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)

COMMENTS OF ZEPHYR POWER TRANSMISSION, LLC AND PATHFINDER RENEWABLE WIND ENERGY, LLC ON APRIL 5, 2012 ASSIGNED COMMISSIONER'S RULING REQUESTING COMMENTS ON NEW PROPOSALS RELATED TO RENEWABLES PORTFOLIO STANDARD PROCUREMENT PLANS

Zephyr Transmission, LLC ("Zephyr") and Pathfinder Renewable Wind Energy LLC ("Pathfinder") submit the following comments on the April 5, 2012 Assigned Commissioner Ruling ("ACR") in this proceeding. These comments address four of the seven new proposals set forth in the ACR: 7.3 (Use of CAISO Transmission Cost Study Estimates in LCBF Evaluations), 7.4 (Create Two Shortlists Based on Status of Transmission Study), 7.5 (Shortlists Expire After 12 Months), and 7.7 (Utilize the Commission's RPS Procurement Process to Minimize Cost of Transmission).

I. INTRODUCTION

Zephyr is a Delaware limited liability company established for the purpose of developing and financing the Zephyr transmission project, a proposed 975-mile, 3,000 megawatt high-voltage direct current (HVDC) merchant transmission line that is planned to originate in southeastern Wyoming and terminate south of Las Vegas, Nevada in the Eldorado Valley (the "Zephyr Project"). Pathfinder is in the process of developing a large-scale wind energy generation project located in southeastern Wyoming. Pathfinder's project will transmit its output across the Zephyr Project and interconnect to the California Independent System Operator ("CAISO") balancing authority area. Therefore, both Pathfinder and Zephyr have considerable interest in the Commission's continued implementation of California's Renewable Portfolio Standard ("RPS"), and this proceeding in particular. Pathfinder is currently a party to this proceeding, and Zephyr's affiliate Duke Energy Corporation has previously provided comments on RPS implementation in this docket. Concurrently with this filing, Zephyr has also filed a motion for party status in this proceeding.

Before commenting on the specific new proposals contained in the ACR, Zephyr and Pathfinder offer the following general comments. Zephyr and Pathfinder have been actively involved in the CAISO's 2012-2013 TPP and the Commission's 2012 LTPP proceeding, R.12-03-014, in which the Commission is developing the planning assumptions and scenarios to be used in the 2013-2014 TPP. Zephyr and Pathfinder are concerned that undue emphasis is being placed on minimizing transmission costs, and that several of the new proposals contained in the ACR also reflect that emphasis, especially new proposal 7.7, which suggests that the Commission use its jurisdiction over the procurement process to minimize the cost of transmission.

As Pathfinder and Zephyr have commented in other proceedings and forums, planning to minimize transmission costs can have the perverse effect of actually increasing the delivered cost of power. Generation costs make up a far more significant portion of a customer's bill than do transmission costs. Transmission investment should focus not on minimizing transmission costs, but on supporting the development of least-cost generation options. Planning for a robust transmission system can preserve flexibility and ensure that least cost generation can be accessed under a wide variety of scenarios, ultimately providing a lower cost of delivered power.

Furthermore, a significant portion of the costs of transmission development, and all of the environmental impacts, occur during construction. Yet the most time consuming aspect of transmission development is planning and permitting—once permitted, transmission projects can be constructed relatively quickly. These facts also counsel in favor of planning for a robust transmission system—it is far easier to scale back transmission plans as the likely generation development scenario becomes clearer. However, minimizing transmission development to conform to a limited range of generation scenarios results in an inflexible transmission system that cannot be easily adapted if generation assumptions later prove incorrect. Planning for a robust transmission system that can adapt to a wide variety of scenarios will ensure that least-cost generation resources can be accessed, which in turn will minimize the delivered cost of power.

II. COMMENTS ON SPECIFIC PROPOSALS

A. 7.3. Use of CAISO Transmission Cost Study Estimates in LCBF Evaluations

This proposal suggests that, to the extent transmission cost estimates from CAISO GIP studies (or equivalent) are available, the IOUs rely on this data for their LCBF evaluations rather than the cost estimates from the TRCRs to more accurately reflect the bid's value to the ratepayers. Zephyr and Pathfinder agree that these studies can provide some insight into the transmission costs associated with a particular project. However, Zephyr and Pathfinder concur with the concern raised by Pacific Gas and Electric Company ("PG&E") that the CAISO GIP studies may not always provide a more accurate estimate of interconnection costs. As the ACR itself notes, CAISO GIP studies may overestimate the amount of network upgrades required if the queue cluster contains a large number of projects, and includes projects that are unlikely to be built. Zephyr and Pathfinder agree with both PG&E and Southern California Edison ("SCE") that the utilities should not be obligated to use the CAISO GIP studies as the final cost of transmission for a project, but instead perform their own evaluations of likely transmission costs, considering factors in addition to the CAISO studies.

B. 7.4. Create Two Shortlists Based on Status of Transmission Study

The ACR proposes that the final shortlist should be divided into two categories—a primary shortlist and a provisional shortlist. Only bids for projects that have obtained CAISO Phase II Study results or the equivalent or an executed Interconnection Agreement would be included on the primary shortlist. The remaining shortlisted bids would form the provisional shortlist. Only bids from the primary shortlist could be accepted and submitted to the Commission for cost recovery approval. Thus, only projects with either a completed Phase II study or the equivalent, or an executed interconnection agreement could execute power purchase agreements with the utilities. According to the ACR, the goal of this proposal is to ensure that transmission costs are adequately considered by both the utility and the procurement review group prior to execution.

