

Transmission Update

August / September 2006

Summary

- ✓ Welcome to the Tenth National Wind Coordinating Committee (NWCC) Transmission Update! Kevin Porter of Exeter Associates, Inc. led the August 1, 2006, Transmission Update conference call. As always, this written brief is being distributed after the call to conference call participants, other NWCC members and participants, and to interested NWCC observers.
- ✓ This update focuses on transmission happenings in California initiated by the California Public Utilities Commission (CPUC) and the California Independent System Operator (CAISO).
- ✓ Specific topics covered in this brief include:
 - The CAISO's plans to file a petition for a declaratory order to FERC.
 - A CPUC June 2006 decision clarifying and interpreting its authority under the California RPS on backstop cost recovery through retail rates for new transmission and generator interconnection facilities.
- ✓ David Withrow from the CAISO explained the ISO's plans to ask FERC for policy guidance related to creating a new transmission category for interconnecting renewable energy facilities. Larry Chaset with the CPUC discussed the decision CPUC recently issued to clarify and interpret the statutory provision on recovery of new transmission costs through retail rates.
- ✓ The next Transmission Update call is October 10, 2006, at 1 pm Eastern Time. Please mark your calendars!

California Independent System Operator Declaratory Order Filing

Background

The California RPS calls for 20% of the state's energy to come from renewable energy sources by 2010. To help the state achieve this goal, CAISO is considering filing a petition for declaratory order to FERC, a means of asking for high level policy guidance from FERC. The intent of is to create a distinct category of transmission for renewables.

Transmission facilities are generally classified as either network transmission facilities or generation interconnection facilities, also known as gen-ties. Gen-tie facilities are "sole use" facilities, payable by generators, that are used to connect a generator to the grid and are not controlled by the CAISO. Network upgrades are additions or upgrades beyond the first point of interconnection to the CAISO grid and are controlled by CAISO. Generators are financially responsible for the costs of network upgrades necessary for interconnection, but these costs are either reimbursed (with interest) over five years, or generators can receive transmission or financial rights.

The basis of the CAISO's potential FERC filing is the same one that drove Southern California Edison to make its filing to FERC in 2005 for a renewable resources trunk line transmission category: that the current split of cost allocation for network facilities and gen-tie facilities does not work for large-scale renewable energy development. Renewable energy facilities, particularly wind facilities, tend to be in areas far from load centers. Transmission in these areas also tends to be undersized, and transmission constraints are not uncommon. Furthermore, the renewable energy projects tend to be smaller in capacity than the capacity of the transmission lines that would be economic to interconnect all of the potential renewable energy projects to the grid. Developers of these renewable energy projects are also often unable to finance the costs of large-scale transmission and interconnection facilities to incorporate the expected level of renewable energy generation. This is the root of the "chicken and egg" problem that is often referenced—renewable energy developers do not have the financial capability to support large-scale transmission investments, and transmission is not built because it is not evident that renewable energy projects will be developed to use the transmission.

Declaratory Order Filing

The CAISO issued a white paper in June 2006 that discusses its proposal in more detail. CAISO is currently discussing with its stakeholders what features or criteria for transmission projects that might be proposed in a petition for declaratory order. The concept proposed is to set up a third category of transmission where network facilities are initially paid for by all users of the CAISO grid, then reimbursed on a *pro rata* basis by renewable energy generators as they came on-line. The petition route is being pursued as a means of establishing whether FERC is receptive to the concept for a third transmission category before going through the extensive effort to develop detailed tariff provisions.

The CAISO has suggested the following criteria for this new category of transmission facilities:

- Transmission is required to interconnect a region that has significant potential for renewable energy generation. The CAISO would count upon the CEC or CPUC to judge what qualifies as renewable-rich resource areas.

- The capacity of the prospective individual renewable energy projects would be smaller than the optimal transfer size of the transmission facilities.
- The transmission facilities would not be considered network facilities and upfront generator funding would be considered a significant impediment to new renewable energy generation.
- Load serving entities have demonstrated commercial interest with prospective renewable energy projects in the region.

Initial financing would come from the participating transmission owners in the CAISO and be recovered by a systemwide access charge to all users of the CAISO grid. As generators hook up to the line, they would be responsible for their *pro rata* share of the transmission costs, meaning generators ultimately pay for the line, although ratepayers may pay the initial costs before the line is fully subscribed.

Internal discussions continue at CAISO and approval from the CAISO board to petition FERC will be sought in October. The CAISO expects to post a revised white paper in late September and then go forward with a filing to FERC once they have the approval of the CAISO board.

Questions and Answers

Mr. Withrow was asked whether a multi-step process that first involves seeking general guidance from FERC and then making a tariff filing to FERC would have the perverse impact of delaying needed transmission improvements at Tehachapi. Mr. Withrow said new proposals for transmission at Tehachapi make those lines network facilities and eligible for wholesale cost recovery through FERC-jurisdictional rates. Mr. Chaset said he expects to see at least one other utility use this CAISO category, if implemented, to connect three-to-four wind projects.

The CAISO has not looked at minimum size requirements to qualify for this new transmission category but instead will count on independent assessments identifying areas with large renewable resource potential. The CAISO believes this will not be a lot of areas. California is interested in removing entry barriers for renewable energy projects because of the state RPS that calls for 20% renewables by 2010. The declaratory order would apply only to transmission lines controlled by the CAISO. The CAISO does have operational control of some lines outside its Controlled Grid.

