NOTICE TO STAKEHOLDERS

IID is pleased to report two new developments that are expected to assist its interconnection customers in executing the Transitional Cluster Generation Interconnection Agreement ("Transitional Cluster GIA") as well as IID in moving forward with development work necessary for this Transitional Cluster as well as studies necessary for subsequent clusters.

First, the attached ruling was issued by the Assigned Commissioner at the California Public Utilities Commission (CPUC) regarding the Resource Adequacy Value of RPS Projects in the Imperial Irrigation District Balancing Authority Area. This CPUC ruling states in pertinent part:

1. It is unreasonable for Pacific Gas and Electric Company, Southern California Edison Company, and/or San Diego Gas & Electric Company to use a maximum import capability of less than 1,400 MW for imports from projects within the Imperial Irrigation District Balancing Authority Area as part of the evaluation of projects and bids within the 2011 Renewables Portfolio Standard solicitation currently underway pursuant to Decision 11-04-030.

2. If Pacific Gas and Electric Company, Southern California Edison Company, or San Diego Gas & Electric Company nevertheless assigns zero or near zero resource adequacy value to any project located in the Imperial Irrigation District Balancing Authority Area that bids in the 2011 Renewables Portfolio Standard solicitation, that utility must present clear and convincing evidence why it did so as part of each advice letter or application seeking Commission approval of any contract resulting from the 2011 Renewables Portfolio Standard solicitation.

Second, in response to multiple requests received from interconnection customers during the negotiation process for the Transitional Cluster GIA Appendices, IID is pleased to report that, to further assist our customers in executing the Transitional Cluster GIA, IID Staff intends to request that the IID Board of Directors approve three final amendments to the body of the Transitional Cluster GIA in IID's Tariff. These amendments include:

(1) A limit of $10 million on total costs collected by IID from interconnection customers during the Development Phase of the Transitional Cluster GIA. This will provide greater cost certainty for our customers who elect to execute the GIA for purposes of participating in the initial Development Phase, but may not proceed to the subsequent Procurement and Construction Phase.

(2) An additional option for interconnection customers to terminate the Transitional Cluster GIA at the conclusion of the Development Phase, if they choose to do so. This

will enable our customers to evaluate the viability of their generation projects and estimated costs before deciding to proceed to the Procurement and Construction Phase. For those interconnection customers who elect this option and do not go forward to the Procurement and Construction Phase, there would be **no transmission rate credits** provided by IID. If some customers do elect this termination option, it is the intent of IID Staff to evaluate design changes that could be made to mitigate the costs of Network Upgrades necessary to accommodate only the smaller number of projects remaining in the Transitional Cluster and update the Appendices to the Transitional Cluster GIAs. Following this redesign, if the amount of estimated costs allocated by IID to a remaining interconnection customer for Network Upgrades exceeds by more than twenty 20 percent the amount of estimated costs originally allocated by IID to that customer, IID would give that customer the right to also terminate the Transitional Cluster GIA.

(3) An extension of the deadline for each interconnection customer to post security for its share of estimated costs projected to be incurred by IID during the Procurement and Construction Phase of the Transitional Cluster GIA. Currently, the deadline is 15 calendar days after IID notifies interconnection customers that the Appendices to the Transitional Cluster GIA are final. As an accommodation to IID's customers, IID Staff is willing to extend this deadline by another 15 days, for a total of 30 calendar days.

IID Staff estimates that the Board approval process for these Tariff amendments will take approximately 5 weeks and intends to tender final Transitional Cluster GIAs for immediate execution by interconnection customers upon approval of these amendments by the IID Board. For further information on IID Board meeting agendas and dates, please monitor the IID website at www.iid.com or contact Jamie Asbury at 760.482.3379 or jlasbury@iid.com.

In the meantime, it is important that the Appendices to all Transitional Cluster GIAs be brought to closure. Following numerous negotiation meetings, IID Staff is now in the process of updating the draft Appendices to the Transitional Cluster GIAs previously provided to our customers. IID Staff anticipates providing updated Appendices by June 17, 2011. Please allocate time in your schedules to review the updated Appendices and raise any questions with IID Staff promptly. To bring this process to a close, IID Staff will be unable to accept any further customer redlines to the Appendices after June 24, 2011.

Thank you for your cooperation and support. IID looks forward to providing interconnection service for our customers' projects.

If you any questions, please feel free to contact Jamie Asbury at 760.482.3379 or jlasbury@iid.com.

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FILED
06-07-11
11:17 AM

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Continue Implementation and Administration of California Renewables Portfolio Standard Program.	Rulemaking 11-05-005 (Filed May 5, 2011)

ASSIGNED COMMISSIONER'S RULING REGARDING RESOURCE ADEQUACY VALUE OF RPS PROJECTS IN THE IMPERIAL IRRIGATION DISTRICT BALANCING AUTHORITY AREA

Introduction

On April 14, 2011, the Commission conditionally accepted the 2011 Renewables Portfolio Standard (RPS) procurement plans of the three major investor owned utilities (IOU). (Decision (D.) 11-04-030.) In early May 2011, each IOU issued a Request for Proposals from eligible RPS suppliers, with bidders' proposals due in mid- to late-June 2011.

