

Stakeholder Comments Template

**Integration of Transmission Planning and Generation
Interconnection Procedures (TPP-GIP Integration)
Revised Straw Proposal, September 12, 2011**

Submitted by	Company	Date Submitted
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This template is for submission of stakeholder comments on the topics listed below, covered in the TPP-GIP Integration Straw Proposal posted on September 12, 2011, and issues discussed during the stakeholder meeting on September 19, 2011.

Please submit your comments below where indicated. Your comments on any aspect of this initiative are welcome. If you provide a preferred approach for a particular topic, your comments will be most useful if you provide the reasons and business case.

Please submit comments (in MS Word) to TPP-GIP@caiso.com no later than the close of business on September 29, 2011.

1. Section 4 of the paper laid out several objectives for this initiative, including four previously-identified GIP issues to be included in scope. Please indicate whether your organization believes these objectives are appropriate and complete. If your organization believes the list to be incomplete, please specify what additional objectives the ISO should include.

Six Cities' Comment: The Six Cities agree with the objectives set forth in the Revised Straw Proposal.

2. The revised straw proposal presents a timeline describing how the new TPP-GIP process would work. Please comment on the overall process design in terms of how well it meets the objectives of this initiative and how workable it is from a practical perspective. If you see ways it can be improved please offer concrete suggestions.

Six Cities' Comment: The Six Cities support the overall timeline and sequence of events for the integrated TPP-GIP framework proposed in the Revised Straw Proposal. In particular, the Six Cities support the development of the TPP for a

given annual cycle prior to commencement of the Phase 2 study for the GIP cluster in that cycle. The Six Cities are concerned, however, that deferring application of the new, integrated process until GIP Cluster 5 will limit severely the benefits of adopting the new approach and leave unresolved the serious planning issues posed by the excessive and unrealistic capacity level associated, in particular, with Cluster 4. See the Cities' Comment on Item 6 below.

3. Please comment on the following specific aspects of the design of the proposed new TPP-GIP process, and offer concrete suggestions for improvement where needed.
 - a. The study assumptions proposed for each of the two GIP study phases.
 - b. The information available to interconnection customers at each decision point in the process.
 - c. The “soft” nature of the GIP cost caps, whereby interconnection customers and ratepayers will have shared responsibility for upgrade costs that exceed the cost cap. Comment on both (i) the appropriateness of sharing this cost responsibility, and (ii) the ISO’s specific proposal for how the costs would be shared.

4. In the revised straw proposal, the ISO identifies four options by which allocation of ratepayer funded upgrades could be allocated.
 - a. Please rank the options, Option 3A, 3B, 3C, or 3F, from 1 (most appropriate) to 4 (least appropriate) your organization believes to be the most appropriate means for determining the allocation of ratepayer funded upgrades. Please explain the reasons for your preference? If there other options the ISO should consider, please describe them and explain why they could be superior to the other options.

Six Cities' Comment: The Six Cities' ranking of the options is as follows:

#1 – Option 3C (Auction) - - The Six Cities regard the auction approach as most appropriate for three reasons. First, it will allocate upgrade capacity to the projects that attach the most value to the capacity. Second, it will serve as a means of distinguishing among viable, well-funded projects and projects that are less likely to succeed. Third, it will help to mitigate the risks to transmission customers of under-utilized transmission investment if, as the Cities recommend, projects that have made auction payments to reserve

ratepayer-funded capacity forfeit those payments if they do not achieve commercial operation.

#2 – Option 3F (Allocate capacity to LSEs) - - Although this option does not incorporate a direct economic signal as the auction approach would, it is generally reasonable to allocate upgrade capacity funded by ratepayers to the LSEs that effectively are providing the funding. This approach, too, would give LSEs some ability to mitigate risks of under-utilized transmission.

#3 – Option 3B (Allocate pro rata to projects requesting interconnection) - - Because no individual interconnection customer should have any *a priori* entitlement to use capacity funded by transmission customers, the pro rata allocation approach appears generally more equitable than Option 3A. If this approach is adopted, however, it should include milestones that interconnection customers must meet in order to retain an allocation of ratepayer-funded capacity. If a project fails to meet the established milestones, then the capacity should be re-assigned to other projects, either to ones in the same cluster as the project to which the capacity originally was allocated that have met the milestones or to the projects in the cluster under consideration at the time the capacity becomes available for reassignment.

#4 – Option 3A (Assign to projects requesting interconnection on a “first-ready” basis) - - Although there is some logic in assigning ratepayer-funded capacity to interconnection projects that seem closest to achieving commercial operation, this approach would have the potential to produce unreasonable results. Many factors can affect the schedule for a given project, and satisfaction of a bright-line milestone may not be a valid indicator of ultimate commercial success.

