

Comments - San Diego Gas & Electric, Linda Brown

The ISO requests feedback on the following:

1. Pricing policies regarding network upgrades, especially as they relate to the ISO's existing pricing policy for upgrades as codified in Amendment 39.
 - a. Should the ISO continue crediting until we have LMP in place (MD02) and after
 - b. Is there a need for both an interim pricing policy (for the period prior to implementation of the ISO's MD02 proposal and prior to the establishment of more formal resource adequacy rule in California and a long-term policy?

Recommended SDG&E Position: See SDG&E's position on 1.c-e below. A phased in approach need not be an explicit part of the Order 2003 compliance filings. Future tariff changes can be made once MD02 and/or a resource adequacy policy is in place.

- c. Should the ISO continue to offer transmission credits to those that pay for Network Upgrades?
- d. Should the ISO continue to offer CRRs to customers that pay for upgrades?
- e. Should the ISO offer both and whose decision is it as to which option is elected?

Recommended SDG&E Position: While a requirement for interconnecting generators to advance funds for construction of Network Upgrades--subject to a credit-back by the Transmission Owner of these monies--provides a small incentive for the plant owner to actually build and initiate operation of its power plant, the requirement complicates the timing and ownership of the CRRs. This is because the funding generator will initially own the CRRs, but then transfer back to the Transmission Owner in accordance with the timing and magnitude of the Transmission Owner's refund to the interconnecting generator of the advanced funds. However, if it is ultimately decided to retain the advance funding requirement, SDG&E believes the ISO should give the interconnecting generator the option of either (a) having its advanced funds credited-back by the Transmission Owner in which case the Transmission Owner will assume ownership of the CRRs as discussed above, or (b) not having its advanced funds credited-back in which case the interconnecting generator will retain all CRRs. The principle should be that new CRRs associated with new transmission should be awarded to those that ultimately pay for the upgrades. Likewise, any CRRs that are destroyed by the project should be issued "negative" CRRs. Neither the ISO nor the TO should be requiring generators to fund transmission upgrades designed to reduce congestion.

2. Does the ISO need to finalize and implement a cost-benefit methodology in order to move forward with defining an interconnection policy?
 - a. Should the ISO apply such a methodology when evaluating Network Upgrade necessitated by interconnection requests?
 - b. To the extent that multiple TOs would need to participate in installing system Network Upgrades, would a cost/benefit analysis include a cost reallocation mechanism among the participants such that all entities receive a net benefit?

Recommended SDG&E Position: The ISO does not need to finalize and implement a cost-benefit methodology in order to move forward with the compliance filing for Order 2003. SDG&E's preferred method would allow a level of upgrade costs needed to interconnect the generator reliably to be rolled in automatically. Cost above that level should be rolled in if reasonable. Other upgrades, like those needed to relieve congestion, should be rolled in if the net benefits exceed the costs. SDG&E believes it is impractical to attempt to develop a single, rigid, economic

methodology that would apply in all cases. For example, the proposed London Economics methodology would be too cumbersome and time consuming for a \$2 million upgrade but may be appropriate for a \$300 million upgrade. The current tariff language allows the flexibility for any party to sponsor/present a cost-benefit analysis and associated recommended transmission upgrades.

3. What “form and nature” of Interconnection Service should the ISO offer.
 - a. The distinction between Interconnection service and Transmission service, and the assumption that all resources should be treated comparably for purposes of the ISO’s Scheduling and congestion Management protocols. (Final Rule ¶ 756,757).
 - b. Is there a need for one or two forms of Interconnection Service, both on an interim basis (prior to MD02 or final resource adequacy rules) and on a long term basis?
 - c. Is a “deliverability” requirement a necessary or key component of Interconnection Service in general and more specifically, Network Resource and Interconnection Resource?
 - d. In what manner should the Interconnection Service requests, in general, but also ER Interconnection Service and Network Resource Interconnection Service requests be studied for purposes of evaluating system impact?

