Stakeholder Comments Template

Submitted by	Company	Date Submitted
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Please use this template to provide your written comments on the 2018 IPE stakeholder initiative Draft Final Proposal posted on November 13, 2018.

Submit comments to InitiativeComments@CAISO.com

Comments are due December 6, 2018 by 5:00pm
(*updated from December 3 during the stakeholder meeting*)

The draft final proposal posted on November 13, 2018 and the presentation discussed during the November 20, 2018 stakeholder meeting can be found on the CAISO webpage at the following link:
http://www.caiso.com/informed/Pages/StakeholderProcesses/InterconnectionProcessEnhancements.aspx
Please use this template to provide your written comments on the Issue Paper topics listed below and any additional comments you wish to provide. The numbering is based on the sections in the Issue Paper for convenience.

7. Interconnection Financial Security and Cost Responsibility

7.1 Maximum Cost Responsibility for NUs and Potential NUs

Specific Question regarding the establishment of the Maximum Cost Exposure (MCE). Would stakeholders prefer:

(1) the MCE remain established at the true cost exposure of a project that demonstrates the ultimate cost the project could be responsible for when taking into consideration potential system changes, without opportunity for reduction?

OR

(2) the MCE could be adjusted downward with the MCR, but could ultimately go back up if system changes occur, similar to how the MCR can increase pursuant to Appendix DD, Section 7.4?

LSA and SPower strongly support (2) above, with three additional comments.

First, the current tariff provision, reflected in option (2), has proven workable, and the CAISO has not sufficiently justified a change. Developers and their financiers have demonstrated that they understand the nuances of this policy, and no problems have arisen that LSA-R is aware of.

Second, option (2) is a much more accurate characterization of the practical implications of CAISO's policy than option (1). it is extremely rare for any MCR increase to follow a decrease – i.e., the significant "system change" assumed in the current tariff provision is, by definition, very rare, and it is even rarer that such changes impact generator cost responsibilities. (LSA is not aware of any such changes that have impacted generator cost responsibilities.)

Finally, LSA and SPower caution that the CAISO is not likely to receive unbiased answers given the way the question is posed. The reference to "true cost exposure" without explanation here is misleading, since (as noted above) the "true cost exposure" is overwhelmingly the MCE with the new (lower) MCR, and not the MCE as the CAISO implied in the question.

10. Additional Comments

The CAISO's Track 4 proposals for Current Cost Responsibility (CCR), Maximum Cost Responsibility (MCR), and Maximum Cost Exposure (MCE) include many complex characteristics and features. Offering one "Additional Comments" category for the entire rest of the proposal not covered in the single question above may adversely impact the quality of stakeholder feedback in this important area.

That said, LSA's and SPower's comments are given below.

Generally, the CAISO's proposals can be divided into two main types:

- **Policy clarifications and formalization:** These CAISO proposals would provide additional structure to the current framework and, therefore, they are generally helpful. **LSA and SPower supports these CAISO proposals.**

  Proposals in this category include generally the proposed definitions of Assigned Network Upgrades (ANUs), Conditionally Assigned Network Upgrades (CANUs), Precursor Network Upgrades (PNUs) (with the exceptions noted below), and the Maximum Cost Exposure (MCE) definition in option (1) above.

- **Policy changes:** These CAISO proposals are uniformly unfavorable to generators and developers, and they lack sufficient justification. **LSA and SPower oppose these proposals.**

  Proposals in this category include those in the chart below. LSA's and SPower's positions on these proposals are summarized in the chart below and explained further in the remainder of this section.

ISSUE	*CAISO TRACK 4 PROPOSAL*	*LSA & SPOWER COMMENT SUMMARY*
ISNU definition & treatment*	100% of upgrade cost included in MCR & MCE	**Primary:** Include allocated cost in MCR/MCE **Compromise:** Treat difference between allocated & 100% of cost as a CANU – room for 100% allocation but removed if other projects reach PTO cost-responsibility milestone (see below)
PTO NU cost-responsibility milestone	PTOs assume cost of NUs still needed when all projects assigned cost drop out without making third posting	Retain GIA execution as applicable milestone – no evidence PTOs/ratepayers harmed by current policy, harm to developers certain
Other GIDAP 14.2.2 changes	Projects needing Precursor NUs (PNUs) or CANUs early for COD or deliverability must post security for & fund them	Expand current provisions to upgrades needed early for deliverability but retain current assignment of only "expediting" costs
RNU reimbursement impacts of CANU-to-ANU conversion	CANUs converting to ANUs could put projects over RNU reimbursement limits, or increase forfeits for those already over those limits	Do not allow CANUs converting to ANUs to put projects over RNU reimbursement limits, or increase forfeits for those already over those limits – discourages projects from locating in areas where they can make use of upgrades already triggered
Additional reimbursement when later projects use RNUs	Compliance with the RNU refund limit is assessed only initially, i.e., there is no revision if later-queued projects use those upgrades	Modified proposal for additional refunds if later-queued project use those upgrades
Phase I Study CANU allocation	100% of each CANU would be allocated to each project, to deter "gaming"	No evidence of such gaming has been provided. Also ignores the considerable cost & effort to prepare Interconnection Requests.

