



**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

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Order Instituting Rulemaking to Continue
Implementation and Administration of California
Renewables Portfolio Standard Program

Rulemaking 08-08-009
(Filed August 21, 2008)

**SILVERADO POWER LLC'S RESPONSE TO SOUTHERN
CALIFORNIA EDISON PETITION FOR MODIFICATION OF
DECISION 10-12-048 ADOPTING THE RENEWABLE AUCTION
MECHANISM**

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AUCTION MECHANISM**

Pursuant to California Public Utilities Commission (“Commission”) Rule of Practice and Procedure 16.4, Silverado Power LLC (“Silverado”) respectfully submits this response to the Petition for Modification of Decision (D.) 10-12-048 (“Petition for Modification”) filed by Southern California Edison Company (“SCE”) on March 3, 2011. As set forth below, Silverado supports SCE’s Petition for Modification of D.10-12-048 (“RAM Decision”) with regard to the following issues: (1) removal of the requirement for simultaneous auctions; (2) removal of the requirement for twice-per-year auctions; and (3) extension of the 18-month commercial operation deadline (“COD”). Silverado also includes in this response support for proposals made in SCE’s Advice Letter 2557-E (“Advice Letter”), filed on February 25, 2011.

I. SILVERADO’S RESPONSE

Overall, Silverado agrees with SCE that auctions do not need to be simultaneous across utilities but should be coordinated with interconnection. In particular, Silverado supports three specific changes that SCE has proposed in its Petition for Modification and Advice Letter.

1. Each utility should hold one Renewable Auction Mechanism (“RAM”) auction per year and RAM auctions should be held following the release of Phase 1 interconnection study results.
2. Bidders should have passed Fast Track screens, completed a system impact study or obtained Phase 1 cluster study results.
3. Winning bidders should have at least 24 months, and not before December 2013, to reach COD; and the timeframe to reach COD should start at contract approval, not contract signing.

Silverado believes that the number of auctions per year and the timeframe for winning bidders to reach COD should be addressed in a revised RAM Decision, whereas the details of the timing of interconnection and procurement, and the interconnection-related prerequisites for bidders should be addressed through the advice letter process. Silverado believes that this combination of the measures suggested by SCE strikes a reasonable balance that ensures that developers submit well informed bids and move expeditiously to complete projects after being awarded a contract, while at the same time allowing developers a reasonable amount of time to develop projects given current interconnection timeframes. In addition, Silverado believes that these modifications will result in lower costs for customers and a more efficient RAM program.

II. AUCTIONS DO NOT NEED TO BE SIMULTANEOUS, BUT THEY DO NEED TO BE COORDINATED WITH EXISTING INTERCONNECTION PROCESSES.

There have not been many 20-MW projects that have successfully completed the interconnection process in California. A review of the California Independent System

Operator (CAISO) interconnection queue (Appendix A) shows that only 7 projects less than 20 MW (of all fuel types) have exited the CAISO interconnection study process by executing an interconnection agreement. As a result, there is limited data on the range of interconnection costs that we can expect from distributed projects of this size or the time that it will take to interconnect these systems. However, if wind integration costs serve as a guide, it is clear that interconnection cost may be significant, particularly when interconnecting to the high voltage transmission system. For wind systems, interconnections costs can often exceed \$400,000 per MW or \$5 million for a 20 MW project.¹ Assuming that an interconnection can be completed at half this cost (\$2.5 million), a 20-MW solar PV system with a 24% capacity factor would still need 5.9 cents per kWh of generation to pay for interconnection costs alone.² This highlights a need for RAM procurement to target generators with low interconnection costs in order to keep overall program costs at reasonable levels.

Because interconnection costs can have a significant impact on a project's revenue needs, it is reasonable for a well-designed RAM program to require a developer to be far enough along in the interconnection process to have a realistic knowledge of a project's interconnection costs so that these costs can be incorporated into a bid. This ensures that interconnection costs will be appropriately taken into account in determining

¹ Andrew Mills, Ryan Wiser and Kevin Porter, *A Critical Review of Wind Transmission Cost Estimates from Major Transmission Planning Efforts* 13 (2007).