Recommended SDG&E Position: At this time there is no need to offer “Network Resource Interconnection Service” separate from “Energy Resource Interconnection Service” since the latter service can be defined through the study process to include the former. Neither service affords the interconnecting generator any guarantee of “deliverability” once the upgrades are in place and the generator begins operation because actual grid conditions will inevitably differ from the study assumptions used years earlier to identify the Network Upgrades. Moreover, the only way an interconnecting generator can assure itself of “deliverability” is to submit appropriately priced bids into the ISO’s day-ahead, hour-ahead or real-time bid-based markets. Network Upgrades by themselves do not, and cannot, provide an assurance of deliverability.

There is no need for the ISO to offer Network Resource Interconnection Service since this service is already implicit in Energy Resource Interconnection Service. A request for Energy Resource Interconnection Service will result in transmission studies that identify the same transmission upgrades as would result from a request for Network Resource Interconnection Service (i.e., Network Upgrades that would allow the interconnecting generator to operate at 100% of its capability for a specified set of system conditions). In addition, Energy Resource Interconnection Service may result in transmission studies that identify (1) other--presumably lower cost--transmission upgrades that would allow the interconnecting generator to operate at less than 100% of its capability for a specified set of system conditions, and (2) the maximum operating level that the interconnecting generator could operate at for a specified set of system conditions with no transmission upgrades. Finally, by bidding at a sufficiently high price into the ISO's forward congestion management market, and/or the ISO's real-time energy market, an interconnecting generator with Energy Resource Interconnection Service can assure itself of being able to operate at 100% of its capability, which is the apparent intent of Network Resource Interconnection Service.

At such time as the ISO adopts a long term Resource Adequacy mechanism, the ISO can reevaluate whether there is any reason to offer a separate Network Resource Interconnection Service.

4. Should the ISO establish criteria to determine which upgrades should be participant funded in the absence of a formal RSC?

SDG&E Recommended Position: In the absence of binding direction from a formal Regional State Committee, the ISO should only require an interconnecting generator to fund Network Upgrades in the case that the ISO finds the cost of the Network Upgrade is not fully offset by benefits, i.e., the Network Upgrade fails the ISO's cost-benefit analysis described in 2.a-b above.

5. CRR Allocation – What is the relationship between the CRR allocation process contemplated under MD02 and the proposal to allocate CRRs to interconnection customers that fund Network Upgrades?
 - a. What types of facilities qualify for CRR allocation (e.g. reliability upgrades, delivery upgrades, both, FACTS, capacitor installations, etc)?

SDG&E Recommended Position: SDG&E believes that the CRR allocation process should only apply to the CRRs associated with existing transmission. CRRs associated with new transmission should be awarded to those that fund the upgrade. Any type of facility that results in a change in transfer capability anywhere on the interconnected grid should be awarded the associated new CRRs.

6. What near-term options are available to address the issues identified with the Mexico case study? Specifically, whether a deliverability requirement for new generators is appropriate and required both for the interim period as well as on a long-term basis, and if so, how “deliverability” should be defined.

SDG&E does not believe an ISO-enforced “deliverability requirement” is either appropriate or practical. “Deliverability” issues should be left to the contract counter-parties to work out on terms that make commercial sense for each party and that work with the ISO's bid-based grid access process. In the end, “deliverability” boils down to the question of who gets to use the grid when not all desired uses of the grid can be simultaneously accommodated without compromising grid reliability. The only rational, fair and efficient way to decide this question is to let would-be users compete for the use of the grid through bids into the ISO's day-ahead, hour-ahead and/or real-time markets which express each users' willingness to pay for such access.

Other Issues: In addition to the specific issues identified, SDG&E recommends that the ISO and PTO compliance filings conform their terminology to that used in Order 2003 to the extent possible. For example, Amendment 39 uses “direct assignment” and Order 2003 uses “interconnection facilities”. The ISO's current rules regarding treatment and obligation to pay for “direct facilities” is consistent with Order 2003's definition of “interconnection facilities”.