- b. Based on stakeholder feedback during the September 19 stakeholder meeting, many parties stated the ISO would likely need to utilize more than one of the identified options. Please provide comment regarding what combination of these options will best facilitate the efficient allocation of ratepayer funded transmission capacity. Please provide as much detail as possible.

Six Cities’ Comment: The Revised Straw Proposal expresses the concern that there may be insufficient participation in an auction process to produce a competitive auction for ratepayer-funded upgrade capacity. To address this concern, the Six Cities would support adoption of threshold

participation and bidding levels for the auction process. If there is insufficient participation to meet the established thresholds, then the Cities recommend allocation of the ratepayer-funded upgrade capacity to LSEs as the fall-back allocation method.

- c. If Option 3A is selected, what are appropriate milestones to determine which projects are the “first comers?” In particular, some stakeholders have suggested that only projects with signed PPA should be allowed to qualify. Please comment on the appropriateness of this criterion and any others that might be needed.
- d. If Option 3B is selected, what is the appropriate metric and methodology upon which pro rata shares should be determined?

Six Cities’ Comment: If Option 3B is selected, the pro rata allocation of ratepayer-funded upgrade capacity should reflect both relative planned capacity for each project that would utilize the facilities to be allocated and relative flow impact for each project on such facilities. Conceptually, the allocation of ratepayer-funded upgrade capacity for each study area should be based on the same method and metrics used to assign cost responsibility for any incremental upgrades to be paid for by interconnection customers.

- e. If Option 3C is selected, then how should such an auction be conducted? Specifically, the ISO seeks comments regarding whether an auction should be an open bid or closed bid and held in a single round or an iterative bidding process? Please provide as much detail as possible.
 - 1. Should the ISO conduct separate auctions for large projects and small projects? If so, how should the ISO determine how much transmission capacity should be available in each auction?
- f. If Option 3F is selected, how shall transmission capacity be allocated to the LSEs? In particular, is the existing methodology for allocating import capacity to LSEs for RA (tariff section 40.4.6.2) applicable in the present context? If not, how should it be adapted?

Six Cities’ Comment: The Six Cities believe that it would be more appropriate to allocate the ratepayer-funded upgrade capacity using a method similar to the process currently used for nomination of allocated CRRs. The concept would be that each LSE could nominate up to a specified amount of total capacity in all ratepayer-funded upgrades that would be proportional to its load relative to other LSEs. The nominations could be based on each LSE’s interest in particular areas, just as LSEs

get to choose where to target their nominations for allocated CRRs. If upgrades in a particular area were over-subscribed, then there would have to be some sort of allocation among the nominating LSEs, perhaps in proportion to the capacity requested in the nominations.

- g. All of the options provided could create opportunities to buy/sell allocations of capacity created by ratepayer funded projects. Is there a need for the ISO to set up rules to prohibit or manage such sales?

Six Cities' Comment: Any revenues received for sales of capacity created by ratepayer-funded upgrades must be returned to ratepayers in proportion to the funds provided.

- 5. In cases where an IC pays for a network upgrade and later ICs benefit from these network upgrades, the ISO has proposed two options, Options 3E and 3G to resolve the “first mover-late comer” problem.

- a. Does the ISO need to select one of these options or should both be implemented? If both, please explain or give an example of how the two could work together.

Six Cities' Comment: It is unclear how Options 3E and 3G could work together; they appear to be mutually exclusive.

- b. If only one option is to be chosen, which option does your organization favor and why?

Six Cities' Comment: The Cities strongly favor Option 3E. By design, incremental IC-funded network upgrades are upgrades not required to satisfy the 33% Renewables target or meet LSE demand. Ratepayers should not be required to fund excess capacity in the hope that later projects may come along to utilize that capacity and reimburse ratepayers.

- c. In option 3G, should the “late comer” be responsible for paying back ratepayers for the portion of the network upgrades already covered by ratepayers or simply take over paying for the portion of the network upgrades covered by ratepayers moving forward?

Six Cities' Comment: Option 3G should not be adopted for the reasons noted above. If, however, ratepayers are responsible for funding excess network upgrades, subsequent interconnection customers that use such upgrades should take over paying for a portion of the upgrades on a moving forward basis. The Six Cities are concerned that requiring new

projects to pay back ratepayers for the portion of the network upgrades already covered would impose too great a barrier to development of additional projects and potentially prolong payment for excess capacity by ratepayers.

6. In order to transition from the current framework to the new framework, the ISO proposes that the entire existing queue including Clusters 3 and 4 proceed under the original structure, and that Cluster 5 would proceed using the new rules.
 - a. Does your organization support this transition approach? If not, please indicate how it should be modified and provide the justification for your proposal.

