November 6, 2013

Chair Robert Foster
Governor Ashutosh Bhagwat
Governor Angelina Galiteva
Governor Richard Maullin
Governor David Olsen

RE: Reassessment Study impacts

Dear Chair Foster and Governors Bhagwat, Galiteva, Maullin, and Olsen:

I am writing on behalf of the Large-scale Solar Association (LSA) to express LSA's concerns about several issues related to the recent CAISO Reassessment Study (Study), and the related Technical Bulletin, GIDAP Reassessment Process – Reallocation of Cost Shares for Network Upgrades and Posting (Technical Bulletin or TB). Specifically, LSA requests that the Board direct Management to implement the Network Upgrade (NU) cost estimates in the Study, both in Generator Interconnection Agreements (GIAs) and Interconnection Financial Security (IFS) postings. LSA appreciates Management's offer to work together to further address these issues going forward but respectfully suggests that the problems with the Study cannot wait that long to be fixed

The Study – conducted under the new generator-interconnection rules starting with Cluster 5 – essentially "reset" earlier CAISO interconnection study results to reflect the large number of dropouts from the interconnection queue. Issued September 18, it was eagerly anticipated by many developers expecting significant cost and timing benefits. GIA negotiations for many projects were basically "on hold" pending issuance of the Study.

The Study results lived up to these high hopes and expectations, particularly for Cluster 3-4 projects in PG&E's Fresno-Kern area. The Phase II Study for those projects – which assumed capacity far in excess of the level expected to be built based on the Transmission Planning Process (TPP) supply portfolios – contained extremely high NU costs and the longest NU construction time in any CAISO-area study so far (12 years for Delivery Network Upgrades (DNUs). For example, NU costs for one LSA member project in that area went from $57 million to $12 million, and the DNU timing was reduced from 12 years to 2.5 years.

Based on the Study results, developers entered into negotiations for the long-term Power Purchase Agreements (PPAs) needed to finance and construct their projects. They also moved to finalize and execute their GIAs, many of which must be completed soon to meet Commercial Operation Date targets.

However, significant confusion arose when developers sought to reduce their Interconnection Financial Security (IFS) postings, which were based on the prior high cost figures, and to revise their draft GIAs to reflect the Study results. The confusion related to both the IFS posting revisions and statements by the CAISO regarding the applicable NU "cost caps."

As a result, over a month later, the CAISO issued the aforementioned Technical Bulletin. The TB actually made the situation worse, impairing projects in three major ways, described below:

- **Refused to reduce the cost caps to reflect the Study results**, because the CAISO considers the Study results to be an "advisory report" and not a "Phase II Study Addendum."

  This bit of wordplay – justified only because the Study was done under a different tariff section – would leave the project mentioned above with a $12 million cost allocation but a $57 million cost cap. The caps – especially for the Fresno-Kern Cluster 4 group – were based on Phase II Study costs for upgrades that won't ever be built, triggered by generation projects that no longer exist.

  Moreover, the Board can surely appreciate the difficult choice of the developer in this position – use the new numbers but risk a cost increase later, or continue to assume the older, much higher numbers (i.e., forego all benefits from the Study) and possibly doom the project based on uncompetitive costs, even though the actual costs are likely to be far lower.

- **Repudiated the Study results.** The CAISO has now decided that the new NU cost estimates in the Study are not valid for the affected projects. Instead, the CAISO will be making "mathematical adjustments" to increase the assigned costs to developers, and re-issue reports reflecting those new figures by the end of the year – about 2 months from now.

  Effectively, these adjustments might reflect what the Phase II Study results might have been without the projects that dropped out. The problem is the time that has already elapsed between the Study and the TB, and the additional time that developers must now wait for further adjustments (during which time at least one utility is expected to issue a supply RFO). If the methodology is changed from that in the Study, those changes should only apply going forward, and not to this study cycle.

- **Delayed IFS posting reductions, thus imposing significant costs on developers.** Cluster 3-4 projects, which have been impacted the most, have made their second IFS postings (up to 30% of estimated costs). The third posting (100% of estimated NU costs) is due when "Construction Activities" (major procurement, after all required governmental approvals) begin. This can occur a year or more after the second posting is made.

  The Study results mean that many projects have second postings far above 30% of the new cost level, and some now have postings above the 100% third posting level. However, the TB would only allow the latter group to reduce their second postings, and then only to 100% of the new costs – not the 30% level in the tariff.

  The CAISO has argued that this is justified, in part because it would just be too "burdensome" to release excess IFS above the new 30% level, and that CAISO "practice" (not documented in the tariff or BPMs) would delay the reduction until the third posting is due. However, LSA does not believe that this is sufficient justification for keeping $millions of costly developer funds.

In summary, the CAISO should keep the Study results already issued for this cycle, and revise both the IFS postings and cost allocations accordingly.

Sincerely,

Shannon Eddy

Shannon Eddy
Executive Director