** Includes their reflection in the ANU, CCR, MCR, & MCE definitions.*

Identification and treatment of Interconnection Service NUs (ISNUs)

The CAISO's proposal to include only the allocated ISNU cost in the CCR is an improvement from the last proposal. However, the proposal to separate these RNUs from others and treat them differently – including 100% of costs in MCR and MCE – still has not been justified. CAISO's explanation for this proposal is basically that they will be needed if all other projects in the study cluster drop out; however, that may also be true of other NUs, and the CAISO has not adequately explained why these upgrades should be subject to more stringent requirements.

Moreover, if multiple projects sharing an ISNU are actually built, inclusion of full ISNU costs in the MCR/MCE serves no purpose beyond making room for other costs to be imposed on the project. The higher the number of projects sharing an ISNU, the less the likelihood that only one will use the upgrade, and the more unfair a 100% MCR/MCE cost is for each project.

These facts strongly support the compromise proposed in the last comment round by LSA, SPower, and other developers, which the CAISO did not address. The proposal is repeated below (revised to reflect CAISO's latest changes), and they ask that the CAISO address it here.

Compromise proposal: If CAISO retains the proposal to include 100% of ISNU costs in the MCR (and, by extension, the MCE), the the difference between allocated ISNU cost to a project and 100% of the ISNU cost for the upgrade should be treated as a CANU. Thus, this excess cost would be reduced or removed from the MCR/MCE once other projects sharing the upgrade execute GIAs (or, if the CAISO retains the proposed third IFS milestone for PTO NU funding, once other projects make their third IFS postings).

Thus, consider an ISNU (e.g., a switching station) shared by two projects. They would each be allocated ½ the cost as an ANU, and their CCRs and security postings would reflect that split allocation (which we understand to be the CAISO's current proposal).

However, instead of being simply included in the MCR/MCE (where it cannot be removed), the difference between that 50% allocation and the full 100% cost would be treated as a CANU for both projects, i.e.: (1) Included in the MCR (and thus the MCE); but (2) eliminated from the MCR/MCE if the other project executes a GIA (current provision) or makes the third IFS posting (CAISO proposed milestone).

This proposal would ensure room for a 100% ISNU allocation in a project's cost responsibility as long as there is a higher likelihood that it must solely fund an ISNU; it would then reduce the cost exposure as other projects reach the applicable funding milestone where the cost shift is less likely. LSA and SPower believe this proposal is fully consistent with the intent of the tariff regarding cost reallocation and offers better protection to PTOs than the current framework.

Milestone revision for PTO Network Upgrade (NU) cost-responsibility assumption

Currently, a still-needed NU can be assigned to later-queued projects if all earlier-queued projects assigned the upgrade drop out before executing a GIA. The CAISO proposal would change that demarcation to the third IFS posting, i.e., later-queued projects could be assigned those costs if all earlier-queued projects drop out without making the third posting.

However, the proposal does not offer any justification why this long-standing provision should be changed. For example:

- **What harm have PTOs suffered that would be mitigated by this proposal** – e.g., how often (and at what cost) have PTOs been required to finance upgrades when projects dropped out between GIA execution? Remember, we are only talking about the financing cost here, not the total cost of the upgrade (which would be reimbursable from the PTO even if financed by a developer).
- **To what extent have these costs been mitigated by the forfeited security from the project(s) dropping out?** By GIA execution, generation projects have already made the first IFS posting, and probably the second as well. The forfeited amounts are based on total estimated NU costs, not just those for upgrades still needed, and not just financing costs. The forfeits would be high if the estimated upgrade costs (and financing risks to PTOs/ratepayers) were high. (If the estimated upgrade costs were low, the PTO/ratepayer risk would likewise be low.)

LSA and SPower understand that forfeited funds go into a different "bucket" and don't directly fund still-needed upgrades. However, they are still dollars that largely flow back to ratepayers. The question here is, on net, the degree to which the forfeited funds for upgrades needed and not needed offset PTO financing costs only, for still-needed NUs only.

For example, consider a project with two ANUs – a $10M switching station and $10M in other upgrades – that withdraws from the queue after GIA execution. It would likely have already made the second posting, at 30% of the total upgrade cost – or $6M – and would forfeit about half of that amount, or $3M.