IOUs will evaluate each proposal using a least cost-best fit (LCBF) analysis described in their procurement plans. The analysis includes application to each project of an appropriate capacity value, based on the resource's ability to contribute towards the IOU's resource adequacy (RA) requirement. This RA value depends in many cases upon transmission.

The Commission has recently learned that IOUs intend to apply a zero or near zero RA value as part of the LCBF analysis of bids for RPS projects in the Imperial Irrigation District (IID) Balancing Authority Area (BAA), based on the maximum import capability (MIC) currently assigned to the interties between the California Independent System Operator (ISO) and IID. It is my

understanding that an ISO process for revising the determination of MIC values is underway, with broad support from stakeholders. The revised methodology is scheduled to be completed during the time the IOUs are negotiating bids from their 2011 RPS solicitations, most probably before the IOUs submit to the Commission their short lists of bidders with whom to undertake negotiations for contracts. For this reason and others explained below, a zero or near zero RA value is unreasonable for use in the 2011 RPS solicitation.

Background

The issue of the amount of RA capacity that may be applied to resources located outside the California ISO BAA was addressed in an April 18, 2011 letter to Michael Picker (Senior Advisor to the Governor) jointly sent by Karen Edson (Vice President, Policy and Client Services, California ISO) and Julie Fitch (Director, Energy Division, California Public Utilities Commission). (Copy attached as Attachment A.) As explained in the letter, the ability of resources to provide RA capacity hinges on an ISO determination that the project is "deliverable." Deliverable means that during peak system load conditions the ISO grid is able to receive energy and reserves from all designated RA capacity simultaneously without exceeding any grid capacity limit or having other adverse reliability impacts. The ISO currently assesses and quantifies deliverability on an annual basis for all capacity resources located inside the ISO BAA and for each of the interties connecting the ISO to adjacent BAAs.

For resources located outside the ISO BAA, the total amount of RA capacity they collectively can offer is limited to a quantity called the maximum import capability (MIC). The ISO determines the MIC each year based on historical energy imports during peak system conditions. The historical approach, according to some parties, yields excessively conservative MIC values

on some interties, hindering development of new RPS-eligible resources outside the ISO BAA.

The ISO has developed and is implementing a solution to the concerns regarding excessively low MIC values derived from the historical approach. The solution is comprised of two components.

First, the ISO is revising its procedure for determining MIC values for each intertie. As revised, the additional MIC on each intertie will be based on the in-progress or potential development of renewable generation that will utilize each intertie for delivering energy and RA capacity, subject to operational requirements. This will provide for additional RA import capability above the historically-based level, particularly in areas that are viewed as overly constrained under the existing MIC procedures.

Second, the ISO will use its annual comprehensive transmission planning process (TPP) to identify and approve transmission additions or upgrades needed to maintain the expanded MIC values. In particular, the ISO plans to identify transmission additions or upgrades needed to maintain the additional RA import capacity in support of the state's renewable energy requirements. As explained by the ISO (May 5, 2011 Draft Final Proposal), it

> …will establish target expanded MIC capacity MW [megawatt] values for each intertie that will be sufficient to support RA deliverability for the MW amount of resources behind each intertie that is included in the ISO's base case policy driven portfolio…The next step in the TPP will be to assess whether any additional transmission facilities or upgrades are needed to support the target expanded MIC values. Some expanded MIC values on certain interties may require associated network upgrades to ensure the deliverability of power from targeted resource areas identified in the TPP. The ISO will then incorporate these upgrades into its annual comprehensive

transmission plan in accordance with the provisions of the revised TPP.

The 2010-2011 TPP concluded on May 18, 2011 with ISO Board approval of the 2010/2011 Transmission Plan.[1] As part of this TPP, the ISO analyzed multiple scenarios of generation resources located in Imperial County and IID. This resulted in the identification of transmission facilities – all included in the final approved plan – that would make 1,400 MW of capacity connected to the IID system from within the IID BAA deliverable to the ISO for purposes of RA. Under the ISO's proposed revisions to the MIC calculation methodology, this potential capacity (and possibly additional IID MW included in the ISO's base case policy driven portfolio) would be protected in the 2011-2012 TPP and subsequent planning cycles through identification of any transmission necessary to maintain its deliverability.

Discussion

Commission staff and most commenting stakeholders support the ISO's proposal to evaluate MIC on a current and forward-looking, rather than historical, basis.[2] As discussed at the May 12, 2011 ISO stakeholder meeting, relevant revisions to the ISO Business Practices Manual, if approved, could be finalized in early August. The new MIC values would then be available in Spring 2012 for the 2013 RA compliance year.

