

## 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
Doug Davie <a href="mailto:ddavie@wellhead.com">ddavie@wellhead.com</a> (916) 447-5171	Wellhead	9/29/2011

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](mailto:TPP-GIP@caiso.com) no later than the close of business on September 29, 2011.

*Wellhead appreciates the CAISO's recognition that there must be better coordination of the transmission planning and interconnection processes. Wellhead also believes there is clear recognition, and seeming agreement, by the CAISO and most stakeholders that there needs to be consideration of the utility procurement processes which use (rely upon) information from the CAISO's transmission planning and interconnection processes. This requires changes to the TPP-GIP straw proposal to allow the interconnection study process to produce realistic results which will feed into procurement process. This is the only way to ensure ratepayers are not burdened with excessive, unneeded system infrastructure.*

*Change 1 – Making Phase I results realistic. The fundamental problem with the current interconnection process is that the interconnection studies are identifying solutions (system upgrades) for more generation than is even remotely plausible resulting in unrealistic, unusable study results. Hence, the study results are of no use to transmission planners, utility procurement efforts, regulators/legislators setting statewide policies, or generation project developers. It is a waste of the resources (time and dollars) expended on performing the studies and the bad information assures nothing other than bad decisions. Fortunately, solving this problem is straight forward and simple. Interconnection requests simply need to inform the CAISO whether a project will either i)*

go forward only if they get a long term power purchase agreement or ii) proceed as a merchant where generation development and transmission infrastructure costs are recovered in its merchant revenues.

Recommendation #1 – Modify the set of check boxes on the Interconnection Request so that the developer will inform the CAISO whether they are: i) going to proceed only if they get a PPA, ii) going to be a merchant wanting Full Deliverability or iii) going to be a merchant wanting Energy Only.

Projects checking the “PPA-only” category would be studied in the interconnection process as “energy only” thus not triggering any deliverability upgrades in their Phase 1 study. However, deliverability upgrades could be considered/addressed in the procurement process using information from the TRCR as further explained below. There would also be a requirement that a PPA-only project downsize to the size of its PPA (i.e. “right size” to fit what system capability was available, or economic to, the purchasing utility at the time its PPA was awarded). The practical result is that most PPA-only projects would be right sized to fit into the available space on the transmission system (whether existing or TPP-approved). However, it is important to note that the procurement decision could conclude that certain upgrades were in the economic interests of ratepayers using the TRCR as explain below. The bottom line is that a PPA-only project would never cause ratepayers to pay for unneeded/uneconomic transmission costs thus eliminating one of the CAISO’s primary concerns.

Change #2 – Additional milestones. To ensure that the “PPA only” option was not abused and that merchants were truly committed, there may need to be added milestones. For PPA-only projects, the first come-first served nature of the way PPAs are issued may make the queue irrelevant, yet there may be a concern that it would be desirable to not let PPA projects in the queue become stale. As such, a PPA only IR would be allowed a limited time to get the desired PPA. For merchant projects, there may need to be protection so that only truly serious merchant projects take queue space and resulting allotments of available transmission space (for example, mitigate/prevent the ability of a project to use the merchant option when they are really planning to get a PPA at some later date or simply tie up available transmission capacity in the hopes of creating future value).

Recommendation #2 – For PPA only projects, consider whether a milestone is needed to prevent the queue from getting stale and, if needed, set a limit of three years from the date of the IR when the “PPA only” project must have a fully approved/effective PPA. For the merchant projects, accelerate the date for the second security deposit (and possibly increase it to 50% of the allocated cost) and add a milestone at six months after the Phase 2 study when the merchant project must begin construction which continues uninterrupted to the COD.

*Since the merchant project is committed to going forward with all of its revenues coming out of its market rates, the deadline for completion of the full project might also be shortened from the currently allowed seven years to four or five years.*

*Change #3 – Alignment of Financial Security. With regards to financial security deposits, the existing basic structure could be maintained but it needs to be realigned to properly reflect the business decisions made by the projects and the resulting risks to ratepayers and other projects.*

*Recommendation #3 – Modify the security return requirements so that i) PPA-only projects would get 100% of any deposits returned if it did not get a PPA within the required timeframe; and ii) the merchant project would be subject to 100% forfeiture of all its deposits beginning on the construction start milestone, as may extended for events beyond its control which halt construction.*