Suppose then that the switching station is still needed, but the other NU is not. Under current rules, the PTO would have to finance the $10M switching station. Assuming a 2-year construction timeline and even a generous 5% annual interest rate on the **whole** amount (even though spending would be more gradual over the construction time period) the financing cost would be about $500K/year, or $1M total. This amount is more than offset by the $3M forfeit.

That is the result because posting and forfeit amounts are based on total estimated upgrade costs (while the financing cost is only a fraction of the total costs) and the forfeit requirements are so high. In this example, for instance, even of both NUs were still needed and must be financed by the PTO, the total financing costs would be only $2M, still less than the $3M forfeit.

Undoubtedly, the CAISO's proposal would hurt developers by imposing significantly more cost uncertainty for much longer. GIA executions are already postponed by potential tender closer to project Commercial Operation Dates (CODs) and project parking. The third posting would prolong that uncertainty considerably, since it may not be due for years after GIA execution.

Without addressing the questions above, this proposal has the appearance of a "solution" in search of a problem. The proposal would risk harm to developers without evidence that PTOs/ratepayers are currently suffering any harm overall. Even if the answers to these questions show that PTOs/ratepayers are suffering any such harm, the CAISO would have to balance the degree of that harm with the harm to developers from the change. The current proposal simply does not reflect that important tradeoff, or the rationale for the decision.

Moreover, mechanics of this proposal have not been adequately considered or discussed with stakeholders. For example, there is no information on:

- **Applicability of this proposal to generation projects with phased third postings.** What if projects have made partial third postings – would the CAISO check to see if those postings included the upgrades in question?
- **Lack of available public information on which generation projects have made third postings.** GIA filings are public, but the third-posting milestone is variable under the tariff (based on commencement of Construction Activities), and information on developer postings is not public. Today, developers can easily check the CAISO Interconnection Queue to determine whether GIAs have been executed for projects in areas they are considering for future development and, therefore, which major upgrades will not be allocated to their projects. The CAISO proposal would thus require that posting information be included also.

- **How will the CAISO transition to the new rules?** For example, if the point when a later cluster can no longer be assigned upgrades triggered by earlier-queued projects is changed from GIA execution to the third IFS posting, might some projects suddenly gain additional CANUs? If projects' MCRs currently only include an allocated share of what would be classified as ISNUs, would those MCRs stay as is or be increased?

In summary, this proposal has not been adequately justified, may address problems that do not exist, may not help PTOs or ratepayers (though it will certainly harm developers), and is not fully fleshed out.

Other changes to GIDAP 14.2.2

- **Current tariff:** GIDAP Sections 14.2.2 & 14.2.3 require PTOs to make "Reasonable Efforts" to accelerate NUs: (1) Assigned to earlier projects and needed sooner for later-queued project Commercial Operation Dates (CODs); or (2) included in the CAISO Transmission Plan but needed sooner for generation-project In-Service Dates (ISDs). The IC is required to pay the "associated expediting costs."

  These expediting costs might include, for example, the cost of hiring outside help to expedite environmental, permitting, or regulatory studies/approvals, or additional carrying costs from procuring and installing equipment early. The tariff language does not state that the IC must securitize, finance, and pay for the upgrades entirely.

  This interpretation is supported by lack of a provision removing those responsibilities from projects originally assigned them. Certainly, those responsibilities should not be assigned to both the project seeking expedition and those originally assigned the upgrade cost.

  Under the current CAISO Track 4 proposal, projects are not required to post security for or fund PNUs, or for CANUs unless they become ANUs. However, they apparently must both post and fund PNUs and CANUs needed before their scheduled ISDs or CODs – i.e., if:

  - The PNUs/CANUs are RNUs and the projects want to declare COD before completion of these NUs by the earlier queued cluster; or
  - The PNUs/CANUs are DNUs and the projects want to declare COD with "permanent" (FCDS/PCDS) deliverability before completion of these NUs by the earlier-queued cluster (in the last proposal – not explicit but seems likely to be intended here).

  This proposal would apply even if the projects currently assigned the cost of these upgrades has already executed a GIA (or made the third IFS posting), and it does not provide for any removal of cost responsibility from those projects. This raises the potential for multiple allocations of, and payment for, costs for the same transmission projects.

  LSA and SPower believe some changes are needed to GIDAP 14.2.2 generally. Section 14.2.2 should be changed to extend it to NUs needed for deliverability to later-queued projects, so that it doesn't only apply to NUs needed for COD/In-Service dates.

However, the CAISO should retain the current requirement that ICs fund only the cost to expedite transmission projects, not the entire upgrade. The policy change to complete funding has not been justified or discussed with stakeholders.

