

Stakeholder Comments on AV Clearview Alternative to Coolwater-Lugo Analysis Results And the 06 August 2013 Stakeholders Call

Submitted by	Company	Date Submitted
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Executive Summary

The CAISO study affirms that AV Clearview provides *better deliverability* for the LGIA and for the CPUC planning scenarios than Coolwater-Lugo.

AV Clearview saves the ratepayers more than a quarter billion dollars. Coolwater-Lugo is *50% longer and costs at least TWICE as much.*

AV Clearview proposes cost-containment measures, discussed herein, which protect ratepayers from continued IOU cost overruns.

SCE's continued delay tactics are anti-competitive. If, as expected, SCE delivers an incomplete CPCN application and PEA, **it is a poorly-disguised delay tactic and an affront to the pro-competition efforts of the CAISO Board of Governors.** Competition delayed is competition *denied.*

Finally, we note that if competition is to succeed in California, the **CAISO must stop arbitrarily altering its assessment criteria in what has the appearance of a search for a metric that might favor the incumbent utility.** A fair analysis of alternatives for the CPUC would be premised on simple and direct answers to only two lines of inquiry:

1) Can each of these projects provide deliverability and reliability for the executed LGIAs and CPUC Planning Scenarios?

2) If yes, how do these projects rank in terms of cost and impact to the TAC?

Critical Path Transmission thanks the CAISO for the opportunity to submit stakeholder comments on the CAISO initial study results of the two alternate projects proposed to serve the interconnection requirements of the Abengoa Mojave Solar Generating Facility – the AV Clearview Transmission Project proposed by High Desert Power Authority and the Coolwater-Lugo Project proposed by Southern California Edison.

These comments first directly address the shortcomings and omissions of the *preliminary* CAISO study results, and then address the means by which CAISO makes a recommendation to the CPUC on which of the two alternative projects can better serve both the CAISO grid and the California ratepayers.

Comment 1 – CAISO’s (unstated) Conclusion: AV Clearview is the superior technical solution for the grid

A careful read of the CAISO’s preliminary alternatives analysis reveals that the initial conclusions do not follow from the CAISOs own findings.

Specifically, the analysis clearly states that:

CAISO finding #1: AV Clearview is equivalent in its ability to provide deliverability to the LGIA, Mojave Solar Project

CAISO finding #2: AV Clearview is superior in its capacity to provide deliverability to the CPUC planning scenarios.

Through the arbitrary inclusion of queue positions in the Cluster 3 and Cluster 4 study process for projects that (a) do not have executed LGIAs, (b) have been rejected by the CPUC and/or abandoned by the project sponsors, and (c) are not part of the CPUC planning scenarios upon which the CAISO agreed to conduct their studies, the CAISO was able to find a *small* difference between the projects and used it as the sole justification to favor the incumbent utility.

The difference in deliverability that favors Coolwater-Lugo in the Pisgah region is insignificant in terms of being able to fully interconnect the two queue positions, and is a *fraction* of the increased deliverability that favors AV Clearview in the Kramer region. It is inconsistent and appears prejudicial for the CAISO to apply value to future deliverability only when it favors the incumbent utility – particularly when the analysis contradicts the CAISO/CPUC MOU and pertains to phantom projects interconnecting into phantom substations that the CAISO has deleted from the estimated cost of the Coolwater-Lugo Project.

Specifics regarding this comment follow in subsequent comments, herein.

Comment 2 – Direct Cost Comparison of the Two Alternative Projects

In the 2012-2013 Transmission Plan, the CAISO concluded that the additional benefits of AV Clearview could not be justified by the higher cost of the previous configuration. Now that AV Clearview has been reconfigured to meet stated objectives of the CAISO study, the *preliminary*

CAISO study report of August 2, 2013 omitted any cost data for the two alternative projects, which are provided here for completeness, openness and transparency.

- The estimated cost of the AV Clearview Transmission Project (as studied by the CAISO) is \$270 million.
- The estimated cost of Coolwater-Lugo, as publicly stated by SCE is \$542 million¹.
- The estimated penalty to California ratepayers for building Coolwater-Lugo in lieu of the AV Clearview alternative is \$272 million.

