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December 15, 2014

CAISO Board of Governors
250 Outcropping Way
Folsom, CA 95630

Subject: CAISO Board decision on Harry Allen Eldorado transmission project

CAISO Board of Governors:

With this letter, LS Power Development, LLC (“LS Power”) expresses its support of CAISO Management’s recommendation in regards to the Harry Allen Eldorado transmission project (the “Project”). LS Power recommends that the CAISO Board approve the project at its December 2014 board meeting.

LS Power has been an active participant in CAISO’s Transmission Planning stakeholder processes for the last several years. CAISO staff’s recent analysis demonstrates that the benefits of the Project for CAISO ratepayers are greater than its costs. CAISO staff also studied the Project previously in the 2012/13 and 2013/14 Transmission Planning Cycles. All of these prior studies likewise showed that the benefits of the Project were greater than its costs¹. Based on these similar results, the merits of the Project are confirmed. We commend CAISO staff for conducting a very robust stakeholder process, allowing numerous opportunities for stakeholder participation, and addressing stakeholder comments as this Project has been analyzed, and the benefits confirmed over the past few years.

LS Power understands that a few stakeholders have expressed certain concerns over approval of the Project. We would like to take this opportunity to address these concerns:

(1) Capacity benefits from the project

CAISO analysis of the Project assumes that California will be resource deficient by 2020. Some stakeholders question this assumption and make reference to CAISO’s LTPP study work done in Aug, 2013. However, CAISO’s assumptions are consistent with the study work done for 2014 Long Term Procurement Planning (LTPP) process which indicates a potential resource shortfall in Year 2024 of 1,689 MW based on Deterministic studies and a maximum shortfall of 16,745 MW based on Stochastic studies². OTC retirements, including the possible retirement of Diablo Canyon Nuclear Power Plant, can make this

¹ CAISO staff decided not to advance the Project in these prior transmission planning cycles in favor of further analysis of the Project.

² http://www.caiso.com/Documents/Nov20_2014_Liu_StochasticStudyTestimony_LTPP_R13-12-010.pdf

capacity shortfall even worse. The Project increases capacity import capability from Nevada and Arizona such that resources in these areas could meet a potential shortfall.

Some stakeholders assert that capacity benefits experienced by CAISO ratepayers should be half of the total calculated benefits. We disagree, as we know of no basis for assigning an arbitrary split of benefits in this way. In fact, CAISO's calculation of capacity related benefits for the Project is consistent with the methodology used for the recently approved Delany Colorado River project. CAISO has consistently and appropriately applied the assumption that capacity resources are less costly to develop outside of California. It is also appropriate to assume that there is competition among suppliers such that the benefit of the cost difference will accrue 100% to CAISO ratepayers

(2) Inter-regional participation

Some stakeholders suggest that this Project should be considered an inter-regional project. The process for inter-regional participation in a project like this is still in the formative stage and would take years to advance. Meanwhile, CAISO staff's analysis has demonstrated the Project is economic for CAISO ratepayers assuming these ratepayers pay for 100% of the costs and enjoy 100% of the benefits of the Project including 100% of the capacity of the Project. Again, the Project has been studied by CAISO in each of the past three transmission planning cycles yielding the same result – that the benefits of the Project for CAISO ratepayers are greater than its costs. Postponing approval of the Project to pursue the Project through an inter-regional planning process will delay receipt of the benefits of the Project for CAISO ratepayers and would likely end up costing CAISO ratepayers more (due to escalation of Project costs and delaying receipt of benefits). Similar to the recently approved Delany Colorado River interstate project, this Project is economic based solely on the benefits calculated for CAISO ratepayers and as such approval should not be delayed.

(3) Additional benefits exist but are not quantified in CAISO's analysis, as follows:

a. EIM benefits

CAISO and NV Energy have announced the expansion of EIM markets to include NV Energy starting in 2015. Harry Allen-Eldorado will increase transmission capacity for EIM purposes and will thereby provide increased EIM benefits to CAISO and NV Energy. CAISO modelled EIM between CAISO and NVE but mentioned at the November stakeholder meeting that the model underestimates EIM benefits. If EIM is fully modelled, this will show additional economic benefits.

b. Flexible Capacity benefits

The 202 MW incremental capacity benefit is an "under-estimation". This was calculated at the traditional peak hour, which is around 3 PM, in line with when System Resource Adequacy is typically needed. Starting in 2015, the CPUC requires LSEs to procure Flexible Capacity on an Year Ahead basis in addition to System & Local Capacity. Flexible Capacity needs occur more typically during

the “non peak hours” of 7 AM – 12 Noon for May – September and 3 PM- 8 PM for January- April and October-December. If the incremental capacity benefit is calculated for these “non peak” hours, it should result in allowing higher incremental transfers than 202 MW. CAISO’s analysis does not capture this incremental Flexible Capacity benefit.

c. Loss reduction benefits

A new transmission project helps reduce overall system losses. This benefit is estimated outside the production simulation model using a traditional power flow calculation. In the case of Delany Colorado River project this benefit was estimated to be \$1 million per year. This benefit has not been included in the analysis of the Project, which if accounted for, will further increase overall benefits.

d. Reliability benefits


As noted by CAISO staff, the Project helps relieve several contingency overloads in the Valley Electric Area, which addresses these reliability issues and helps defer transmission upgrades.

Benefits of an Earlier In Service Date

Assuming the Project is approved by the Board, LS Power encourages CAISO to recognize the benefits of an in service date earlier than 2020 in its solicitation process. Allowing for and giving preference to an earlier in service date will result in higher benefits to CAISO ratepayers given that benefits are higher in the early years and costs will be lower due to less escalation.

In light of CAISO staff’s analysis of the Project, and the above, LS Power requests that the CAISO Board approve the Harry Allen Eldorado transmission project at its December 2014 meeting. We appreciate the opportunity to offer input to CAISO Board on this important subject.

Sincerely,



John T. King
Executive Vice President

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