

Stakeholder Comments Template

Subject: Generation Interconnection Potential Revision to Cluster 4 Phase 1 Study Methodology

This template was created to help stakeholders structure their written comments on topics detailed in the *Generation Interconnection Procedures Potential Revision to Cluster 4*

Submitted by	Company	Date Submitted
Doug Davie ddavie@wellhead.com (916) 447-5171	Wellhead	August 5, 2011

Study Methodology paper located at

<http://www.caiso.com/Documents/GenerationInterconnectionCluster4Phase1MethodologyDiscussionPaper.pdf>. We ask that you please submit your comments in MS Word to regionaltransmission@caiso.com no later than the close of business on **August 5, 2011**.

Your comments will be most useful if you provide the reasons and the business case for the issue(s).

Please respond to the question, “Do you generally support the proposal?”

Wellhead’ generally supports the proposal provided that a critical problem it causes is properly addressed as proposed below.

There is a need for an interim change.

Wellhead understands and supports the need to make immediate modifications to the interconnection study process. Given that it will take more time to come up with an appropriate reform package, an interim/temporary fix is needed. The proposal outlined by the CAISO during the July 29th stakeholder call seems to be an appropriate element but it is not the only change needed to allow the interconnection process to function on an interim basis until more fundamental reform (that should result from the TPP-GIP Integration initiative) is put in place.

Notwithstanding the significant time and effort invested by CAISO staff and stakeholders over the past several years to address issues/problems identified with the interconnection process, the process is still in need of further major overhaul/revision. The current process, which focuses on providing transmission infrastructure facility solutions for all potential projects (regardless of whether they are likely to reach commercial operation in a size constrained competitive market environment), is

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providing neither rational nor meaningful information to developers, regulators, policy makers, electric system operators, electric system owners, or load serving utilities.

Further, the security requirements and risks of forfeiture are excessive due to a planning and development process that results in (a) excessive, unneeded, and never-to-be-installed upgrades in conjunction with (b) unknowable outcomes from independent processes relating to PPA awards, CPUC approvals, local permitting and LGIA completions.

Notwithstanding an overwhelming number of IRs, our experience is that a number of strong and sophisticated renewable generation project investors with proven local, national and international generation-industry experience are balking at new California investment opportunities. In other words, the process is driving some strong successful long-term players to the sidelines or to other markets because the deposit forfeiture exposure of the interconnection process is not justified by the renewable investment opportunity; exactly the opposite of what the CAISO wants to be promoting/causing. Although we recognize that this is a subject for another proceeding, to encourage the long-term participation of qualified industry investment in renewable generation, the deposit rules need to be rationalized so that the forfeiture risks undertaken are justified by the opportunity presented.

A fundamental problem is that the underlying focus of the current interconnection process is incorrect. It is a fact that not all viable, well founded projects identified in the competitive energy environment will be built. Yet, providing a transmission system that reliably accommodates all potential projects is one of the objectives of the current interconnection process. The Discussion Draft document recognizes this disconnect between the current objectives and reality and the alternate study proposal makes some accommodation by not including all Cluster 4 projects in the revised study process. However, this interim fix may not be the best long term solution; that should be subjected to a more complete stakeholder review/discussion process. Wellhead is participating in the CAISO's TPP-GIP Integration stakeholder process to make this and other needed long term reforms.

With enhancements, the proposal is a positive interim step.

The CAISO has acknowledged that the current study process is resulting in transmission upgrades that are excessive compared to the amount of new generation that will ultimately be sited and achieve commercial operation (i.e. the reality in a competitive environment is that not all viable projects are needed). However, neither the Cluster 3 Phase 1 results nor the proposed alternative methodology for the Cluster 4 Phase 1 study reflect a realistic assessment of network upgrades that will be needed for projects selected by one of the utilities to meet California's RPS goals. This means that the staff and financial resources expended to perform the Cluster 4 studies need to be minimized since the results are not meaningful for the intended purpose – identify truly needed facilities and provide good cost estimates for decision making.

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The proposed alternative methodology the CAISO presented will reduce the effort and will result in much less extensive system upgrades; a more reasonable result than was produced for Cluster 3. This is because the CAISO will perform the study assuming only some of the Cluster 4 projects in certain areas are added to the current queue. This is a positive interim step.

There is unfairness to Cluster 3 projects that must be addressed.

Though the proposed alternate study method is a positive interim first step, it creates a fundamental unfairness and discrimination to Cluster 3 projects.

First, if the same methodology as proposed for Cluster 4 had been used for the Cluster 3 studies, far fewer upgrades would have been triggered. In short, if Cluster 2 results would have been used as the starting point and then only projects added up to the number of MW in the alternative RPS portfolios, Cluster 3 results would not be so excessive and unrealistic when compared to the amount of generation that will be contracted by load serving utilities and built by developers to meet RPS goals. And the cost responsibilities of Cluster 3 projects would have been dramatically less than we see in the actual study results. Cluster 4 projects will benefit from this alternative study approach, and it seems only reasonable that Cluster 3 study participants receive treatment that addresses this clear unfairness.

