BEFORE THE PUBLIC UTILITIES COMMISSION OF THE

STATE OF CALIFORNIA

Order Instituting Rulemaking on the Commission's own motion to improve distribution level interconnection rules and regulations for certain classes of electric generators and electric storage resources.))))))	Rulemaking 11-09-011 (Filed September 22, 2011)

JOINT COST CERTAINTY PROPOSAL OF

PACIFIC GAS AND ELECTRIC COMPANY (U 39 E),
SOUTHERN CALIFORNIA EDISON COMPANY (U 338 E) AND
SAN DIEGO GAS & ELECTRIC COMPANY (U 902 E)

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Dated: **January 18, 2013**

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Pursuant to Rule 11.1 of the California Public Utilities Commission's ("Commission" or "CPUC") Rules of Practice and Procedure and ALJ DeAngelis's January 7, 2013 email, Pacific Gas and Electric Company ("PG&E"), Southern California Edison Company ("SCE"), and San Diego Gas & Electric Company ("SDG&E") respectfully submit their joint Cost Certainty Proposal.

I. INTRODUCTION

The investor owned utilities (IOUs) would like to thank the Commission for holding workshops to address the complex and important issues relating to generators' cost certainty under Rule 21. The IOUs have also carefully reviewed and considered the other parties' cost certainty proposals. It is evident that parties put considerable thought into their proposals and strove to identify a workable approach. In preparing the IOUs' proposal, the IOUs have sought to incorporate elements from the parties' proposals that the IOUs believe are feasible. The IOUs' proposal is based on their collective experience with generation developers who have participated in the interconnection process, including projects that have been studied, entered into agreements for interconnection, or are in service.

The IOUs believe their proposal will meet the needs of the majority of the DG community, will not result in cost shifting from one developer to another and will promote interconnection of projects with the lowest interconnection cost. The IOUs continue to support the current process which requires each Applicant to pay the actual cost for each interconnection project. However, certain parties have stated that generators would be willing to pay a premium to get cost certainty. The IOUs' experience is that generators seek the lowest cost possible and therefore many are likely to oppose paying costs reflecting the averaging of higher and lower cost interconnections. The IOUs believe that offering a fixed price option for projects meeting specific criteria (described in detail in Section III), while continuing to require payment of actual costs for all other projects, is superior to approaches relying on such averaging.

II. BACKGROUND AND DATA ANALYSIS

Stakeholders have expressed considerable interest in the Fast Track process. As a result, the recent Rule 21 Settlement implemented several changes within Rule 21 that allow more projects to pass the Fast Track screening process. Moreover, the Settlement introduced a new pre-application report that will give developers an early indication regarding whether their project is likely to pass Fast Track. The IOUs strongly encourage the developers to use the pre-application report prior to submitting an interconnection request. Accordingly, the IOUs have designed their proposal to focus on projects that are approved to be interconnected under the Rule 21 Fast Track process.

In creating this proposal, SCE reviewed the Interconnection Requests which were received by SCE since June 2009. It was determined that there was significant variation in the amount of Distribution Upgrades required to mitigate reliability concerns (referred to herein as Significant Distribution Upgrades). When analyzing the cost estimates for the projects which passed the Fast Track process, it was determined that Significant Distribution Upgrades were not needed or were insignificant for these Fast Track-approved projects.[1] For example, for Fast Track approved projects, it was determined that only 5.6% (4/71) of the projects had Significant Distribution Upgrades and that the average cost for Significant Distribution Upgrades was $29,680. In contrast, for non-Fast Track-approved projects, 35.8% (67/187) of the non-Fast Track-approved projects had Significant Distribution Upgrades with an average cost for Significant Distribution Upgrades of $825,748, or about 27 times that of a Fast Track project. Additionally, it was observed that for non-Fast Track projects, the Significant Distribution Upgrades ranged from $23,000 to $11,930,000 - over 500 times the minimum per project cost. In contrast, for Fast Track projects the Significant Distribution Upgrades ranged from $14,100 to nearly $51,000 – only about 3 times the minimum cost. Thus, providing a firm cost estimate for projects which do not pass the Fast Track process can be problematic due the large variation in Significant Distribution Upgrades. PG&E's data shows even more variability than SCE's data. SDG&E's data likewise shows substantial variability.

