

1 **STUDY OF ENABLER TRANSMISSION IN OTHER JURISDICTIONS**

2 **1.0 INTRODUCTION**

3 This exhibit describes the treatment of enabler lines in California and Texas.

4 **2.0 CALIFORNIA**

5 In the United States, California is the most advanced jurisdiction in terms of developing a
6 policy and regulatory framework to enable renewable resources via transmission
7 interconnections.

8 In terms of background, it should be noted that California has a Renewable Portfolio
9 Standard (“RPS”) that requires 20% of the state’s electricity to be generated by renewable
10 resources by 2010. The RPS rises to 33% by 2020. In attempting to achieve its RPS
11 targets California has identified barriers similar to those faced in other jurisdictions,
12 including Ontario. One of the most significant obstacles facing the development of
13 renewable resources is the availability of sufficient transmission capacity to move energy to
14 where it is required. The obstacles are a function of:

- 15 • The relatively small size of generation projects;
- 16 • Location constraints of energy resources (immoveable); and
- 17 • Significant cost of building transmission to access remote sites.

18
19 Given these obstacles, renewable resources may not be developed due to the hurdle of
20 getting transmission built because California’s traditional rules regarding the allocation and
21 recovery of transmission costs are similar to the “network” and “connection” distinctions
22 used in Ontario. As such, many renewable resources may not be developed because the
23 transmission lines to these sites are classified as connection facilities and therefore
24 generators are required to pay the cost to construct those lines.

1 In order to address this obstacle the California Independent System Operator (the "CAISO")
2 began exploring a possible "third category" of transmission facilities to assist in enabling the
3 development of economic renewable resources. This third category would treat
4 transmission facilities that connect multiple renewable generators via a radial line differently
5 from that under the traditional connection category.

6 In 2006 the CAISO issued two white papers and engaged interested parties in a discussion
7 about developing a third category of transmission facility.¹ This process resulted in an
8 application for a declaratory order from the Federal Energy Regulatory Commission
9 ("FERC") for conceptual policy approval of a financing mechanism to facilitate the
10 construction of transmission facilities to connect renewable resources. The fundamental
11 elements of the CAISO proposal include the following:

- 12 • The transmission project is not otherwise eligible for rate treatment that allows costs
13 to be incorporated into the Transmission Access Charge (the "TAC");
- 14 • The transmission project would permit wholesale transmission access to an area not
15 currently accessible where there is a significant energy resource that is not
16 transportable;
- 17 • The transmission project will be turned over to the CAISO's operational control;
- 18 • The transmission project is designed to serve multiple power plants in areas where
19 the energy resource is non-transportable;
- 20 • The transmission project is evaluated within a prudent grid planning process
21 involving the CAISO, affected utilities and stakeholders;
- 22 • The transmission project would not increase the annual revenue requirement (TAC
23 rates) by more than 5% annually over a 10-year period; and
- 24 • The transmission project would be able to demonstrate adequate commercial
25 interest among multiple generation developers.²

¹ California Independent System Operator, "Proposal for a Third Category or Alternative Treatment of New Transmission Facilities for Renewable Generators", June 28, 2006. California Independent System Operator, "Proposal to Remove Barriers to Efficient Transmission Investment", September 21, 2006.

² California Independent System Operator, "Proposal to Remove Barriers to Efficient Transmission Investment", September 21, 2006 at pp. 13-15.

1 The CAISO proposes that the cost associated with the development of this third category of
2 transmission facilities be treated in the following manner:

- 3 • Cost for approved facilities would be rolled into the TAC;
- 4 • Generators would pay the pro-rata share of their costs of the transmission facility
5 going forward, thereby removing those cost components from the TAC; and
- 6 • Cost of the unsubscribed portion of the facility would continue to be recovered
7 through the TAC until all capacity was taken up and paid for on a going forward
8 basis.