To reiterate and emphasize, the premium that would be charged to the California ratepayers to construct Coolwater-Lugo is **more than a quarter of a billion dollars** – a tax on ratepayers of **more than \$40M each year for three decades**, with no identified benefit other than forestalling competition in transmission development. To place this in perspective, in lieu of this additional and unnecessary expenditure, the California ratepayers could pay to put average-sized rooftop systems on more than 2,000 homes, every year, for 30 years, at no cost to the homeowner.

As part of the current study, and earlier in the 2012-2013 Transmission Planning Process the CAISO has chosen to unilaterally downgrade the Coolwater-Lugo cost estimates.² While the CAISO may conjecture that elements of the Coolwater-Lugo project are not required, SCE does not agree and has stated so on more than one occasion that it intends to construct Coolwater-Lugo per the FERC-approved scope of work.

It is our belief that, above and beyond the strictures of FERC order 890 and their FERC-approved tariff, the CAISO has a fiduciary responsibility to the California ratepayers to objectively report the Project Sponsor's cost estimate and the costs approved by FERC, and not to report what it alone hopes the Coolwater-Lugo costs will be while the Project Sponsor remains conspicuously silent.

In line with the analytical basis established in the CAISO's previously published analysis, an appropriate report from CAISO to the CPUC should reflect the fact that the AV Clearview Project cost estimate is less than half of the Coolwater-Lugo Project Sponsor's cost estimate.

Comment 3 – Project Sponsor Cost Containment Discussion

The profits of SCE, like all Investor Owned Utilities, are regulated and guaranteed by the ratepayers of California. What is of particular concern to the ratepayers and regulatory agencies are the exceptional profits, to the detriment of ratepayers, due to overruns on transmission projects.

¹ SCE Petition for Declaratory Order for Incentive Rate Treatment to FERC, Volume 1, December 2010, Page 14.

² The CAISO first reduced the estimated cost of Coolwater-Lugo from \$542 million to \$480 million by deleting the third transformer bank upgrade at Lugo and then to \$436 million by deleting the Jasper substation despite simultaneously highlighting that there are two Cluster 3&4 "In Progress" LGIAs interconnecting into the Jasper substation for which AV Clearview must provide deliverability.

And while SCE has not yet requested ROE adders for the Coolwater-Lugo Project, they have petitioned to FERC that they believe “the ROE adders are appropriate” for Coolwater-Lugo and have left the door open to request them in the future.³

To take a single example of the TRTP line, SCE requested and received transmission incentives from FERC in the form of ROE basis points above their guaranteed profit margin, CWIP in ratebase and abandoned plant, in order to provide enough incentive to take the development risk and construct an approximately \$1.7 billion transmission project. FERC granted SCE a 125 ROE basis point adder along with the CWIP and abandoned plant.

After a decade of cost overruns, TRTP is estimated at present to have a final constructed cost of more than \$3 billion. These cost overruns are slated to receive the same ROE adder incentives, thus **incentivizing and rewarding rather than discouraging cost overruns**. Cost overruns on TRTP mean that SCE boosts the base for its Fixed Charge Rate by \$1.3 billion (with no added value to ratepayers), which costs the ratepayers an estimated \$4.2 billion in unplanned transmission access charges over the next 30 years. The 125 basis point ROE adder on that \$1.3 billion **provides SCE an additional quarter of a billion in profit as a perverse reward** for cost overruns.

Independent transmission developers can protect ratepayers by voluntarily foregoing incentives for runaway cost overruns. Critical Path is committed to not only forgoing ROE incentive adders above the costs in our FERC filing, but proactively working with regulatory agencies to incentivize budget discipline in the construction of the AV Clearview Project and all transmission projects. This is best accomplished by limiting equity returns in the case of acute overruns.