²
$$\frac{\$2.5 \text{ million}}{(20 \text{ MW} \times 0.24 \times 1000 \text{ kW/MW} \times 8760 \text{ hours/year})} =$$

$$\frac{\$2.5 \text{ million}}{42.048 \text{ million kWh}} = \$0.059/\text{kWh}$$

which projects are awarded a contract, and it provides developers with an incentive to locate projects where interconnection costs can be minimized. It also ensures that winning bids contain a realistic assessment of interconnection costs so that winning bidders will have sufficient revenue to cover project costs. Ratepayers pay for interconnection costs in the price they pay for delivered electricity, so ratepayer interests are also advanced by ensuring that a realistic understanding of interconnection costs is reflected in bids and that bids are awarded to lowest cost projects.

The RAM Decision does not require that a developer meet any particular milestone in the interconnection process prior to submitting a bid into a RAM auction; it simply requires that an application for interconnection must have been submitted. Silverado believes any greater level of specificity with regard to interconnection requirements is best determined through the advice letter process as what works best may change over time. However, Silverado wishes to point out that this project viability requirement by itself does not ensure that a project is far enough along in the interconnection process for a developer to have a reasonable understanding of interconnection cost and timeframe for a project. In fact, under the interconnection procedures in effect up until this past December, the cost of meeting this project viability requirement was a \$1,000 application fee, which is a fairly low threshold for obtaining a contract worth millions of dollars in financial value.

In addition to the interconnection application requirement, the RAM Decision requires selected projects to reach COD within 18 months from contract execution.³

³ Cal. Pub. Util. Comm'n, *Decision Adopting the Renewable Auction Mechanism*, D.10-12-048, Docket No. R.08-08-009, at 90 (Dec. 17, 2010).

Silverado understands this requirement as being intended to ensure that projects are further along in the development process than having just submitting an interconnection application. By being further along, such projects should have a better understanding of project costs, including interconnection costs, and a greater likelihood of reaching commercial operation.

Unfortunately, it can be difficult to translate an 18-month COD requirement into a solid understanding of precisely where in the interconnection study process a project should be when a developer submits a bid. This COD requirement also does not ensure that a developer that submits a bid has reached a relevant interconnection milestone that conveys a reasonable understanding of interconnection cost or the timeframe to interconnect, such as satisfaction of Fast Track screens, completion of a system impact study or obtaining results of a Phase 1 cluster study. In fact, developers that are still early in the interconnection process could submit a bid into a RAM auction believing they can hit an 18-month COD requirement. Unless the COD timeframe is subsequently extended, many such projects may result in contract failure, which could be very disruptive to program implementation as procurement would have to be shifted to later and later auctions. Although some parties may suggest a “wait and see” approach to considering modifications to the RAM program, these problems would not be apparent until 18 months after the first RAM auction when projects that thought they could reach COD in 18-months are still struggling through a much longer interconnection process than anticipated.

Another downside of this approach is that it requires significant resources to be expended studying interconnections that may never result in a contract. There is already

some evidence of this in the CAISO interconnection queue (see Appendix A). Prior to April 2008, the CAISO had received only one bid for a solar PV project with a capacity of 20 MW or less. During the rest of 2008, the CAISO received 5 bids for such projects, and through July 2009, it received 9 more. Starting in August 2009, around the time that the Energy Division proposed the RAM, the flow of applications started to increase. From August 2009 through the end of that year, there were 34 applications for projects with capacities of 20 MW or less. In 2010, there were well over 100. The vast majority of these applications are for solar PV projects sized at exactly 20 MW. There have been some contracts awarded to projects 20 MW and smaller through the RSC program, RPS solicitations and through bilateral negotiations, but Silverado assumes the majority of projects in the CAISO, SCE and PG&E queues that have capacities of 20 MW or less do not currently have contracts.

This large volume of interconnection applications may eventually lead to a large pool of competitive projects that are far enough along in the interconnection process for developers to be reasonably aware of their interconnection costs and timeframes, but the immediate result of the front-loading of interconnection applications has been a considerable strain on the state's interconnection queues, which has led the CAISO, SCE and PG&E to undertake reforms to their small generator interconnection processes. These reforms will result in longer timeframes to interconnect than previously estimated, and will require developers to absorb significantly higher costs earlier in the process than was previously the case. As a result, the pool of projects that are sufficiently far along is currently limited and it may take some time for the CAISO, PG&E and SCE to work through the backlog of applications. This makes it even more difficult for a developer

that is looking to bid into the RAM to know whether a project is sufficiently far along to be able to achieve an 18-month COD requirement.

