



October 28, 2013

Submitted by email to the CAISO at dkirrene@caiso.com

RE: LSA comments on CAISO Intention to Release Transmission Lines and Associated Facilities from Operational Control

The Large-scale Solar Association (LSA) appreciates the opportunity to comment on the CAISO's September 13th Market Notice entitled "CAISO Intention to Release Transmission Lines and Associated Facilities from Operational Control" (Notice). The Notice contains the CAISO's proposal to relinquish operational control over certain Southern California Edison (SCE) 66 kV transmission lines and related facilities. This change would convert such facilities from "transmission" to "distribution," and upgrades to those facilities for generation interconnections from "Network Upgrades" to "Distribution Upgrades" under the CAISO Tariff.

LSA fully supports the CAISO's stakeholder process for this proposed change. In addition, LSA urges the CAISO to proactively attempt to resolve disputes raised in this process, so that the disputants can resolve those issues without the need for a challenge of the conversion at FERC.

LSA does not yet have an opinion on the appropriateness of reclassifying the subject facilities (and upgrades to them) from transmission to distribution, and it seeks additional information (as discussed below). However, LSA has significant concerns about potential impacts of the conversion, on generation projects operating or under development and on transmission-cost refunds for them. LSA's four procedural concerns are listed below and described in the remainder of this document.

- **Additional explanation:** The CAISO and/or SCE should provide additional explanation of: (1) how the proposed conversion complies with the applicable TCA provisions and FERC rulings; (2) whether it will impact the Resource Adequacy (RA) requirements and status of the planned and operating generation in the area; and (3) possible congestion and generator curtailment impacts.
- **Transition time:** There must be sufficient transition time to accommodate any necessary changes to CAISO and other bilateral contractual arrangements, CAISO system modeling, and any other affected procedures.
- **Transmission-cost reimbursement:** Participating Transmission Owner (PTO) refunds for Network Upgrade costs should still be provided (under the pre-conversion rules or as a one-time mitigation payment) to generation projects that are already operating or in the later stages of the interconnection process.
- **Project construction scheduling:** The schedule for constructing facilities needed to interconnect generation in the subject area(s) should not be delayed in any way by either this stakeholder process or any FERC filings or disputes about the conversion that may follow, as any disagreements about the need for those facilities should be outside the scope of this process.

Additional explanation

The criterion contained in TCA Section 4.7.1 for relinquishment of CAISO operational control states that the CAISO must determine that:

- It “no longer requires to exercise Operational Control over them in order to meet its Control Area responsibilities;” and
- “They constitute...lines and associated facilities classified as “local distribution” facilities in accordance with FERC’s applicable technical and functional test, or should otherwise be excluded from the facilities subject to ISO Operational Control consistent with FERC established criteria.”

As noted above, LSA does not yet have an opinion about the reclassification of these facilities as distribution or the resulting termination of CAISO operational control over them at this time. However, the CAISO and/or SCE should explain further the basis for the reclassification with respect to the specific applicable FERC test and criteria.

The two-page SCE documentation provided with the Market Notice purports to do this, referencing the FERC five-factor Mansfield test and including a one-sentence statement of compliance for each of the factors (on p.2). However, for at least two elements, the explanation seems questionable.

First, the statement of compliance for the second factor – “whether energy flows only in one direction, from the transmission system to the customer over the facilities, or in both directions” – acknowledges that, in fact, the flows on the affected facilities can be in either direction:

The Windhub system and radial facilities being served from Antelope or Bailey substation will perform like a radial distribution line serving load when connected load is greater than the connected generation, and conversely, the line will perform like a radial generator tie line when the connected generation is producing a level in excess of its connected load.

Though the flows may be in one direction at a time (which is true of any transmission line), this Mansfield criterion does not say that the flows have to be in two directions at once to meet it. The one-sentence SCE assertion does not address this issue.

Second, the SCE document specifically exempts the Antelope/Neenach/Bailey 66 kV system from the assertion that “none of these lines or facilities can be used to provide transmission service” (addressing the third Mansfield criterion, “whether the transmission provider is able to provide transmission service to itself or other transmission customers over the facilities”). The document does not explain why those 66 kV facilities are nevertheless included in the operational control transfer.

Finally, the CAISO should also clarify the potential impact of the conversion on the planned and existing generation in the area. For example, there could be impacts on:

- **RA requirements**, e.g., on generator Net Qualifying Capacity (NQC) or the upgrades needed for Full Capacity Deliverability Status (FCDS); and/or
- **Congestion and generator curtailment.** For example, CAISO interconnection studies can assume use of CAISO congestion management procedures in place of Network Upgrades, but that assumption is usually not made for Distribution Upgrades. The implication for generators connected to the converted facilities is not addressed in the CAISO notice or the SCE document.

Transition time

The conversion to distribution status of facilities to which generators are or will be connected will necessarily require revisions to other critical agreements and processes. Conforming changes will likely be needed to generator Points of Delivery (PODs) and any related provisions in existing Power Purchase Agreements (PPAs), Generator Interconnection Agreements (GIAs), other contracts, and CAISO system modeling.