In response to a data request submitted by Clean Coalition and others, the IOUs provided data showing the difference between the actual and estimated cost for Distributed Generation (DG) projects interconnecting to the distribution system. The response was limited to requests received after January 1, 2009 that (1) are 20 MW or less and (2) have gone through the study process, signed interconnection agreements, reached commercial operations and whose actual costs have been reconciled against the cost estimate.[2] The SCE response demonstrates that costs for projects that do not require Significant Distribution Upgrades can be estimated with reasonable accuracy. However, since Applicants that trigger Significant Distribution Upgrades have generally chosen not to execute agreements, SCE has not completed such upgrades and thus SCE cannot determine the accuracy of its cost estimates against the actual costs. PG&E's and SDG&E's data is also very limited at this point. Consequently, the IOUs do not believe it is appropriate or prudent to provide a fixed price for generators

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1 The evaluation also showed that approximately 65% of the Interconnection Requests in the urban areas passed the Fast Track process.

2 SDG&E's response provided estimates only, as none of the projects have reached commercial operations since 2009.

likely to cause Significant Distribution Upgrades where there is no data to support it. Accordingly, the IOUs cannot propose to offer a fixed price interconnection to these high impact projects.

The IOUs note that the actual cost data provided in the response to this data request is skewed because generators who triggered large upgrades often choose not to move forward with their projects or choose to modify them in such a way as to reduce the cost impact. Therefore, the data from completed projects does not show the extreme variation in potential interconnection cost that may occur and would likely occur if an average price were offered to any interconnecting generator. Even in the urban areas, there exists the possibility that costs will not fall neatly in line with the average. The problem is more acute in rural areas. For this reason, the IOUs propose that they continue to produce a cost estimate that is unique for each project, retaining the market signal provided by individually calculated interconnection costs. In this way, projects that can make use of existing capacity are interconnected at a lower cost, making the most efficient use of existing capacity to meet the IOUs' Localized Energy Resources goals.

The IOUs' proposal also reflects their concerns regarding improper or unfair cost shifting from generators interconnecting in high cost areas to other generators interconnecting in areas where the Significant Distribution Upgrades are minimal or non-existent. Such cost shifting has the possibility of increasing the cost for retail customers because projects that would otherwise be uneconomic will be subsidized. Such subsidies may result in higher bids in competitive solicitations, and more importantly, this additional cost burden will be placed on all the other projects that are required to subsidize the one high cost project. This could cause the projects providing the subsidy to no longer be economic. For this reason, the IOUs believe that it is important to determine the cost of each project and allow each Applicant to decide whether or not to go forward.

III. <u>THE IOUS' PROPOSAL</u>

The IOUs propose to offer a fixed price for projects that pass Fast Track (either Initial Review or Supplemental Review) and that are located in "low impact areas" if the Applicant: (1) requests fixed price; (2) provides additional site and project information; and (3) pays a fee which will allow the utility to determine the fixed price. PG&E and SDG&E will define their "low impact area" based on parameters that include: (1) Distance from the substation, (2) Circuit loading during peak and off-peak times, and (3) Circuit characteristics. SCE will deem a project to be in a "low impact area" if the project passes Fast Track. However, as a practical matter, projects located in the urban areas are much more likely to pass Fast Track.

The IOUs believe that many parties agree with the concept of having generators located in "low impact areas." These projects generally have lower cost interconnection facilities and minor or no Distribution Upgrades and no network upgrades. These attributes results in quicker interconnections and are therefore ideal for DG programs. Each utility will identify its "low impact areas" for where this proposal will apply based on each IOU's own unique requirements and the topology of its system. The proposal is technology neutral in that it applies to all technology types.

The IOUs have limited the fixed price proposal for Fast Track approved projects for the reasons described in Section II, *above*. Fast Track projects encompass a significant portion of interconnection projects.[3] Projects which do not pass the Fast Track process create additional risks since cost estimates for such projects can be significantly impacted due to changes in the queue (ex: withdrawal of earlier queued projects) and the fact that such projects have a higher probability of triggering significant upgrades, the cost of which is difficult to accurately predict.[4] Furthermore, the proposal does not include costs triggered by environmental studies and/or mitigation due to the unpredictability and potential magnitude of these costs. Where environmental studies and/or mitigation are required, the project developer shall be responsible for the actual costs thereof.

