

SDG&E's Initial Comments
on the CAISO's October 31, 2011
"Draft Discussion Paper: Cluster 1 and 2 Deliverability Concerns
Provision of additional information"

On October 31, 2011, the CAISO released a draft discussion paper indicating that "stakeholders have raised concerns that the long development timelines and high costs of network upgrades in adjacent PTO service territories identified for certain Cluster 1 and 2 generation interconnection projects will impede the commercial viability of these projects." The draft discussion paper reflects the results of Resource Adequacy deliverability studies wherein the CAISO modeled the removal of enough generation in the current interconnection queue to eliminate the need for:

- (i) Looping the existing 500 kV Mohave-Lugo line into a new 500 kV Pisgah substation,
- (ii) series capacitors on the existing 500 kV Nipton-Pisgah line (assumes construction of a new 500 kV substation on the existing 500 kV Eldorado-Lugo line), and
- (iii) series capacitors on the looped-in existing 500 kV Mohave-Lugo line.
- New 103 mile 500 kV Colorado River-Red Bluff #3 line.
- New 31 mile 500 kV Red Bluff-Valley line.

The CAISO's discussion paper indicates that if between 1500 MW and 3700 MW of strategically-located generation in Clusters 1 and 2 (or other higher-queued generation) drops out of the queue, the above upgrades would not be required. Importantly, the CAISO states that it is "highly likely" that "enough generation" will "drop out" such that the above transmission upgrades "are not required."

These findings are consistent with SDG&E's view that the CAISO's existing interconnection study methodology identified Delivery Network Upgrades that are highly unlikely to be needed. However, the draft discussion paper simply suggests a decreased need for Network Upgrades is likely in the event generation drops out of the queue. It does not provide developers assurances that generation will drop out of the queue, nor, more importantly, does it demonstrate how the decrease in upgrade needs will lead to reduced funding responsibility for generators who remain in the queue. Additionally, the paper lacks discussion on how these projects will get deliverability in the years 2016-2018, if, in fact the upgrades are shown not to be needed. This is an important issue for LSE's trying to get their PPA's approved by the CPUC. Consequently, beyond generating concurrence that the existing study methodology identifies unrealistic network upgrades, the draft paper does little to meaningfully assuage developer concerns about future funding responsibility exposure, or provide any certainty for projects seeking deliverability.

SDG&E submits that the draft discussion paper's usefulness would be greatly enhanced if the CAISO's estimates about near-term queue reduction quickly translated into actual, binding reduced funding obligations for developers who remain in the cluster 1 and 2 queues and confirmation of deliverability for years 2016-2018. Toward this end, SDG&E believes the CAISO should restudy clusters 1 and 2 using the high end (3700 MW) range of queue withdrawal need to avoid the identified upgrades. In rerunning the study, the CAISO would assume 3700 MW of generation—that is effective in eliminating the reliability criteria violations

identified in the CAISO's now-standing cluster 1 and 2 studies—has in fact dropped out of the queue. The assumed queue withdrawal would reflect a significantly decreased (and more realistic) need for future upgrades that provide Resource Adequacy deliverability.,

Importantly, the CAISO would assign to developers a *binding*, revised upgrade funding requirement based on these more realistic assumptions. SDG&E understands the CAISO's recent queue management efforts recently identified and notified more than 10,000 MW of generation that is likely to be removed involuntarily from the queue. In light of these efforts, SDG&E believes it is reasonable to expect that at least 25% of that generation will in fact exit the queue; thus, it is reasonable and prudent from a funding obligation perspective to re-run the study in light of this expectation.¹

Alternatively, the CAISO could consider the option of delaying funding requirements for developers who face exposure to “highly unlikely” network upgrades. While this approach still exposes developers to some future funding uncertainty, it is preferable to the current approach that requires upfront funding of all upgrades, even upgrades the CAISO believes are unlikely to be needed.

Lastly, SDG&E believes the CAISO must, at a minimum, quickly articulate a methodology for refunding a developer's upgrade deposits. When generation drops out of the queue and eliminates the need for upgrades – as the CAISO expects – developers who made upfront funding contributions to support those unnecessary upgrades should have a clear understanding about how and when those funds will be returned. Certainty around this point would meaningfully inform contracting decisions in the near-term.

Whatever route the CAISO chooses, SDG&E recommends it act quickly and meaningfully. As the CAISO is well aware, the unrealistic results produced by the current study methodology are creating serious impediments to load serving entities attempting to negotiate and finalize agreements with developers. Near-term, these impediments at best cause unnecessary delay in project development, and at worst risk leading to the termination of otherwise economic procurement transactions. Long-term, the funding uncertainty and cumulative frustration generated by the current study process will act as a significant barrier to the State achieving its policy objectives. If a lack of confidence in the CAISO study results causes viable projects to either exit the queue, or refuse to enter it, then the ability to cost-effectively meet California's 33% renewable requirement (including the new flexible generating resources necessary to integrate these resources) and green house gas emission reduction requirements will be jeopardized. .

SDG&E supports the CAISO's efforts to address the substantial, long-standing problem and believes the CAISO has taken an important first step in raising a significant concern about the commercial implications regarding certain projects currently in the CAISO queue that are highly

¹ Obviously, the location of departing projects is an important factor, but nevertheless reasonable assumptions could be made to produce revised results and costs estimates that meaningfully reflect the eventual and undisputed departure of existing projects.

likely not to be found viable.² SDG&E urges that the CAISO take the next logical step to work towards developing a process that seeks practical solutions to that problem that generators, load serving entities and the CAISO would find useful. The “restudy” mechanism outlined above should provide for a year-by-year assessment of the amount of Resource Adequacy counting rights expected to be available to generators interconnecting at different locations within the CAISO Balancing Authority as well as outside the CAISO Balancing Authority.

The CAISO promises to initiate discussions with the LSEs and the CPUC to assess their use of the information provided in the draft discussion paper. SDG&E looks forward to further near-term developments, such as a revised draft discussion paper, from the CAISO consistent with these comments.

² In connection with its Transmission Planning Process (TPP)-GIP integration initiative, the CAISO is separately proposing to limit the aggregate amount of CREZ generation that is studied in the TPP for purposes of identifying deliverability network upgrades that will meet, but not exceed, California’s Renewable Portfolio Standard (RPS) requirement. This proposal addresses the problem of assuming every generator of equal or higher-queue position will get built. Unfortunately, the CAISO is proposing to implement this approach beginning with Cluster 5. It does nothing to address either the issues with earlier clusters or the issues raised in the October 31, 2011 draft discussion paper regarding the high likelihood overly inflated network upgrade costs.