

Stakeholder Comments Template

**Integration of Transmission Planning and Generation
Interconnection Procedures (TPP-GIP Integration)
Straw Proposal, July 21, 2011**

Submitted by	Company	Date Submitted
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1.

SCE appreciates this opportunity to submit comments on the CAISO's TPP-GIP Integration Straw Proposal posted on July 21, 2011, and discussed during the stakeholder meeting on July 28, 2011. SCE supports the concept of TPP-GIP integration. As the CAISO will recall, SCE supported this concept as it was proposed in the RTPP; and, SCE remains supportive of integrating these two processes. SCE would note, however, that the CAISO's proposal may create new obligations with regard to the upfront financing of transmission upgrades. SCE is concerned to the extent the proposal may shift some of the burden for upfront financing upgrades from the generators to the PTOs. In a related manner, SCE has consistently been seeking abandoned plant eligibility in the CAISO tariff for any situation where the PTOs have the obligation to upfront finance network upgrades. SCE sees no difference in the obligation being contemplated in the straw proposal. Thus, any new provision that would require PTOs to upfront finance network upgrades should include the same abandoned plant eligibility as outlined in the GIP2 Revised Draft Final Proposal.

In response to each of the objectives listed by the CAISO, SCE provides the following comments:

Objective #1: Integrate GIP and the TPP so that decisions to approve new rate-based transmission can be based on a comprehensive planning approach that addresses all the needs of the transmission system and thereby makes most cost-effective use of ratepayer funding.

SCE comments: SCE believes that the FERC-approved GIP continues to be a necessary and valuable process for generation developers seeking transmission access to the CAISO grid. Consistent with its support for the FERC-approved RTPP, SCE is supportive of evaluating some of the more major GIP-driven upgrades in the TPP. However, it is not clear to SCE what justification there is for moving beyond what stakeholders agreed to in the RTPP. SCE believes that GIP-driven upgrades should retain GIP-driven status when re-evaluated in TPP consistent with the intent outlined in

the FERC-approved RTPP as well as with the recent FERC Order No. 1000 (which expressly noted that the Commission did not intend to change generator interconnection processes under the directives of Order No. 1000). That approach should be preserved in this initiative and SCE supports the CAISO's position outlined during the July 28, 2011, stakeholder meeting that "network upgrades identified in GIP study and enhanced or not changed in TPP retain GIP-driven designation". It is also worth noting the view expressed by PG&E that a certain (as yet undefined) amount of transmission over and above the amount minimally required has merit as it may assist in keeping the procurement process competitive and provide a counter to the possibility of locational market power. SCE agrees and would also add that adequate transmission capacity also provides critical operational flexibility which is an important consideration in the integration of renewables.

Objective #2: Rely more on the TPP and less on the GIP to approve rate-based transmission.

SCE comments: SCE is concerned to the extent this initiative intends to integrate the TPP and GIP beyond that outlined in RTPP. The FERC-approved RTPP paved the way for a new level of integration between the TPP and GIP; and, SCE supported that GIP-driven upgrades should retain GIP-driven status when re-evaluated in the TPP (as outlined in the RTPP).

Objective #3: Provide incentives through appropriate cost allocation for developers of new resources to select the most cost-effective grid locations for interconnection.

SCE comments: SCE generally supports this concept.

Objective #4: Limit the potential exposure of transmission ratepayers to the costs of building transmission additions and upgrades that are inefficient or under-utilized.

SCE comments: SCE agrees with the CAISO's objective to limit the potential exposure of ratepayers to unreasonable and unnecessary transmission costs. However, any intended application in this initiative of the undefined concept of "line utilization" is of concern to SCE. SCE does not support a reliance on arbitrary line utilization values in the TPP. SCE is concerned that the desire for high but undefined transmission line utilization numbers may be misguided and does not believe that the non-calibrated concept of "full utilization" should be an objective of this comprehensive planning process. From a systems operation standpoint, 100% utilization may not be the most "efficient" utilization rate, and might actually contribute to reliability or operational challenges (through a reduction in operational flexibility). As mentioned above, operational flexibility will be even more important in the integration of renewables.

Objective #5: Provide greater certainty to developers of new generation resources that the network upgrades they need will be approved for siting by the CPUC and other siting authorities.

SCE comments: CPUC licensing decisions take into account many considerations, only one of which is the concept of “need.” For major transmission upgrades, CAISO determination of need typically comes in the form of an executed LGIA or inclusion of a transmission upgrade in a CAISO transmission plan (an additional form is CAISO management approval of smaller projects). During the July 28 stakeholder meeting, CPUC staff representatives seemed to indicate that a fully executed LGIA may not provide a sufficient demonstration of “need” for transmission licensing purposes. The CAISO has also cited similar sentiments heard from CPUC staff. SCE is concerned with the shift from the current CAISO Tariff and CAISO policies that these positions represent and believes that far more explanation and examination of this proposal is required – in other words, SCE is concerned that neither the CAISO, nor its stakeholders have fully understood the implications of this portion of the proposal. As such, SCE cannot support this Objective #5 at this time and recommends it be deleted from this stakeholder process.