Recognizing that, at present, there is no state-level enforcement mechanism to properly align cost containment incentives, the project sponsors of AV Clearview recommend a means to bring market-type incentives to transmission finance. This could, for example, take the form of providing the ratepayers with a one-time opportunity to acquire from the project sponsor an interest equal to 100% of the cost overrun at the blended project rate of return, should AV Clearview (or any transmission project) costs exceed the FERC-filed budget by over 150%.

Comment 4 – Clarification of Deliverability of CPUC Renewable Generation Portfolio

The *preliminary* CAISO study results obscure the difference between the two alternative projects regarding to the amount of renewable generation that can be delivered from the Kramer CREZ. In the interest of clarity, the facts are the following:

- AV Clearview can deliver all of the 765 MW of renewable generation in the CPUC generation portfolio baseline scenario while also likely eliminating the Kramer SPS.
- Coolwater-Lugo can only connect all of the 765 MW of renewable generation but only if the Kramer SPS is *increased* from its present level to compensate for the project’s deficiencies in deliverability.

³ SCE Petition op. cit., Page 2.

- If AV Clearview is analyzed using the same increased SPS that allows Coolwater-Lugo to meet the CPUC generation portfolio requirements, then the AV Clearview interconnection capacity increases to approximately 1,400 MW.
- The CAISO has described the Kramer SPS as basically a local generation curtailment arrangement with a low probability of occurrence and low consequence to load or grid stability; in practical terms, this means an opportunity to increase the SPS further to allow AV Clearview to deliver even more renewable generation (perhaps up to 2,000 MW) from the Kramer CREZ.

It is misleading for the CAISO to describe the striking difference in CPUC generation portfolio deliverability as “both projects can deliver the Kramer zone renewable generation” and “with AV Clearview the existing Kramer SPS may no longer be required.”

The CAISO has a responsibility to the CPUC to state the facts clearly and succinctly: With comparable protection schemes in effect, the AV Clearview Transmission Project can deliver at least twice as much renewable generation from the Kramer CREZ as Coolwater-Lugo.

Comment 5 – Logic and Methodology of Cluster Study Analysis

The primary purpose of the comparative analysis of the two alternative projects conducted at the behest of the CPUC should be:

- Evaluate each project’s ability to deliver generation from the existing LGIA signatory, and
- Determine any additional benefits of the projects, such as increased grid reliability, increased deliverability of renewable generation.
- Evaluate each project’s cost relative to the benefits realized in the CAISO study.

In determining potential additional benefits, the CAISO departed from the Transmission Planning Process protocol of using the CPUC renewable generation portfolio and chose to analyze deliverability of a very specific subset of the cluster 3 and 4 potential LGIAs in the Jasper and Pisgah areas. The analysis and conclusions reached by the CAISO is deficient in a number of ways:

1. The CAISO mischaracterizes the results, to the sole benefit of the incumbent utility, by stating that AV Clearview would require an upgrade of the Lugo-Jasper 230 kV line to be an “equivalent substitute” for Coolwater-Lugo “in the context of the ISO Generation Interconnection study process” and the cost of that upgrade would need to be added for AV Clearview to be equivalent.

The factual results of the CAISO study, as shown in the CAISO Deliverability Capacity Table, clearly contradict this claim. In practical terms, the deliverability of the two transmission alternatives are identical: Both Coolwater-Lugo and AV Clearview (without the added Jasper-Lugo upgrade) can provide deliverability of Q135 (60 MW) plus Q552 (60 MW) and one of, but not both of the two 400 MW generators (Q240 and Q241). Both projects would require an N-0 SPS to provide deliverability if all four of the generators in the queue were to be eventually built.

The only difference between AV Clearview and Coolwater-Lugo in this regard is that the CAISO has identified a technical solution for AV Clearview to provide deliverability in the event that all four projects are built: upgrade the rating of the Jasper-Lugo element. No such solution has been identified that would allow Coolwater-Lugo to meet these same requirements, short of a complete reconductoring of the existing Pisgah-Lugo transmission line, at unknown (but nonetheless greater) cost to California ratepayers.