Both speakers acknowledged that municipal utilities are not excited about the CAISO's proposal, as they could be paying the initial costs of transmission facilities to interconnect renewable energy projects until the renewable energy generators repay the costs. In addition, the municipal utilities are not under the state RPS mandate, although they are required to set renewable energy targets. On the other hand, some stakeholders point out that municipal utilities may benefit from construction of transmission lines needed to interconnect renewable energy facilities if it would make it easier and more economical for municipal utilities to access renewable energy generation.

There are resources outside California that are brought inside the state on transmission lines controlled by the CAISO, so the CAISO may apply this initiative to CAISO-operated facilities in other states that get rate recovery through CAISO access charges.

Finally, the CAISO recognizes the national implications of the policy guidance they are requesting, so it is being deliberate to develop the best possible argument before going to FERC.

California Public Utilities Commission Backstop Cost Recovery Mechanisms

On June 15, 2006, the CPUC issued Decision D.0606034 to clarify and interpret a provision in the California RPS statute known as Section 399.25, which provides a backstop cost recovery mechanism to recover through retail rates any transmission or interconnection costs not approved by FERC. The statute calls for CPUC to do everything possible to accommodate new transmission for new renewable energy development through FERC-jurisdictional rates, which CAISO takes the lead on. However, if that fails, Section 399.25 allows for backstop cost recovery for transmission facilities through retail rates.

There are five major points made in the new decision:

- 1) The cost recovery provisions are applicable to transmission facilities that are the subject of applications to the CPUC for a Certificate of Public Convenience and Necessity (CPCN) or Permit to Construct (PTC). The transmission projects also have to be deemed necessary for meeting state RPS goals.
- 2) Some projects may not require a CPCN or PTC but would meet the standards for Sec. 399.25 cost recovery. If a utility determines there is a project necessary to meet RPS goals that meets the criteria for eligibility, the utility may file an application for authorization with the CPUC.
- 3) In earlier CPUC decisions, the CPUC ruled that backstop cost recovery would not apply to gen-tie facilities. New high voltage gen-tie facilities needed to meet RPS targets are now eligible for backstop cost recovery.
- 4) It is not necessary for CPUC to evaluate network benefits in order to be eligible for cost recovery.
- 5) The criteria for eligibility are:
 - a. New high voltage transmission lines designed to serve multiple RPS-eligible projects where added capacity will be utilized to meet the RPS targets.
 - b. Transmission upgrades or lines that are necessary to interconnect renewable energy generators that have power purchase agreements with CPUC-jurisdictional utilities are also eligible.
 - c. Transmission upgrades or lines that are necessary to interconnect renewable energy generators that have power purchase agreements with CPUC-jurisdictional utilities are also eligible.

Eligible resources must be in-state facilities—this statute is not meant to pay for renewable energy resources outside of California. Backstop cost recovery is not socialization of costs—utilities are paying the up-front costs of getting transmission built, but generators will reimburse utilities for their *pro rata* share of the transmission costs.

Questions & Answers

Asked whether backstop recovery would extend to small portions of transmission lines that extend out-of-state, Mr. Chaset said the renewable resources on the line must be in-state. For cost recovery, Mr. Chaset notes that a utility builds the transmission facilities and incurs the carrying costs that are paid by ratepayers. Once generators are online, they must pay their *pro rata* share of the costs. Otherwise, generators pay for the costs of a gen-tie up front.

Implications

The CAISO's potential filing to FERC and the CPUC's June 2006 order illustrate two different approaches to a common barrier to building transmission: determining how the cost will be recovered. Current FERC policy differentiates costs depending on whether it is a direct interconnection to interconnect generation (gen-tie) or for facilities that benefit the overall grid (network). As noted on the call, the type of facilities needed to interconnect large amounts of renewable energy resources falls in between these two categories. Whether FERC will be receptive to this proposal remains to be seen. An interesting question is how FERC will evaluate the CAISO's proposed cost recovery of these types of lines, i.e., up front costs paid by transmission providers and reimbursed by renewable energy generators on a *pro rata* basis. FERC may view favorably that an independent system operator such as the CAISO is making the filing.

Regarding Section 399.25 of the California RPS statute and the CPUC's order, some view Section 399.25 as a last resort, since it is limited to CPUC-jurisdictional entities and it may not extend to all entities that could take advantage of the renewable energy generation that may be transmitted on these lines. Others have called upon the CPUC to further extend their order to consider how costs will be recovered, and what mechanism will be used to provide cost recovery. Still, Section 399.25 could play a useful role in addressing the "chicken and egg" issues with transmission and as a fallback in case FERC is unwilling to support cost recovery to certain facilities through FERC-jurisdictional rates.

For more Information

David Withrow, CAISO, dwithrow@caiso.com

Larry Chaset, CPUC, lau@cpuc.ca.gov

California Independent System Operator, <http://www.caiso.com/>

California Independent System Operator's White Paper: *Proposal for a Third Category or Alternative Treatment of New Transmission Facilities for Renewable Generators*, <http://www.caiso.com/1816/1816d22953ec0.html>.

California Public Utilities Commission, <http://www.cpuc.ca.gov/>

CPUC Decision D0606034, http://www.cpuc.ca.gov/PUBLISHED/FINAL_DECISION/57298.htm

Next Update: October 10, 2006

The next NWCC Transmission Update will be held on Tuesday, October 10, at 1 pm Eastern Time.

Please email Kevin Porter (porter@exeterassociates.com) with any suggestions for topics on how to improve the call.