*The elegance of these first three changes is that in addition to now getting realistic results from the Phase 1 study effort, queue size management will likely become a non-issue since the vast majority of projects (if not all projects) are likely to check the “PPA-only” box. As a result, ratepayers will benefit from having more viable projects competing to get a PPA without the need for cost/risk premiums due to unreasonable, and now unnecessary, penalties for remaining in the queue. And if there are a significant number of merchant projects in the queue, ratepayers will not be burdened with unnecessary system upgrades because such upgrades would not be refundable (the merchants’ costs would be recovered in their merchant sales) and the merchant projects will get realistic study results to use in their subsequent business decisions.*

*Change #4 – Prepare a TRCR as part of the TPP. Utilities (and approving authorities) need to know what, if any, transmission costs will be triggered by selecting a particular project. This includes identifying any costs required to allow a project to provide Resource Adequacy and/or to mitigate/eliminate the need for off-peak hour curtailment. Hence, as part of the annual interconnection process, a current Transmission Ranking Cost Report must be prepared. This allows procurement decisions to incorporate accurate estimates of the costs of making the PPA-only projects fully deliverable during on peak hours (for RA/capacity purposes) or making the PPA-only projects fully deliverable during off peak hours (to allow greater energy deliveries in furtherance of PRS goals).*

*Recommendation #4 – As part of the annual TPP, which follows the Phase 1 study, prepare a TRCR which identifies the current available transmission capacity (whether existing or TPP-approved) and the incremental costs needed to make additional capacity fully deliverable (in either on peak or off peak hours) at locations on the system where Phase 1 projects were located.*

*This change will allow the procurement processes (and the subsequent regulatory review/approval) to know what transmission system costs would be incurred as the result of entering/approving incremental PPAs in a given area. The end result would be procurement decisions that achieve a least cost result for ratepayers (i.e. the sum of generation plus transmission costs paid by ratepayers would be minimized). With regards to responsibilities for transmission costs and recovery thereof where upgrades are required beyond available capacity, the PPA-only project could be required to provide the initial funding as the current process requires however, such funding would normally be refunded by the utility or there would be appropriate fixed payments in the PPA (i.e. ratepayers would be expected to pay for transmission infrastructure that is needed for least cost procurement).*

*Possible Further Considerations. There are further variations/enhancements that could be considered if the CAISO wants a slightly more complicated process. An obvious one is to allow a project to say in the IR it has a minimum size project that is feasible (i.e. it will not “downsize” to fit a PPA below a certain size thus being partially a merchant facility). In this case, the project would be subject to appropriate “merchant IR” requirements including the construction milestones and the risk of the appropriate amount of security deposit forfeiture.*

*Wellhead also believes it may also be possible to modify the Phase 1 study process to delay the determination of direct interconnection reliability costs until such information was needed in a procurement process (at the time of short-listing). This would be a potentially important option to allow further simplification of the Phase 1 study leading to completion of the TPP and TRCR on a more timely basis.*

*Coordination with Procurement. Lastly, Wellhead notes that the utility procurement activities may need to be “adjusted” to ensure proper alignment/coordination with the CAISO’s interconnection and transmission planning processes. Some obvious examples are the timing of when procurement efforts occur, the need to address the level of deliverability selected by the utility in the PPA’s curtailment provisions, and the completion of the direct interconnection study for PPA-only projects (will it be prepared as part of the Phase 1 study or prepared at a later date).*

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.

*The objectives are all well founded but unless 7(c) is addressed as proposed above, the interconnection process will remain fatally flawed – the results that are being relied upon will continue to be completely worthless and can only lead to misinformed decisions.*

*Missing from the list is to “provide proper financial signals to developers”. Well founded, competitive projects which will not cause ratepayers to incur unnecessary, excessive costs should not be forced leave the queue simply because of outrageous deposits that are subject to forfeiture. This simply results in high costs to ratepayers due to unnecessary risks and it also makes California an unattractive place for educated/informed investment. We know there are well funded, highly capable, international entities that have chosen to stay out of California because of these specific forfeiture risks.*

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.

*The one year cycle is appropriate and the progression is logical. With the modifications as proposed above, the Phase 1 study will likely be greatly shortened, the TPP will have the current market information to make informed policy decisions, and an accurate TRCR will provide the information needed to make well-founded procurement decisions that will achieve a least cost portfolio for ratepayers.*

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.

*With the changes proposed above, information should be available to the appropriate decision-makers at each step of the applicable process.*

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.

*LSE procurement decisions under Option 3F should be the primary allocation driver. This would of course be based on a fully approved PPA or, in the case of a merchant, meeting the project construction requirements.*

- 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.

