the CAISO that a "pre-designation" mechanism should not be included because it may divert resources from other necessary tasks. PG&E has also commented previously that both prongs need not be satisfied in the early stages of the application process. However, PG&E emphasizes that **both prongs must be satisfied prior to significant expenditures by the transmission owner**, e.g., after conceptual planning studies but prior to engineering design or environmental studies, *not*, as the CAISO proposal states, just "before construction."

The CAISO proposes that additional interest be shown in the following ways:

- LGIAs or SGIAs exceeding the 25% minimum for the showing of executed agreements above;
- Power Purchase Agreements (PPA); or
- A deposit equal to 10% of the developers' pro-rata share of the proposed LCRIF's capital costs.

PG&E recommends that the PTO proposing the LCRIF be responsible for the tracking and initial validation of additional interest. The PTOs have the most incentive to scrutinize the validity of the additional interest.

During the September 21 conference call, the CAISO proposed a second method to determine the proper monetary deposit showing for additional interest. PG&E strongly believes that the first proposal (10% of the developers' pro-rata share of the proposed LCRIF's capital costs) is straightforward, simple and superior.

If further analysis reveals that 10% is too high, PG&E recommends that the percentage be decreased to no less than 5%. This percentage is roughly consistent with the (*un-escalated*) 1986 $5/kW project fee for Qualifying Facilities (CPUC decision D.86-11-005 (Nov. 5, 1986). Developers wishing to express additional interest for a LCRIF must exhibit a commitment to that specific project. Given that the deposit can be posted with methods other than cash and will be credited toward interconnection costs, 5% should not be unduly burdensome to developers wishing to show additional interest and a deposit for less than 5% may be too weak a showing.

Conclusion

PG&E has supported this initiative since its early stages and believes that, although there are still issues to resolve, the LCRI policy will help diminish the barriers to construction of necessary transmission to renewable resources. PG&E thanks the CAISO for its efforts in developing the LCRI policy and upcoming tariff language.