



California ISO  
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California Independent  
System Operator Corporation

# **Transmission for Renewable Generation Resources**

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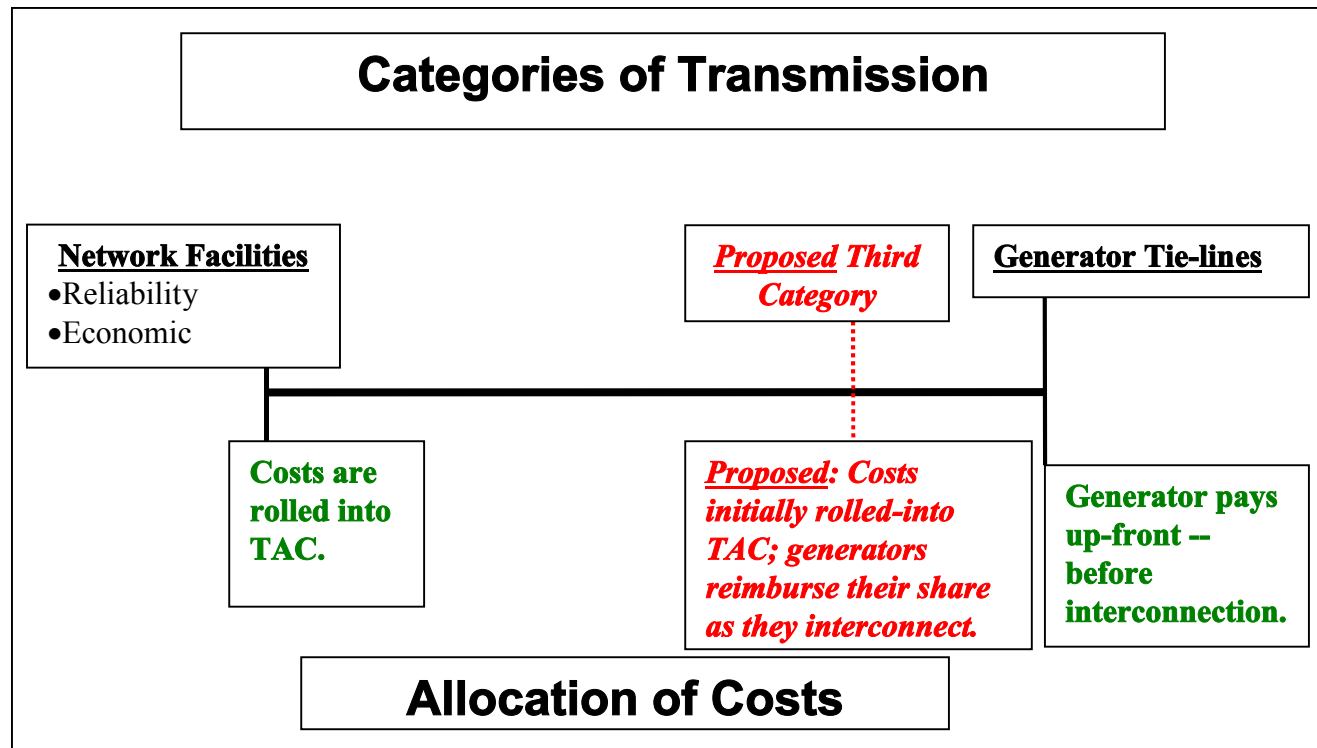


## Why is CAISO proposing 3<sup>rd</sup> Category for assessing transmission costs?

- **Current interconnection policies appear to be diminishing prospects for the efficient development of locationally constrained generation resources.**
  - Barrier to efficient development of renewable generation facilities
    - Development of renewable generation regions is often not pursued due to combination of
      - Renewable resources often located far from existing transmission grid and load
      - Optimally sized expansion exceeds the capacity needed to support the known projects that have applied for interconnection
  - Under these circumstances, the requirement that the generation developer fund all interconnection facilities before interconnection imposes a high hurdle that may be impacting the economic development of renewable generation.

## CAISO Proposal

- **Distinct new category of transmission that encompasses locationally constrained generator supply transmission lines.**
  - Subcategory of interconnection facilities that would be eligible for alternative cost recovery treatment provided 7 criteria are met.





## Eligibility Criteria for Transmission Projects

- 1. The project must not be otherwise eligible for rate treatment that allows costs to be incorporated into the Transmission Access Charge (TAC).**
- 2. The project must be located in an area with a significant source of energy that is not transportable as identified by the CEC.**
- 3. The project must be turned over to CAISO control.**
- 4. The project must be designed to serve multiple power plants in areas where the energy source is non-transportable.**
- 5. The project must be found to be cost effective within the CAISO's grid planning process.**
- 6. The project must not increase the CAISO's TAC rates by more than 5 percent on average over a 10-year period.**
- 7. The project proponents must be able to demonstrate adequate commercial interest among multiple generation developers.**

## Proposed Cost Recovery Treatment

- **Current cost recovery:**
  - Network transmission facilities rolled into TAC—presumption that these facilities provide benefits to all users of the grid.
  - Generation intertie transmission facilities paid for up-front by generation.
- **3<sup>rd</sup> Category Cost recovery proposal**
  - Up-front financing for unsubscribed portion of the transmission facilities by PTOs that is recoverable through the TAC.
  - Upon interconnection, generators pay their pro-rata capacity share of the annual revenue requirement of the transmission facilities.
  - Past expenses (interest, depreciation, O&M, taxes, etc.) not assessed to additional generation that interconnect to the facilities.
  - PTOs retain ownership of the facilities, regardless of whether the transmission line remains radial in nature or transfers into a network facility at a later date.

## Other Criteria/options considered

- **Loan approach – generation additions required to pay back financing expenses incurred by TAC ratepayers.**
  - Minimizes subsidy
  - Could cause generation developers in later years to locate elsewhere resulting in stranded costs for the TAC ratepayers and potentially higher renewable energy development costs.
    - ratepayers would have to pay the stranded costs and the costs of facilities required to locate facilities in another sub-optimal location.

## Other Criteria/options considered (cont.)

- **Require commercially viable contracts for renewable energy for significant portion (i.e., 50%) of capacity of facilities.**
  - Further mitigates stranded cost risk
    - Generation developers identified in open season likely to bring generation resources to the region once transmission facilities are constructed.
    - Size of transmission facilities will be based on the expected amount of generation development based on CEC studies and need to meet RPS/fuel diversity requirements.
  - Complex to implement/enforce

## Other Criteria/options considered (cont.)

- **Allocation of renewable energy facilitated by 3<sup>rd</sup> category financing to all LSEs.**
  - Concern that PTO would be only beneficiary of renewable energy supplies resulting from 3<sup>rd</sup> category projects
  - Complex to implement, inconsistent with competitive market structure
    - How would energy be allocated?
    - At what price would energy be sold?
  - Other options?
    - Open season for generation developed in regions accessed by 3<sup>rd</sup> category transmission facilities
    - Require diverse interest from LSEs for generation to be developed in the region



## Requested MSC Action

- **MSC opinion on CAISO's proposal by October 2.**
- **Present opinion at October 19<sup>th</sup> CAISO Board of Governors meeting.**