*If there is an over-subscription because multiple projects “qualify” for an allocation at the same time, there should first be an option for pro-rata downsizing to avoid the oversubscription (any applicable PPA would have to address this possible change) and if that fails to solve the problem, a pro rata allocation would be made. The procurement activities and resulting PPAs would of course have to address this potential situation and how it would be resolved to ensure there were not unaccounted for (unacceptable) costs to the developer or ratepayers.*

- 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.

*Wellhead supports option 3F is essentially a first-come-first-served method with the date of a fully approved PPA (or start of construction for merchant projects) being the driver. It is noted that the CAISO/utilities must be careful so that they do not create a situation where a merchant starts construction thus “blocking” a least cost PPA project (i.e. the merchant may need to have some restrictions to ensure it does not have market power.)*

- d. If Option 3B is selected, what is the appropriate metric and methodology upon which pro rata shares should be determined?

*Option 3B is an appropriate backstop allocation methodology in the event there is still oversubscription after first using Option 3F. The pro rata allocation should be based on individual project size compared to the total number of MW impacting the need for the upgrade.*

- 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.

*Auctions are not a reasonable option as they will only serve to drive up ratepayer costs (it's contrary to the least cost objective of the competitive procurement structure) and they create unnecessary additional risks to developers adversely impacting competition.*

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?

*As indicated above, the 3F allocations would be made based on a first-come-first-served basis with fully approved PPAs being the driver. Allocations to individual LSE's is unnecessary because 1) regulatory/approval authorities have the ability to address oversubscriptions they are aware of in their PPA review/approval decisions (ensuring that ratepayers do not have to pay costs that are not part of a least cost solution) and 2) the backstop pro-rata allocation would be available when an oversubscription remained.*

- 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?

*The CAISO seems to be unnecessarily worried about transactions that will likely only serve to ensure ratepayers get what they expect (who is hurt if a PPA-ed project is transferred/sold to another independent developer??). With the proposed changes and allocation, an allocation would not occur unless there were a PPA in place or a merchant was committed to going forward on an expeditious basis. That said, the utilities need to be vigilant in their*

*procurement decisions to ensure they are not simply selecting speculators that do not have the ability or intent to take the project to completion.*

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 foremost principle the CAISO should clearly adopt is that there will be no free-riders. To the extent “surplus” capability was made available, its use, and compensation for such use, should be for the benefit of the party that incurred the costs (either ratepayers or the merchant). With the changes proposed, this potential problem should be significantly reduced because 1) any PPA decision would address (result in) appropriate payments of incremental transmission system costs and 2) the merchant project went into the process knowing they would only get cost recovery based on merchant sales and payment for any other value provided to the system (the “no windfall benefits” concept must be adopted to avoid discrimination to merchant facilities).*

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

*As bad as the current interconnection process is, projects entered Cluster 3 or 4 knowing the rules (albeit there are some CAISO process interpretations that are not supported by stakeholders). Changing the rules (or interpretations) at this date would require adding an opportunity for projects to revisit all*

*decisions that were made based on the current rules/process. Changing the rules without allowing allow projects that were in each cluster the same decision options is discrimination and must not be allowed.*

- 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.

*Dead projects in the queue are only a problem if you allow them to interfere with what is a rational planning process. In reality, the queue is only a problem because all queue projects are assumed to become operation thus triggering excessive system infrastructure for generating projects that will never be built (which also means previously queued projects with a claim/allocation of available transmission capability are not a problem when the generating project will never get developed). And if such projects do get a PPA, it will be because the utility and reviewing authority have determined that the project, and its associated use of available transmission capability, is in the ratepayers economic interest. Hence, the CAISO should take a great deal of comfort in knowing that the utility procurement process is NOT going to result in a requirement to excessively overbuild the transmission system.*

*However, that does not change the fact that the CAISO should take all reasonable options to clear non-viable projects from the queue. With regards to Cluster 3 and Cluster 4 projects, the current rules (significant deposits subject to forfeiture) are likely to result in such projects dropping out if they do not get a PPA before the deposits are required. However, giving such projects the ability to move into Cluster 5 would likely be well received and result in effective queue clearing at a much earlier time.*

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?

***The is a highly needed change and is embodied in the proposed changes above.***

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.

*With the changes proposed, the need for restudies will likely be eliminated (or at least surely significantly reduced to a manageable size).*

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.