9
10 The FERC issued a declaratory order³ on April 19, 2007 approving the CAISO's proposal
11 for a third category of transmission facility and the associated rate treatment to facilitate the
12 development of electricity generation from renewable resources. In making this decision
13 the FERC noted that:

14 Location-constrained resources present unique challenges that are not faced by other
15 resources and that are not adequately addressed in the Commission's current interconnection
16 policies. These resources tend to have an immobile fuel source, are small in size relative to
17 the necessary interconnection facilities, tend to come on-line incrementally over time, and are
18 often remotely located from loads. Location constrained resources therefore have a limited
19 ability to minimize their interconnection costs and, moreover, these factors can, in certain
20 circumstances, impede the development of such resources altogether.⁴

21
22 The FERC did not alter the CAISO proposal and it is noteworthy that most of the
23 intervenors in the proceeding were supportive of the CAISO's proposal and approach. The
24 FERC commented favourably on federal, regional and state renewable energy initiatives
25 and noted that the CAISO's third category proposal is consistent with those policies and
26 would encourage development of renewable resources.⁵

³ Order Granting Petition for Declaratory Order, 119 FERC ¶ 61,061 (Docket No. EL07-33-000).

⁴ *Ibid.* para. 64.

⁵ *Ibid.* para. 68.

1 The next steps for CAISO are consultation with interested parties with a view to developing
2 appropriate transmission tariffs for the new third category of transmission facility.

3 **3.0 TEXAS**

4 The State of Texas established renewable portfolio goals via legislation in 1999. Since
5 then, the development of renewable energy resources has increased significantly. It is
6 expected that by the end of 2007 the State's installed renewable capacity will be
7 5,240 MW.⁶ Texas now stands as one of the leading jurisdictions in the United States with
8 respect to installed and planned renewable electricity resources.

9 As with other jurisdictions, in attempting to facilitate the development of renewable
10 resources, Texas has faced the "chicken and egg" scenario with respect to transmission
11 and generation resources development. In addition, there is the issue of longer lead times
12 for the construction of transmission as compared with generation, which may hinder the
13 timely development of resources. These issues have been characterized by the Public
14 Utility Commission of Texas (the "PUCT") as:

15 This timing difference poses a dilemma for planning: it is difficult to know whether a new
16 transmission line will be needed if the generation facilities do not yet exist, but a wind farm is
17 difficult to finance if there is no certainty that sufficient transmission will be available.⁷

18

19 In attempting to address this problem the State Legislature enacted legislation in 2005
20 allowing Competitive Renewable Energy Zones ("CREZ") to be designated, which will:

- 21 • Ensure the development of sufficient transmission infrastructure to facilitate the
22 renewable resource targets;
- 23 • Address the timing lag issues between transmission and generation development;
24 and

⁶ Report to the 80th Texas Legislature: *Need for Transmission and Generation Capacity in Texas; Renewable Energy Implementation Costs* at 12 (Public Utility Commission of Texas, December 2006).

⁷ *Ibid.* at 14

- 1 • Remove regulatory duplication by determining the question of need at CREZ
2 proceedings and not revisiting that question in particular transmission resource
3 development proceedings relating to the CREZ.⁸

4
5 The CREZ concept grants the PUCT authority to identify areas that have renewable
6 resource potential and determine whether there is a need for transmission facilities to
7 enable the development of renewable resources.⁹ The PUCT must ensure that the new
8 transmission is “most beneficial and cost-effective to customers”¹⁰ and that generation
9 resource developers have demonstrated a financial commitment to building in the CREZ.
10 The Electric Reliability Council of Texas (“ERCOT”) also plays a role in developing the
11 criteria that will be used in designating particular CREZs.

⁸ *Ibid.* at 14

⁹ Public Utility Regulatory Act §39.904(g). See also, *PUCT Rulemaking Related to Renewable Energy Goal Amendments*, Project 31852 (December 1, 2006), which adopted new §25.174. That provision creates the process whereby CREZs are established.

¹⁰ *Public Utility Regulatory Act* §39.904(g)(2).

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