Silverado believes there is a better approach for ensuring that projects that submit bids have a reasonable understanding of interconnection costs of timeframes. In particular, and as explained more fully below, Silverado supports the following approach to integrating interconnection and procurement:

- Each utility should hold one RAM auction per year and RAM auctions should be held following the release of Phase 1 results.
- Bidders should have passed Fast Track screens, completed a system impact study or obtained Phase 1 cluster study results.
- Winning bidders should have at least 24 months, and not before December 2013, to reach COD; and the timeframe to reach COD should start at contract approval, not contract signing.

Silverado believes this approach is consistent with proposals SCE has made either through its Petition for Modification or through its Advice Letter. As noted in Section I, Silverado believes that the number of auctions per year and the timeframe for winning bidders to reach COD should be addressed in a revised RAM Decision, whereas the details of the timing of interconnection and procurement, and the interconnection-related prerequisites for bidders should be addressed through the advice letter process.

1) EACH UTILITY SHOULD HOLD ONLY ONE AUCTION PER YEAR AND RAM AUCTIONS SHOULD BE HELD FOLLOWING THE RELEASE OF PHASE 1 STUDY RESULTS.

As there will only be one interconnection cluster study initiated per year, Silverado believes larger amounts of capacity should be procured through a single annual auction that is timed with the release of Phase 1 cluster study results. This will ensure that procurement occurs at a time when there is a large pool of projects that have a reasonable degree of interconnection cost awareness and when such costs can be reasonably incorporated into bids. This will increase both the quantity and quality of bids, and increase the competitiveness of auctions.

Timing procurement with Phase 1 results will also ensure that developers know whether they have a RAM contract before they are required to post significant deposits against interconnection facility construction and system upgrade costs. For these reasons, Silverado supports SCE's proposal that the Commission modify the RAM Decision to allow utilities to hold only one auction per year. This aligns with the approach proposed by SCE in its Advice Letter filing.⁴ Silverado believes all three IOUs subject to RAM requirements should adopt this approach.

⁴ Southern California Edison Co., Advice Letter 2557-E, at 7 (Feb. 25, 2011) (proposing to synchronize the auction process with the release of Phase I interconnection studies).

2) BIDDERS SHOULD HAVE PASSED FAST TRACK, COMPLETED A SYSTEM IMPACT STUDY OR OBTAINED PHASE 1 CLUSTER STUDY RESULTS.

SCE has proposed an interconnection milestone requirement in its RAM Advice Letter.⁵ Silverado agrees that this is an issue that is best addressed through the advice letter process. However, Silverado discusses the issue here to highlight the ability for an interconnection milestone requirement to remove the need for an 18-month COD requirement, which is an issue that is addressed in both the RAM Decision⁶ and in SCE's Petition for Modification.⁷

Silverado believes an 18-month COD requirement is a haphazard approach to a problem that can be more efficiently addressed by timing of interconnection and procurement and the imposition of interconnection milestone requirements on bidders. In particular, requiring bidders to have passed Fast Track screens, completed a system impact study or received Phase 1 cluster study results prior to bid submission ensures that developers have made substantial progress toward completing an interconnection, and that developers have a realistic understanding of project timeframes and costs before submitting a bid. Addressing interconnection cost certainty in this manner allows the Commission to adjust the COD requirements in the RAM Decision so they reflect a more realistic assessment of the time it should take to interconnect after Phase 1 results are released.

⁵ *Id.* at 10 (proposing to measure status of project development based on quarterly updates on progress towards project milestones submitted by developers).

⁶ *CPUC RAM Decision, supra* note 3, at 51-52.

⁷ Southern California Edison Co., *Petition of Southern California Edison Company (U 338-E) for Modification of Decision 10-12-048*, Docket No. R.08-08-009, at 6 (Mar. 3, 2011).

3) PROJECTS SHOULD HAVE AT LEAST 24 MONTHS OR UNTIL DECEMBER 2013 TO REACH COD; AND TIMEFRAMES TO REACH COD SHOULD START AT CONTRACT APPROVAL, NOT CONTRACT EXECUTION.

Winning bidders should be required to move expeditiously to complete projects, but they should be allowed a reasonable amount of time to do so without losing a contract. Silverado believes COD requirements should reflect a reasonable assessment of the time it should take to complete development after participation in an auction. Because Silverado supports SCE's proposal to hold one auction per year timed with the release of Phase 1 study results, Silverado believes COD requirements should be based on the expectation of how long it should take a project participating in a cluster study to complete interconnection following Phase 1 interconnection results.