Objective #6: Provide greater transparency for all stakeholder regarding transmission upgrade decisions.

SCE comments: Providing greater transparency is a worthwhile objective; however, the CAISO must achieve that objective without unduly delaying the study timelines that have been established. In seeking to achieve greater transparency, the proposed process should not also seek to re-evaluate all needed upgrades identified in the GIP in order to provide this greater transparency. In order for the GIP to remain meaningful to interconnection customers, confidence in its results and determinations should not be inadvertently undermined or delayed.

2. At the end of the Objectives section (section 4) of the straw proposal, the ISO lists seven previously identified GIP issues that may be addressed within the scope of this initiative.

- a. Please indicate whether your organization agrees with any or all of the identified topics as in scope. If not, please indicate why not.

SCE generally agrees with the list of identified issues in the process to date, but believes these issues have not been fully explored and, as such exploration continues, new issues may develop. For example, in evaluating proposed reforms to the front-end (study process) of the GIP, the CAISO should consider whether changes to the back-end (LGIA negotiation process) of the interconnection process may also be needed to ensure the desired outcomes of the reform effort. Specifically, SCE would like to discuss at a future stakeholder meeting what if any efforts can be made to address the transmission capacity that is held in the base case assumptions for earlier-queued projects that have completed interconnection studies but that have yet to execute interconnection agreements. The longer these active but non-progressing projects are allowed to linger in the LGIA negotiation stage, the more the assumptions built into the base case are likely incorrect, leading to a wasting of

resources and “available capacity” that could more effectively be allocated to other projects that are progressing towards interconnection agreements.

Also, regarding the issue of “whether IC project development milestones should be allowed to substitute for IC financial postings, and when posted funds should be required to cover upgrade development expenditures”, the CAISO already has SCE’s comments on this issue as part of the GIP2 initiative.

- b. Please identify any other unresolved GIP issues not on this list that should be in scope, and explain why.

SCE has no other suggestions at this time.

- 3. Stage 1 of the ISO’s proposal offers two options for conducting the GIP cluster studies and transitioning the results into TPP.

- a. Which option, Option 1A or Option 1B, best achieves the objectives of this initiative, and why? Are there other options the ISO should consider for structuring the GIP study process?

SCE sees the value in Option 1A retaining the GIP studies “as is”, while offering a re-evaluation in the TPP. SCE believes that there should be an appropriate “threshold” developed, as exists today in the TPP, so that the TPP only re-evaluates “non-routine” network upgrades. The straw proposal emphasizes the potential time savings gained with Option 1B; while SCE believes the potential time savings are a possible benefit of the proposed TPP/GIP interaction, there is no guarantee that such time savings can be achieved by merely shifting Phase II to the TPP. As a result, the time savings should not a primary objective of the effort. The primary objective of the effort should be to rationalize the network upgrades that come out of the interconnection studies, not to simply shave time off the study process. If it happens to take less time to accomplish the objective, then SCE views that as a bonus.

- b. What, if any, modifications to the GIP study process might be needed?

SCE is still evaluating additional details of the proposals, such as the impacts on IFS postings and cost caps under Option 1B. As mentioned earlier, SCE believes there should be a distinction made between “routine” upgrades that would not be subject to GIP/TPP interaction, and “non-routine” upgrades that would be subject to GIP/TPP interaction (much like the threshold amounts in RTPP). Many of these details can be worked in future sets of comments/stakeholder meetings.

4. Stage 2 of the straw proposal adds a step to the end of the TPP cycle, in which the ISO identifies and estimates the costs of additional network upgrades to meet the interconnection needs of the cluster. Please offer comments and suggestions for how to make this step produce the most accurate and useful results.

SCE does not fully understand what the CAISO is asking here. SCE does not understand where these “additional network upgrades” are coming from.

5. Stage 3 of the straw proposal identifies three options for allocating ratepayer funded upgrades to interconnection customers in over-subscribed areas.

- a. Please identify which option, Option 3A, 3B, or 3C, your organization prefers and why. Are there other options the ISO should consider?

SCE prefers Option 3B and recommends that the CAISO adopt the pro-rata approach for allocating ratepayer funded network upgrades among multiple projects. This option is equitable in its allocation of resources, is relatively easy to administer and, most importantly, has already been approved by FERC in the MISO region.

- b. If Option 3A is selected, what are appropriate milestones to determine which projects are the “first comers?”