2. While the CAISO has indicated that review of deliverability of potential LGIA projects is a tariff-allowed departure from their usual transmission planning study protocol, they have not indicated why they chose to limit this review to only the Pisgah region, or to exclude other considerations such as congestion relief and the elimination of SPS.
3. The selection of these particular four potential LGIA projects as a basis for the CAISO to make the case for Coolwater-Lugo is very perplexing. In particular, we are aware of the two solar thermal generators (Q240 and Q241), and while technically still “in progress” for their Interconnection Agreement, do not have a permit, do not have a PPA and have already been rejected for approval by the State of California. These two projects might be generously deemed “dormant.” The remaining two LGIA projects would interconnect into the Jasper substation, the cost of which the CAISO conveniently removed from the Coolwater-Lugo estimated cost.

We have been unable to find any evidence that these projects are likely to ever be constructed, despite outreach to the solar industry, the CPUC (who has assigned an assumed generation of **zero MW** for the Pisgah CREZ under all MOU planning scenarios), the CEC (who would be responsible for the project permitting) or the DRECP (who would have to reconcile the siting of these projects with a proposed Mojave Trails National Monument).

At best, the deliverability of these two projects should be a footnote in the CAISO analysis indicating an immaterial risk for future capacity in the area, not the centerpiece of an argument to incur hundreds of millions in additional cost for California ratepayers.

Comment 6 – Competition Delayed is Competition Denied

At the time of the initial approval of Coolwater-Lugo as an LGIA, CPUC Commissioners Peevey and Florio wrote to the ISO to express their grave concerns over the way in which the LGIA process served as a substitute for true “Transmission Planning” that would bring the benefits of competition to the grid and to ratepayers.

Despite some small actions at the margin, the CAISOs actions, such as in this case, act as a barrier to entry for non-incumbents. If the CAISO study procedures are a moving target, such as is now visible in the AV Clearview study, non-incumbents willing to compete in the market have no assurance that the process to study a project today will be the same tomorrow.

After years of advocacy, the High Desert Power Authority was informed last summer that AV Clearview would be evaluated as an alternative to Coolwater-Lugo. It required an additional six months and delivery of a developer funded engineering study to induce the CAISO to begin their evaluation, and only 8 weeks later were the developers made aware of the metrics upon which the alternatives would be evaluated. Once the project was pared to meet the metrics that were

finally revealed, we now learn in this *preliminary* analysis of alternatives that perhaps the CAISO would like to alter both the economic and the technical bases for their results.

The CAISO's conscious decision to avoid the entire topic of cost – perhaps the topic of greatest consequence in the CPUC's upcoming CPCN process, pushes the CAISO to the very limits of FERC Order 890 compliance in terms of following the guiding principles of openness, transparency, comparability and information exchange.

In the case of this Mojave Solar Project LGIA, the impacts of forestalling competition (in favor of a more expensive Coolwater-Lugo project) amounts to additional hundreds of millions of dollars to California ratepayers and the lack of technical innovations for the CAISO grid. Because of the magnitude of the impact to the ratepayers, it may make sense for the Board of Governors to solicit alternative transmission projects for all of the LGIA projects that the previous CAISO management protected from a competitive transmission planning process.

Regardless of intention, these moving targets and indefinite delays are inherently anti-competitive, in that they serve only to protect the utility monopoly.

And while we absolutely appreciate the recent efforts of the CAISO Board of Governors to force SCE to adhere to an August CPCN submission (only years later than originally proposed), we hope they will respond accordingly should SCE respond in letter, but not in spirit to the admonition of the Board.

Specifically, what action should the Board take if SCE submits an incomplete CPCN application that ends up rejected by the CPUC? This completely avoidable months-long delay is expected by all in the industry, reflects a thinly-veiled delay tactic, and is an affront to the pro-competition efforts of the CAISO Board.

In sum, competition delayed in competition denied. Both these preliminary study results and the ever expanding calendar of their completion and consideration are reflective of the legacy of utility monopoly, and of an institutional bias in favor of the incumbents and against projects that can bring the benefits of competition to the California transmission marketplace.