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3 For PG&E for instance, over half of projects since 2009 have applied through Fast Track.

4 For instance, in the rural areas of SCE's system there is excess generation, either existing or queued. This makes it difficult, if not impossible, for SCE to estimate in advance of studies what the interconnection costs will be. Much of the cost will depend on whether earlier-queued generators fund needed upgrades or withdraw. In areas where existing capacity has been exhausted, the cost of upgrades will likely be significant and will depend on which projects ultimately interconnect and where they are located. The costs will vary significantly. Equally important, the time to construct the upgrades may be in the eight to ten year timeframe. As stated above, in the rural areas where there is no available capacity, SCE has little experience with DG developers progressing all the way through the process. Therefore, there is little data to serve as a factual basis to develop average costs.

In order for the IOUs to provide a fixed price for eligible interconnections, the IOUs require additional information from generators and confirmation of the generating facility configuration, beyond what is typically provided in an Interconnection Request. The Applicant will be required to confirm specific information, including a final location for the point of interconnection (POI), point of change of ownership (POCO), requested service voltage, size and type of generating facility (Technical Scope Package). Based on that information, the IOU and the Applicant will agree on the method to connect the point of change of ownership with the point of interconnection at the distribution circuit. The IOU will base its fixed price on the agreed upon routing for the interconnection facilities from the point of interconnection to the point of change of ownership and based on the interconnection requirements.

While this proposal is designed to minimize any difference between the fixed price given to an Applicant and the actual cost to interconnect the customer, such differences may still occur. The IOUs propose that any difference, either due to overcollection or undercollection, will be trued up in customer rates through the normal General Rate Case (GRC) capital work order process.[5]

The interconnection process within Rule 21 would be modified to account for the ability to request a fixed price. After the Applicant is notified in writing that the Interconnection Request has passed Fast Track, the Applicant will be given 10 business days to decide whether or not they want a fixed price, and to submit the required fee and the Technical Scope Package. Applicants may elect a 10 Business Day extension. If the Applicant does not provide notification within 10 Business Days, or within the extension if requested, the IOU will proceed with the interconnection under the current process and the actual cost of interconnection will be charged to the Applicant. Subject to then-existing workload constraints, the IOUs anticipate being able to provide Applicant with a fixed price within approximately 30 to 70 Business Days after the Applicant's submission of all necessary information and payment of the fee. This would allow the IOU to send field engineers, designers and craft personnel (as

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[5] The capital cost is trued-up to the actual cost in the next GRC (i.e. the IOUs' use the recorded, or actual, rate base as the starting point for their GRC forecast revenue requirement).

necessary) to the site, meet with the Applicant, and agree on the method of service including equipment to be utilized, routing, etc.

Under the current process, an engineer evaluates the project for Fast Track and develops an estimated price. In most cases, the interconnection facilities and cost are developed without actually inspecting the site. In order to determine an accurate estimate, at a minimum, a site visit by an engineer and designers is needed. Following the completion of the fixed price process for a particular project, that project would then continue under the current interconnection process pursuant to Rule 21, Section F.2.e.[6] If, at any time after the IOU has provided the fixed cost, the Applicant makes any change to its Generating Facility, POI, POCO or updates the Technical Scope Package or the information is determined to be in error, the fixed price will no longer be valid and the Applicant will be charged the actual cost of interconnection, including any time spent to redesign facilities in light of the changed information.[7] Any change is still subject to the Material Modification provisions of Rule 21, Section F.3.d.v.

IV. CONCLUSION

The IOUs look forward to discussing their proposal at the upcoming workshop.

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[6] Certain changes will be required to Section F.2.e and other parts of the tariff and generator interconnection agreement to account for the fixed price option.

[7] Likewise, where environmental studies and/or mitigation are determined to be required, the project developer shall be responsible for the actual costs thereof.

SCE is authorized to sign on behalf of the PG&E and SDG&E.

Respectfully submitted on behalf of the Joint Parties,

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January 18, 2013