Six Cities' Comment: As noted in Response to Question 2 above, the Six Cities do not support the ISO's proposal to defer application of the new TPP-GIP integration procedures to GIP Cluster 5. Although the Cities recognize the issues created by application of new procedures to projects that already are in the interconnection queue, the extraordinary level of excess capacity associated with Cluster 4 is an overriding concern. The ISO itself has recognized in its September 19, 2011 Technical Bulletin on the Cluster 4 Study Methodology that the projects included in Cluster 4 bring the total amount of renewable capacity in the interconnection queue to more than three times the volume of renewable capacity needed to meet the target of 33% Renewables by 2020. Indeed, the Six Cities understand that the ISO has received analyses demonstrating that the capacity included in Cluster 2 would be more than sufficient to meet the 33% Renewables target. The Cities therefore urge the ISO to apply the new TPP-GIP framework to all interconnection requests after Cluster 2.

Market demand will support only a small fraction of the capacity with pending interconnection requests, and it would be preposterous to plan a build-out of transmission at ratepayer expense to accommodate all or even a substantial portion of the excess capacity in the queue. The excess capacity will be weeded out sooner or later, because it must be. To ignore that reality and over-build the transmission system to accommodate projects that cannot all survive would impose massively wasteful and unnecessary costs on transmission customers. Such wasteful use of resources would be unreasonable at any time, but it would be particularly intolerable under current economic conditions.

An alternative approach would be to incorporate into the TPP process analysis of deliverability upgrades required for all interconnection requests in Clusters 3 and 4. This alternative approach for transitioning to the new framework would consider reliability upgrades for projects in Clusters 3

and 4 under the currently effective GIP rules, thereby assuring the ability of the projects in Clusters 3 and 4 to receive interconnections in accordance with the existing GIP framework. At the same time, however, it would allow the ISO to assess needs for deliverability upgrades on a coordinated basis under the TPP framework and potentially reduce the risk of investment in unnecessary or underutilized transmission facilities.

- b. Given the potential size of clusters 3 and 4, if these clusters proceed under the existing rules is there a need to create new rules that would strengthen the incentives for less viable projects to drop out of the queue rather than proceed into the GIP phase 2 study process? If so, please offer concrete suggestions and explain why your suggestions would be effective and reasonable.

Six Cities' Comment: For the reasons discussed above, it is absolutely essential that plans for generation capacity additions be aligned more closely with anticipated demand and the amount of renewable capacity needed to meet the 33% Renewables target before substantial amounts of money have been spent on transmission facilities to accommodate more interconnection projects than can possibly survive. The most straightforward and economically efficient way to achieve that result is to apply the new TPP-GIP framework to all GIP clusters after Cluster 2.

7. Some stakeholders expressed interest in determining only the reliability upgrades and costs in the GIP studies and to consider the need for delivery upgrades in the TPP. The ISO seeks comment regarding the feasibility/desirability of separating the assessment of reliability and delivery upgrades in this manner. In particular, how would this approach improve the process of identifying delivery upgrades that ICs would be required to pay for?

Six Cities' Comment: As described in response to Question 6 above, considering deliverability upgrades for the projects in Clusters 3 and 4 under the TPP while addressing reliability upgrades under the current GIP rules could provide a reasonable approach for transitioning to the integrated TPP-GIP framework. However, the Six Cities prefer the integrated TPP-GIP framework set forth in the Revised Straw Proposal as the anticipated end state for this stakeholder process.

8. Stakeholders have expressed concerns about the appropriate time to restudy the needs for and costs of network upgrades when projects drop out of the queue. Therefore the ISO seeks concrete suggestions for when and how restudies should be conducted.

Six Cities' Comment: The integrated TPP-GIP framework described in the Revised Straw Proposal incorporates a partial reevaluation of previous

determinations of need for network upgrades by reflecting in each year's planning cycle information regarding the status of projects previously studied. If, however, a substantial number of projects exits the interconnection queue, as appears likely to occur given the magnitude of the current over-subscription, it may be necessary to supplement the forward-looking analysis that is incorporated in the TPP-GIP framework with a backward-looking reassessment of previously-developed plans. This reassessment should occur as an integral part of the development of assumptions for each year's planning cycle as circumstances require. Rather than assuming there is a continuing need for facilities approved in previous plans, there should be, at a minimum, a review of current information regarding the status of projects that were expected to utilize planned facilities on a facility-by-facility basis. If a substantial portion of the capacity expected to utilize a planned facility has exited the interconnection queue or failed to meet applicable milestone requirements, then the ISO should conduct a more detailed evaluation of whether the facility remains needed. Such reassessments can be made on a more timely basis and will be less cumbersome, to the benefit of both interconnection customers and transmission ratepayers, if the new integrated TPP-GIP process is implemented sooner rather than later.

9. Please offer any other comments on the revised straw proposal, including any suggestions for improvement of the proposal or other issues your organization believes the ISO must address in this initiative.