Second, the current methodology would be expected to produce significantly higher cost responsibilities for Cluster 4 projects because 1) the more economic upgrades were already used for earlier clusters and 2) the sheer number of MW in Cluster 4 will require completely unrealistic upgrades of the transmission network including hundreds of miles of new interstate high voltage transmission export facilities (some of which may not be subject to network refund treatment). The alternate study approach will result in Cluster 4 projects needing significantly less upgrades which translates to lower cost allocations and lower financial exposure/risk to remain in the queue. This means that fewer projects will drop out thus increasing the facilities identified as needed in the Phase 2 study whose costs get allocated to Cluster 3 projects. While this is reasonable from a study planning standpoint, it is not fair to Cluster 3 projects.

The result is that Cluster 3 projects have a significantly higher cost responsibility (and related financial/deposit risk exposure) than would have occurred if Cluster 3 projects had been studied using the same methodology that has been proposed be applied to Cluster 4. The Cluster 4 alternate study proposal therefore is unfair and discriminatory to Cluster 3 projects (and possibly to earlier cluster projects).

Finally, assuming that Cluster 3 projects who drop out of the queue will not be taken into account in the Cluster 4 Phase 1 study, there seems to be no policy reason for requiring Cluster 3 projects to irrevocably post their security deposits in August. That deposit should be delayed until the Phase 2 study is ready to begin. Our suggestions below deals with this additional unfairness to Cluster 3 projects.

A simple step can be taken to mitigate the unfairness to Cluster 3 projects.

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Given both the procedural and substantive unfairness of the proposed alternate study process will impose on Cluster 3 projects, Wellhead believes that the following simple interim fix should be included to mitigate this problem. In short, Cluster 3 projects would be required to meet all of the requirements of the current process (downsizing, deposit requirements, etc.) but would be able to make changes without forfeiting any security deposits when the more comprehensive GIP changes are finally effective. This could easily be implemented by requiring that Cluster 3 projects wanting to take advantage of this “later decision” option make their security postings in an escrow account that becomes irrevocable within 30 days after the approval of the new GIP rules by FERC. This requirement would also support the CAISO’s effort to ensure that projects remaining in the interconnection process are sponsored by financially strong, viable developers.

Similarly, the Cluster 4 projects would be required to meet all of the current process requirements that follow their alternative methodology Phase 1 study including the ability to revisit their decisions when the new GIP rules are in place if they wanted by placing their security postings in an escrow.

In addition, as we understand the alternate study proposal, those Cluster 3 projects that drop out for failure to make their Phase 1 deposits will not be taken into account in the alternate Cluster 4 Phase 1 study. Hence, no one is harmed by allowing strong, viable developers the option to revisit their decisions when the new rules are in place (which is essential to mitigate the unfairness that will result from the alternate study approach). And in fact that will likely benefit the CAISO’s object of encouraging developers to develop “tuck in” projects that fit into those areas where projects can be accommodated with minimal upgrades.

Cluster 3 projects’ right sizing decisions must be protected.

Another critical detail that must be confirmed is a Cluster 3 project’s ability to make project right sizing decisions as encouraged by the CAISO’s prior interconnection reform objectives and allowed by the Tariff. When a project right sizes under the current Tariff to avoid a network upgrade in the Phase 1 Study Report, especially one that is 100% their cost responsibility, there should be no question that the right sizing removes that upgrade from that project’s maximum potential cost responsibility (i.e. cost cap) which amount is used in calculating security deposit requirements. Not removing the avoided upgrade from the maximum cost responsibility undermines a rational business decision to right size to fit within existing transmission capacity since a subsequent project could “retrigger” the upgrade and associated cost liability of the Cluster 3 project; a liability that was clearly avoided by right sizing pursuant to the Tariff. The Tariff provision to allow right sizing is also good public policy, and provides the ratepayer cost benefit by encouraging projects to tuck into existing system capacity. The CAISO needs to make it clear that right sizing decisions change a project’s maximum cost responsibility under the current interconnection process. (At the same time, Wellhead understands there may be further changes as part of the TPP-GIP Integration initiative that address this aspect of the current interconnection process)

How will non-renewable projects in Cluster 4 be treated?

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There is also a missing consideration in the alternate methodology that needs to be addressed. That is “how will non-renewable projects be handled in this alternate methodology?” There are nearly 1800 MWs of gas fired generation in Cluster 4 and it is not apparent how they fit in with the proposal of “limit projects in each area to what is in the RPS portfolios”. The CAISO needs to address this in a way that also maintains fairness to these critically important resources.