The two most likely candidates for milestones would generally be PPA and permitting. However, at the time of the Phase I study, ICs do not have any idea of their transmission costs, and therefore they have no idea whether they have a viable project or not, and will have not commenced serious permitting activities or will have likely just embarked on participating in PTOs procurement solicitations. Thus, such milestones won't be in place in time to be of any good as screening tools for “first ready/first served” approach and therefore SCE does not believe this approach holds any merit.

- c. If Option 3B is selected, what is the appropriate methodology for determining pro rata cost shares?

The pro rata cost shares on network upgrades should be allocated to all of the IC projects in the study group based on their respective portion of MW as a percentage of the incremental resources being interconnected.

- d. If Option 3C is selected, how should such an auction be conducted and what should be done with the auction proceeds from the winning bidders?

SCE does not support the auction option at this time, because it would seem to reward ICs with ready access to capital, although they might not necessarily sponsor the best projects. Further, since the bid amount would be eventually refundable to the IC, SCE does not see how the bid would provide any lasting “skin in the game” and would therefore be of little utility as a screening tool.

6. The straw proposal describes how the merchant transmission model in the current ISO tariff could apply to network upgrades that are paid for by an interconnection customer and not reimbursed by transmission ratepayers. Do you agree that the merchant transmission model is the appropriate tariff treatment of such upgrades, or should other approaches be considered? If you propose another approach, please describe the business case for why such approach is preferable.

SCE would agree that the merchant model in the current ISO tariff should apply to network upgrades financed by ICs. The operational control of IC funded network upgrades would be relinquished to the ISO, and the IC would receive proper compensation, whether through the allocation of CRRs or some other equitable compensation. However, SCE disagrees that the network upgrade would become part of an existing PTO's system for physical operational and maintenance purposes, absent agreement by the PTO.

7. Stage 3 of the proposal also addresses the situation where an IC pays for a network upgrade and later ICs benefit from these network upgrades.

- a. Should the ISO's role in this case be limited to allocating option CRRs to the IC that paid for the upgrades?

SCE believes it is equitable for a subsequent IC user of a transmission line paid for by an earlier-queued IC to compensate the earlier-queued IC for use of that network upgrade.

- b. Should the ISO include provisions for later ICs that benefit from network upgrades to compensate the earlier ICs that paid for the upgrades?

Yes.

8. In order to transition from the current framework to the new framework, the ISO proposes Clusters 1 and 2 proceed under the original structure, Cluster 5 would proceed using the new rules, and Clusters 3 and 4 would be given an option to continue under the new rules after they receive the results their GIP Phase 1 studies.

- a. Please indicate whether you agree with this transition plan or would prefer a different approach. If you propose an alternative, please describe fully the reasons why your approach is preferable.

SCE agrees that it is appropriate for the CAISO to be seeking to rationalize the size of QC3 and QC4. Although SCE agrees that the QC3 and QC4 are the appropriate targets for immediate reform, and that QC1 and QC2 are too far along to change the rules on that group of customers, SCE also believes that QC5 will inevitably be delayed while the QC3 and QC4 situation is completely sorted out.

- b. If the straw proposal for the transition treatment of clusters 3 and 4 is adopted and a project in cluster 3 or 4 drops out instead of proceeding under the new rules, should the ISO provide any refunds or other compensation to such projects? If so, please indicate what compensation should be provided and why.

SCE cannot see how ICs should be owed any compensation for having the rules changed on them midstream as that has happened thus far twice in as the last five years, with the GIPR and the SGIP reform efforts. Compensation was not offered to participants in any of those transition groups, and SCE would hope the CAISO would seek to avoid setting such a precedent for the current transition period. Additional concerns with potential refunds include: who would bear the costs/compensation? And would managing a refunds process become a distraction of resources when the resources will be needed to address the complex challenges in QC4 and the CAISO straw proposal?

9. Some stakeholders have expressed a need for the ISO to restudy the need for and costs of network upgrades when projects drop out of the queue. The ISO seeks comment on when and restudies should be conducted, in the context of the proposed new TPP-GIP framework.

As submitted in its straw proposal on GIP2 additions on April 12, 2011, SCE is requesting the ability to re-evaluate Plans of Service after the Phase II studies are complete. If such re-evaluations lead to smaller or less expensive Plans of Service, the developers want their GIAs and interconnection financial security to be adjusted accordingly. SCE supports this viewpoint; as long as PTO's financial requirements are likewise adjusted downwards, if warranted.

10. Some stakeholders have suggested that there may be benefits of conducting TPP first and then have developers submit their projects to the GIP based on the TPP results. Does your organization believe that conducting the process in such a manner is useful and reasonable?

There should be no fundamental difference between performing TPP first or performing GIP studies first.

Comments Template

11. Please comment below on any other aspects of this initiative that were not covered in the questions above.