Specifically, Silverado believes that by extending the COD requirement to 24 months from contract approval,⁸ developers can obtain Phase I cluster study results, bid into a RAM auction, and then have the time to post security, complete a Phase II study, execute an interconnection agreement and await completion of interconnection facilities. The PG&E Cluster Timeline (Appendix B) supports Silverado's recommendation.⁹ Allowance of day-for-day extensions of up to six months in the case of delays due to the construction of interconnection facilities or regulatory delays will allow a cushion for

⁸ A number of parties, Silverado included, have encouraged the Commission to modify its RAM Decision to start the clock to reach COD at contract approval and not execution. *See, e.g.*, Silverado Power's Request for Modification of Decision 10-12-048 Adopting the Renewable Auction Mechanism, Docket R.08-08-009 (filed Feb. 15, 2011).

⁹ The PG&E Cluster Timeline attached at Appendix B shows a 23-month process from the posting of security in January until the completion of engineering, procurement and construction of interconnection facilities.

delays that are outside developer control. In addition, Silverado believes that in no case should participants be required to reach COD prior to December 31, 2013.¹⁰

The CAISO interconnection queue highlights the need for these modifications. Through June 2010, there were 68 applications that were filed for solar PV facilities 20 MW or smaller that are still active. For the most part these have reached the system impact study stage. There are over 50 more requests from the second half of 2010 and these are, unsurprisingly, just starting the process. About half of these applications from the second half of 2010 have proposed on line dates of late 2013 or after. The current 18-month COD requirement may prevent these projects from competing in the first RAM auctions. The 18-month COD requirement may also prevent projects that enter the 2011 cluster from competing in first auctions.¹¹ In order to ensure that the first auctions are competitive, Silverado believes the 18-month COD requirement needs to be modified so that projects that enter the 2011 cluster and projects that applied for the serial study process prior to the second half of 2010 can compete.

SCE's RAM Advice Letter proposes to require that projects reach COD within 36 months after Commission approval of a contract, with an extension of up to an additional 6 months.¹² SCE further proposes through its Petition for Modification to allow utilities discretion to establish COD requirements of up to 60 months. Silverado is not opposed to longer COD requirements, but Silverado is primarily concerned that COD deadline be

¹⁰ The PG&E Cluster Timeline attached at Appendix B shows that projects entering the 2011 cluster are unlikely to have interconnection facilities completed prior to December 2013.

¹¹ These projects would not be able to bid into any RAM auction that is held during the next 14 months (prior to June 2012) because it will take another 18 months after that time (until December 2013) for projects to compete the interconnection process.

¹² SCE Advice Letter 2557-E at 6.

extended to at least 24 months from the date of Commission approval of a contract to open participation in the initial RAM auctions. In addition, projects should be allowed day-for-day extensions of up to six months in the case of delays due to the construction of interconnection facilities or regulatory delays outside of a developer's control. Finally, Silverado believes that in no case should participants be required to reach COD prior to December 31, 2013. As explained above, Silverado also believes that the COD requirement properly belongs in the IOUs' advice letters rather than the RAM Decision.

III. CONCLUSION

Silverado agrees with SCE that auctions do not need to be simultaneous across utilities but should be coordinated with interconnection. With this goal in mind, Silverado also supports the three specific changes proposed by SCE described above. As emphasized throughout these comments, Silverado believes that the number of auctions per year and their timing should be addressed in a revised RAM Decision, whereas the details of the timing of interconnection and procurement should be addressed through the advice letter process. Therefore, Silverado respectfully requests that the Commission modify D.10-12-048 to revise the RAM auction requirement to one RAM auction per year held following the release of Phase 1 results. In addition, Silverado requests that the Commission ensure utilities' advice letters comport with the second and third suggestions set forth above.

Respectfully submitted this April 4, 2011.

/s/ Kevin T. Fox_____

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VERIFICATION

I am an attorney representing the Silverado Power LLC and am authorized to make this verification on its behalf. I have read the foregoing “**SILVERADO POWER LLC’S RESPONSE TO SOUTHERN CALIFORNIA EDISON PETITION FOR MODIFICATION OF DECISION 10-12-048 ADOPTING THE RENEWABLE AUCTION MECHANISM**” and am informed and believe that the matters stated therein are true.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 4th day of April 2011, at Oakland, California.

/s/ Kevin T. Fox
By: Kevin T. Fox