



August 23, 2011

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

Re: Generator Interconnection Process Reform, Phase II; Refunds to Interconnection  
Customers for transmission Network Upgrades

Dear Chair Foster, Governor Bhagwat, Governor Galiteva, and Governor Maullin,

We are writing on behalf of the Large-scale Solar Association ("LSA") and the California Wind Energy Association ("CalWEA") (collectively, "Renewable Associations"). LSA represents 15 of the nation's largest providers of utility-scale solar generating resources, including photovoltaic and solar thermal system designs, while CalWEA represents over 30 wind energy companies active in the California market. Collectively, our organizations' members have contracted to provide over 10 GW of clean, sustainable solar and wind power to California's load-serving entities ("LSEs"). LSA, CalWEA, and our individual member companies, are renewable energy industry leaders, advancing technologies and advocating competitive markets.

The Renewable Associations very much appreciate the hard work by CAISO staff on the Generator Interconnection Process Reform, Phase II ("GIP-2"), and strongly support nearly all the CAISO Management-proposed reforms contained in GIP-2 package that you will consider for approval at the August Board of Governors meeting. The Renewable Associations and members participated actively throughout the GIP-2 stakeholder process and believe that it was thorough and balanced. CAISO staff were receptive to stakeholder input and modified many of the proposals to address our concerns and those of other stakeholders. We appreciate the staff's flexibility and willingness to listen, which is reflected in the quality of the overall package of reforms presented for your consideration.

Like other participants, we did not prevail on all of our positions in the stakeholder process, but we feel that the GIP-2 package generally represents acceptable compromises, considering all the parties' interests. However, the Renewable Associations have a critical concern with one aspect of the GIP-2 package that is seriously misguided, regarding refunds to Interconnection Customers ("ICs") for transmission Network Upgrades ("NUs"). We strongly urge you vote to modify the Management proposal, consistent with our recommendations in this letter, to avoid an unjust and unreasonable result.

Currently, ICs must pay up-front for NUs needed for interconnection and deliverability of new generation projects, and those costs are refunded on a levelized basis over the five years after

the project's Commercial Operation Date ("COD").<sup>1</sup> One GIP-2 reform would modify NU refund provisions for projects built in sequential phases. Large (and sometimes small) projects are sometimes staged in this manner, to accommodate construction schedules and for other reasons.

For phased projects, current rules require that all generation phases be completed before NU cost refunds begin. The Management proposal includes a change to allow NU cost refunds to begin in part earlier, as each phase is completed. For example, if a project is split into three phases, the IC could begin receiving refunds when the first phase achieves COD, and additional refunds when the second phase achieves COD. The Renewable Associations support the phasing of refunds.

However, rather than relying on the COD of the different project phases, the Management proposal would add another refund prerequisite that is not justified.<sup>2</sup> For each project phase, the proposal would require completion of all NUs needed for basic interconnection ("Reliability NUs") and deliverability for Resource Adequacy purposes ("Delivery NUs") before refunds for that phase can begin, even after that phase is operational and regardless of the reason that the remaining NUs lag. (Reliability NUs are coincident with the COD, while Delivery NUs are generally more extensive and can take several more years to be completed.<sup>3</sup>)

Under this proposal, an IC may have sufficient NUs in service to commence operation and meet its COD for a project phase, but it might still be required to wait several additional years for completion of all NUs associated with that phase before any reimbursement for any NUs can begin. Thus, in practice, the Management proposal could delay a phase refund until several years after the project phase is complete and begins operating.<sup>4</sup>

This Management proposal is an unwarranted change from the earlier CAISO GIP-2 proposal, which would have based refunds on the proportion of generation-project capacity in each completed phase and did not require completion of NUs before reimbursement begins (e.g., if the first phase had 30% of project capacity, its COD would trigger refunds for 30% of NU costs). The original concept is more aligned with the CAISO tariff and FERC requirements for just and reasonable rates, and is reasonably targeted towards ensuring that NUs will be used and useful.

The current proposal is problematic for several reasons:

- *It is inconsistent with current CAISO policy and tariff provisions.* As noted above, NU refunds currently are triggered by the project COD, and there is no requirement that any or all the NUs be complete before refunds begin.

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<sup>1</sup> CAISO tariff Appendix A defines COD as the time when the project is interconnected, operating, and generating electricity for sale. A generator can achieve COD even when all the NUs in its Interconnection Agreement are not yet complete, for example if it can use upgrades built for higher-queued projects not yet on-line, or if CAISO can use a temporary operating procedure to accommodate the project.

<sup>2</sup> It is our understanding that this change will only affect phased projects. We would strongly oppose applying this prerequisite to non-phased projects, as reimbursement could similarly be greatly delayed if any NUs are not yet complete.

<sup>3</sup> Completion of Reliability NUs is usually necessary for the project to attain COD and allows power from the project to flow to loads. If the Delivery NUs are not yet complete, and the capacity cannot be counted for Resource Adequacy purposes, that is a contractual issue between the buyer and the IC, not a reason to hold up refund to the IC.

<sup>4</sup> This delay could occur despite the fact that the IC had funded NUs that were built and have been in service for considerable time, and that the IC's generating facility has been on line for considerable time.

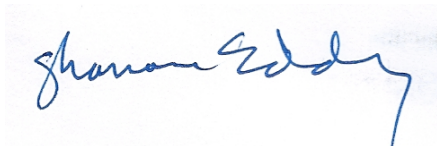
- *It is not supported by current study methodology or Interconnection Agreement ("IA") structure.* The current interconnection-study methodology identifies the NUs needed to serve the entire project, not individual project phases. (Indeed, an IC can decide to phase the project after the studies are complete but before the IA is executed, and in that case there is no way that study results could reflect NUs for each phase.) The PTO might identify Reliability NUs separately in the IA for each project phase, based on its best judgment, but Delivery NUs are rarely so segmented.
- *It will introduce significant uncertainty and raise IC costs and, hence, increase cost to buyers without providing any benefit.* Under this proposal, a single NU, which could be held up for any of a number of reasons, could delay an IC's reimbursement for all NUs associated with that phase indefinitely, significantly impacting generation financing expectations and economics. After the COD for a project phase, any upgrades needed for that phase will be used and useful, so there is no reason to delay refunds for NUs that have been placed in service.

For these reasons, the Renewable Associations urge the Board to direct Management to revise the proposal for NU refunds for phased generation projects to do the following:

- **Base the refund trigger on the COD of the applicable project phase**, removing the requirement that any or all additional NUs be complete for refunds on completed NUs to begin; and
- **Determine the portion of NU costs to which the refunds apply based on the proportion of MW project capacity of the applicable phase.**

We appreciate the opportunity to comment on this matter and would be happy to address any questions the Board may have, at or before the Board meeting.

Sincerely,




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Shannon Eddy  
Executive Director  
Large-scale Solar Association




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Nancy Rader  
Executive Director  
California Wind Energy Association