Potential impacts of CANU-to-ANU conversion on Reliability NU (RNU) reimbursement

The Addendum states that, if a CANU is converted to an ANU and the new ANU is an RNU, the cost may put a project over RNU reimbursement cap.

LSA and SPower oppose this proposal. CANU conversion to ANU should not be allowed to put projects over the RNU reimbursement cap, since those costs were not triggered by the "recipient's" study cluster. The cap helps ensure that projects don't locate in areas where they trigger large RNUs, but they can't help upgrades triggered earlier. In fact, CAISO should be encouraging project location in areas where other projects have already triggered upgrades, so those upgrades can be better utilized and new interconnections can be more economic.

RNU reimbursements when later-queued projects use upgrades subject to earlier forfeit

LSA, SPower, and other developers proposed in Track 3 that developers suffering RNU forfeits above the applicable reimbursement cap be allowed to claim additional refunds if later projects make use of RNUs they fund. LSA's comments included an example of a switching station that another project later connects to. CAISO rejected this proposal as out-of-scope in Track 3.

LSA and SPower understand after further discussions with the CAISO that this proposal could be complex if multiple RNUs are involved, and for RNUs that are not as straightforward as switching stations (generally considered to be Stand Alone Network Upgrades (SANUs)).

Upon further reflection, LSA and SPower propose a simplified revision that the CAISO should consider, limited only to switching stations and other SANUs. While other RNUs could also be used by additional projects later, the use of SANUs is more obvious, e.g., the CAISO can easily determine when a later-queued project "makes use" of it.

This proposal would then provide for a simple recalculation of the forfeit amount. For example, consider 100 MW Project A that funds $15 million for three RNUs, including a $10M switching station. This $15M total is well above the $6M reimbursement cap, so its forfeit would be $9M.

Assume that Project B then connects later to the switching station, which (as noted above) can be easily determined. Project A's RNU cost responsibility should then be recalculated to include only half the switching station cost (i.e., its cost assignment if Project B had been in its same study cluster). The recalculated Project A RNU cost would thus be $5M less ($10M instead of $15M), and it forfeit would be $1M (instead of $9M).

This simplified version could be implemented with the other 2018 IPE proposals; it it is fair, because the facility funded by Project A is now "used and useful" to a greater degree that now justifies the higher cost. As the CAISO has pointed out, only a few new generation projects that are actually built exceed the RNU reimbursement cap, and this proposal would only impact the even smaller subset assigned SANUs that are later used by others.

This proposal is consistent with the overall approach that the CAISO is taking with ANUs and CANUs, i.e., to return a project to the position it would have been had the timing been different. With CANU conversion to ANU, the new result is the same as if the upgrade been allocated to the later cluster in the beginning. With this proposal, the new result would be the same as if the later-queued project was in the same cluster as the project allocated the SANU.

Like the earlier developer proposal, this proposal is consistent with current LGIA provisions allowing a project that withdraws from the queue without reaching COD to nevertheless be reimbursed if upgrades it funds are later used by other projects. If projects that do not even reach COD can be reimbursed for upgrades used by others, surely it would be fair for projects that do reach COD funding such upgrades to be similarly reimbursed.

Phase I CANU allocation

The CAISO proposes to include a CANU component in the MCR/MCE that would be the lower of the Phase I and Phase II Study CANU cost, but the former would allocate 100% of each CANU to each impacted project in the cluster. (The Phase II CANU cost would be only the allocated cost.) The CAISO stated that this proposal is intended to deter potential "gaming," i.e., where developers with projects in an area where an expensive CANU was previously identified submit many bogus projects in that area, get a low CANU allocation to each project, and then withdraws most of the projects submitted before the first IFS posting is due.

No evidence was provided that this has ever happened, i.e., this proposal may be another solution in search of a problem. The proposal also ignores the high cost of preparing IRs and posting $250K for each IR submitted (or, $500K if the developer does not secure Site Exclisivity for each bogus project).

It would also worsen the situation considerably for projects starting to seek PPAs after Phase I, since a huge Phase I CANU allocation could render such projects unmarketable until at least after Phase II.

11. New Topics – Interconnection Request Acceptance and Validation Criteria

11.1 Interconnection Request Acceptance

11.2 Validation Criteria

LSA and SPower have just one general question about the CAISO's proposed approach here. Earlier, the Interconnection Request Application Window was shortened from a month to two weeks, ostensibly to give the CAISO more time to validate IR submittals. The CAISO's proposal does not really explain why the additional two weeks is not sufficient, or the difference between the "completeness" and the "validation" process.

LSA and SPower suggest that the CAISO better clarify these issues in its final proposals.