These changes will take time and may not be simple; for example, POD changes:

- Could impact pricing or other key contract elements; and
- Will increase risk to sellers, because PPAs typically require that sellers accept the risk of curtailment before the CAISO grid POD, and conversions will likely move those PODs downstream.

Thus, in order to avoid commercial or operational problems that could otherwise result, the CAISO should: (1) identify the agreements and processes likely to be impacted by the changes, and the time likely to be required for each; and (2) ensure that enough time is allowed for the conversion to facilitate those changes.

Transmission-cost reimbursement

This issue is LSA's most serious concern about this proposed conversion. Reclassification of transmission facilities to distribution status should not impair the ability of generation projects that are already operating, or in the later stages of the interconnection process, to receive the refunds for transmission costs that they are otherwise entitled to under the rules in effect when they submitted their Interconnection Requests (IRs).

While Distribution Upgrade costs are usually not refundable, there are significant equity and precedential arguments in favor of providing reimbursement to generators for the cost of the reclassified Network Upgrade facilities despite the proposed new status of those facilities as Distribution. Maintaining the current refund policy for operating projects or those advanced in the interconnection process is fully warranted as a transitional policy.

Certainly, once a project executes a GIA and then achieves Commercial Operation – i.e., once it has fully satisfied its obligations in those areas under the GIA –the PTO should have the obligation to reimburse the project for the cost of facilities that were classified as Network Upgrades when the GIA was executed. PTO ability to spread reimbursement over five years should not be used to deprive developers of operating projects of their reimbursement rights, or impair those rights by prematurely terminating those payments.

Similarly, generation projects that have executed GIAs but are not yet operational, and other projects in late stages of development, will have made significant financial and other commitments based on the rules when their IRs were submitted, i.e., assuming refunds for such costs. Such significant changes to those rules late in the interconnection process would be extremely disruptive to their development and could impair their financial viability.

Aside from these equity issues, the concept of preserving existing rules for generation projects that are advanced in the interconnection process is well-established in both FERC and CAISO policy. The CAISO Generation Interconnection Queue contains numerous different “Study Processes” under which IRs are being processed: Pre-Amendment 39, Amendment 39, Serial LGIP, Transition Cluster, SGIP, SGIP-Transition Cluster, and Clusters 1-4. Each study process has its own unique features, and projects far along in the then-existing procedures are/were allowed to complete their interconnections under those rules when rules for later-queued projects were changed.

The CAISO has made (and FERC has approved) numerous filings supporting continuation of existing interconnection rules for late-stage generation projects. In past interconnection-reform filings, the CAISO established milestone-based criteria for classifying generation projects as late- vs. early-stage projects, e.g., distinguishing between LGIP and SGIP “serial” and cluster-study projects and, more recently, between Cluster 1-4 rules and new rules applicable to Cluster 5 and later projects.

LSA recommends that the CAISO consider generation projects as “late-stage,” and entitled to continue under the currently applicable rules for transmission-cost reimbursement, if they:

- **Are already operating;** or
- **Have posted Interconnection Financial Security (IFS).** The CAISO used a System Impact Study (SIS) milestone for the earlier LGIP and SGIP “Serial Group” classifications to denote a project’s right to continue under then-current rules. Receipt of a Phase I Study and posting of IFS (which is partly or completely forfeitable upon any subsequent withdrawal) should be considered to be at least the equivalent of the simple earlier commitment to an SIS. That security was posted pursuant to the developer’s assessment of the project viability under the assumption that all Network Upgrades would be refundable.

Typically, developers with projects at this stage would have spent considerable additional funds on other project-development activities, like land or right-of-way acquisition, environmental and other permitting processes, and perhaps PPA execution (including additional security postings for those agreements) and financing commitments to lenders and/or investors. This commitment and resource expenditure on the part of the developer justifies fulfillment of the tariff obligation and contractual commitment to refund Network Upgrade costs by the CAISO and PTO.

(At a minimum, these projects should have a one-time opportunity to withdraw from the queue with a full release of any IFS posted to date. Those projects have complied with the tariff requirements throughout their time in the queue, and if these after-the-fact changes have impaired their viability, then they should have the opportunity for a clean withdrawal, i.e., they should not be bound by the then-current rules if the CAISO and SCE are not.)

Project construction scheduling

The process leading to conversion of the subject facilities to distribution status may (pursuant to TCA Section 4.7.2) continue after comments are submitted to the CAISO, through:

- Satisfactory CAISO resolution of the issues raised here and in other stakeholder comments, e.g., through compromises between the parties;

- CAISO filing at FERC (if tariff changes are needed (e.g., to allow continuation of cost reimbursement after the conversion), or if any disputes are raised in the comments); or
- A request for Alternative Dispute Resolution (ADR) by the CAISO, PTO, and/or other party.

In addition, any party can challenge the conversion through filing of a complaint at FERC.

The actions above should involve only issues related to the classification of the facilities at issue as transmission or distribution, and not the need for those facilities to accommodate new generation projects or improve system reliability and stability. Thus, none of these actions should warrant any delay whatsoever in the scheduled design and construction of these facilities.