While Zephyr and Pathfinder appreciate the Commission's concern with taking interconnection costs into consideration when executing PPAs, they are concerned that the proposal would be too restrictive, inhibiting utilities' ability to sign PPAs for the lowest delivered cost of power. Zephyr and Pathfinder agree with PG&E that the Commission should allow the utilities to consider projects that have not yet reached that stage. This will increase competition and allow IOUs to consider a broader range of projects to ensure the least cost to ratepayers. IOUs are always free to give significant weight to projects that have progressed to that stage of the interconnection process, and the CPUC can always consider where a project is in the interconnection process in considering whether to approve cost recovery for an executed PPA. Barring projects without a Phase II study or interconnection agreement at the beginning of the process is inappropriate, however. For the same reasons, Zephyr and Pathfinder disagree with PG&E's and SCE's proposed requirement that a Phase I study be completed. Such a requirement would put undue emphasis on the results of Phase I studies, which as discussed above, are not necessarily an accurate estimate of transmission costs.

C. 7.5. Shortlists Expire After 12 Months

The ACR proposes that shortlisted bids should be executed within twelve months from the day that the utility submits its final shortlist to the Commission. The ACR further proposes that if this deadline is not met, the utility cannot enter into a contract with the same project on a bilateral basis; the project must be re-bid into a subsequent solicitation.

The ACR provides no reason for the proposed restriction. In the absence of a clear reason for imposing such a limitation, Zephyr and Pathfinder urge the Commission to reject the proposal. As PG&E notes, the proposal, if adopted, could delay the execution of PPAs by requiring a project to be re-bid after a twelve month period, even if the project has significant ratepayer benefits. As SCE explains in its comments, utilities already have sufficient incentives to complete solicitations within a twelve month period.

The concern underlying this proposal may be that delays in contract execution may result in the execution of PPAs that, while competitive as compared to other bids submitted during the same solicitation, are not competitive when compared to subsequent solicitations which may be ongoing at the time the PPA is executed. If that is the concern, then Zephyr and Pathfinder agree with PG&E's proposal that it would be reasonable to compare the PPA to the bids in any pending solicitation. However, a blanket expiration date on bids is inappropriate and unnecessary.

D. 7.7. Utilize the Commission's RPS Procurement Process to Minimize Cost of Transmission

The ACR proposes that the Commission impose a limit on the amount of new generation that can be procured in certain areas, to ensure that costly network upgrades are not triggered. The

ACR proposes that the Commission use its RPS procurement process to ensure that the limit is not exceeded.

Zephyr and Pathfinder appreciate the concerns raised in the ACR regarding the cost of delivery network upgrades assumed for projects due to the large number of projects in the CAISO queue. As explained in the introduction above, however, the Commission's focus should not be on minimizing the cost of transmission, but on minimizing the total cost of delivered power, of which transmission cost is only a small portion. While the title of the proposal refers to minimizing transmission costs, Zephyr and Pathfinder believe that the proposal reflects not so much a concern with minimizing the cost of transmission, but rather concerns about the effects of high estimated costs for deliverability network upgrades that are not required to meet the 33% RPS and are not likely to be built. While Zephyr and Pathfinder appreciate the Commission's concerns, they disagree that the PPA process is the appropriate method of addressing these issues. As noted in the ACR, the CAISO is well aware of these concerns and has implemented a variety of methods of addressing them. Zephyr and Pathfinder suggest that the CPUC allow the CAISO to address these issues, rather than attempting to address these concerns through the PPA process.

The rationing process proposed could also result in an underutilization of the transmission capacity from certain areas. As SCE explains, solar and wind generation peak during different hours, and therefore might coexist at the same location without exceeding available transmission capacity. Zephyr and Pathfinder also agree with PG&E that deliverability capacity limits should not limit contracts executed with projects requesting energy-only interconnections. These projects might provide the best value despite the lack of resource adequacy credit, and will not require deliverability upgrades. Utilities should not be forced to limit potential bids at the shortlist stage, but should be permitted to evaluate a variety of both energy only and full deliverability bids to achieve the most cost effective mix of resources that meet both their resource adequacy requirements and their RPS obligations at the least cost of delivered power.

Respectfully submitted,

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CERTIFICATE OF SERVICE

IherebycertifythatIhavethisdayservedacopyoftheforegoing **COMMENTSOF ZEPHYRPOWERTRANSMISSION,LLCANDPATHFINDERRENEWABLEWIND ENERGY,LLC ON APRIL 5, 2012 ASSIGNED COMMISSIONER'S RULING REQUESTING COMMENTS ON NEW PROPOSALS RELATED TO RENEWABLES PORTFOLIO STANDARD PROCUREMENT PLANS** onallknowninterested parties of record in **R.11-05-005** byelectronic mail. Any party on the service list who has not provided anelectronic mail addresswas served by copies placed in properly addressed sealed envelopes deposited in the U.S. mail withfirst-class postage prepaid.

DatedatSanFrancisco,Californiathis27thdayofJune,2012.

/s/ Debbie DeRivero

Service List
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