The 2011 RPS solicitation process is underway, with projects soon submitting bids for contracts up to 20 or 25 years (e.g., for a project with first

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[1] http://www.caiso.com/2b88/2b8872c95ce10.pdf.

[2] *See* stakeholder comments at http://www.caiso.com/2b51/2b51c08a51900.html.

commercial operation in 2013, a 20-year contract would run through 2032). The Commission understands that the IOUs intend to evaluate the capacity value of bids in the 2011 RPS solicitations using the current MIC values developed using the historical approach. The historical approach, however, with its excessively conservative MIC values, is likely to be replaced very soon with a current and forward-looking approach, given the strong support from stakeholders, ISO proposals, and the ISO's schedule for the MIC calculation revisions. This will affect the RA values that may reasonably be assessed for MIC over certain interties for the up to 25-year duration of contracts to be evaluated as part of the 2011 RPS solicitation. In particular, based on the May 18, 2011 ISO Board adoption of its 2010-2011 transmission plan, the MIC over the intertie from the IID BAA is likely to be no less than 1,400 MW over the life of contracts resulting from the 2011 RPS solicitation.

I note that the Commission's support for a forward-looking approach to MIC calculation does not eliminate the Commission's obligation to find any transmission facility associated with that MIC value as needed pursuant to Public Utilities Code §1001 *et seq.*, prior to approving its construction. Thus, some risk remains that a transmission facility needed to deliver the full 1,400 MW of IID-connected generation would not ultimately be completed, leaving the contracting utility with an unmet RA obligation. However, this same risk is associated with any prospective generator for which the required delivery upgrades have not yet been completed – including those proposing to connect directly to the ISO system. IOUs have assessed these uncertainties and risks when evaluating project bids in prior RPS solicitations, and must continue to do so as part of the 2011 solicitation. Resources outside the ISO should be treated no differently than other generators in this regard.

Moreover, I note that in its approval of the Sunrise Powerlink Transmission Project (Sunrise), the Commission considered but declined at that time to adopt various remedial measures relative to Imperial Valley resource development. Nonetheless, the Commission said it would consider any and all remedial measures going forward as necessary because (D.09-06-018 at 18):

> The expense and environmental consequences of Sunrise, just as with any significant infrastructure project, demand nothing less. We will not hesitate to use all regulatory tools at our disposal so that reasonable, cost-effective renewable resources enabled by Sunrise are developed. (*See* D.08-12-058, at 263.)

Finally, an additional factor to consider when assessing the RA capacity reasonably applied to resources located outside the ISO BAA is planned transmission upgrades that would allow exports to the ISO. In particular, IID is prepared to upgrade to its transmission system to support greater export capability. This approach by IID and the transmission included in the ISO's 2010-2011 plan indicate that historic flows between IID and the ISO are not a good proxy for the flows that would be observed in coming years if additional RPS-eligible generation were to be developed in the IID BAA. The IOUs should take this into account as they assess the long-term RA value of projects from the IID BAA.

Thus, an IOU's use of a zero or near zero MIC for imports from the IID BAA for up to 25 years would be unreasonable. It would also be unreasonable to require projects from this area to wait until the next RPS solicitation to submit a bid because of the timing of the revisions to the MIC calculation, given the important and substantial progress that has been made on this subject.

Based on the above information and analysis, I conclude that it would be unreasonable for an IOU to use a MIC less than 1,400 MW for imports from the

IID BAA as part of its LCBF evaluation of project bids within the 2011 RPS solicitation. An IOU using a MIC of less than 1,400 MW must present clear and convincing evidence why it did so as part of any advice letter or application seeking Commission approval of a contract from the 2011 RPS solicitation.

IT IS RULED that:

1. It is unreasonable for Pacific Gas and Electric Company, Southern California Edison Company, and/or San Diego Gas & Electric Company to use a maximum import capability of less than 1,400 MW for imports from projects within the Imperial Irrigation District Balancing Authority Area as part of the evaluation of projects and bids within the 2011 Renewables Portfolio Standard solicitation currently underway pursuant to Decision 11-04-030.

2. If Pacific Gas and Electric Company, Southern California Edison Company, or San Diego Gas & Electric Company nevertheless assigns zero or near zero resource adequacy value to any project located in the Imperial Irrigation District Balancing Authority Area that bids in the 2011 Renewables Portfolio Standard solicitation, that utility must present clear and convincing evidence why it did so as part of each advice letter or application seeking Commission approval of any contract resulting from the 2011 Renewables Portfolio Standard solicitation.

3. Nothing in this ruling affects the exercise of the Commission's responsibilities pursuant to Public Utilities Code Section 1001 et seq. with respect to applications for a certificate of public convenience and necessity for any transmission project.

Dated June 7, 2011, at San Francisco, California.

/s/ MARK J. FERRON
Mark J. Ferron
Commissioner