UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

California Independent System Operator Corporation	))	**Docket No. ER12-502-000**

ANSWER TO MOTIONS TO INTERVENE AND COMMENTS, MOTION TO FILE ANSWER, AND ANSWER TO PROTESTS, OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

The California Independent System Operator Corporation ("ISO")[1] files this answer to the motions to intervene and comments submitted in this proceeding in response to the ISO's submittal on November 30, 2011 of an amendment to the ISO tariff to implement revisions pursuant to the Generator Interconnection Procedures ("GIP") Phase 2 stakeholder effort.[2]

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[1] The ISO is also sometimes referred to as the CAISO. Capitalized terms not otherwise defined herein have the meanings set forth in Appendix A to the ISO tariff, as revised by the proposed tariff changes contained in the ISO's November 30, 2011 GIP Phase 2 tariff amendment in this proceeding. Except where otherwise specified, references to section numbers are references to sections of the ISO tariff as revised by the proposals in the GIP Phase 2 tariff amendment.

[2] The following entities filed motions to intervene and/or comments in this proceeding: the California Department of Water Resources State Water Project ("SWP"); California Wind Energy Association ("CalWEA"); Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (collectively, "Six Cities"); City of Santa Clara, California and the M-S-R Public Power Agency; Cogeneration Association of California and the Energy Producers and Users Coalition (together, "CAC/EPUC"); Cogentrix Energy, LLC; enXco Development Corporation ("enXco"); Geothermal Energy Association ("GEA"); Large-Scale Solar Association ("LSA"); Modesto Irrigation District; Northern California Power Agency; NRG Power Marketing LLC, Cabrillo Power I LLC, Cabrillo Power II LLC, El Segundo Power LLC, Long Beach Generation LLC, and NRG Solar Blythe LLC; Pacific Gas and Electric Company ("PG&E"); Pattern Renewables LP; Southern California Edison Company ("SCE"); Tenaska Energy, Inc.; TGP Development Company, LLC ("TGP"); and Wellhead Electric Company, Inc. ("Wellhead").

The ISO also submits a motion to file an answer and its answer to the protests submitted in this proceeding by CAC/EPUC, CalWEA, LSA, the Six Cities, and TGP.[3]

The ISO filed the GIP Phase 2 tariff amendment in order to implement revisions covering 18 different subject-matter components or items for the generator interconnection procedures and related *pro forma* generator interconnection agreements set forth in the ISO tariff.[4] Some of the comments and protests submitted in this proceeding, however, propose modifications regarding certain of those 18 items. For the reasons the ISO explains below, the Commission should accept the GIP Phase 2 tariff amendment as filed, subject only to those tariff clarifications which the ISO proposes to submit through a compliance filing, as discussed in this answer.

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3 The ISO submits this answer pursuant to Rules 212 and 213 of the Commission's Rules of Practice and Procedure, 18 C.F.R. §§ 385.212, 385.213. The ISO requests waiver of Rule 213(a)(2), 18 C.F.R. § 385.213(a)(2), to permit it to make an answer to the protests. Good cause for this waiver exists here because the answer will aid the Commission in understanding the issues in the proceeding, provide additional information to assist the Commission in the decision-making process, and help to ensure a complete and accurate record in the case. *See, e.g.*, *Xcel Energy Services, Inc.*, 124 FERC ¶ 61,011, at P 20 (2008); *California Independent System Operator Corp.*, 132 FERC ¶ 61,023, at P 16 (2010); *Equitrans, L.P.*, 134 FERC ¶ 61,250, at P 6 (2011).

4 Specifically, in the tariff amendment, the ISO proposed to modify the Generator Interconnection Procedures ("GIP") contained in Appendix Y to the ISO tariff, the *pro forma* Small Generator Interconnection Agreement ("SGIA") contained in Appendix T to the ISO tariff, the *pro forma* Large Generator Interconnection Agreement ("LGIA") for interconnection requests in a queue cluster window contained in Appendix CC to the ISO tariff, and certain provisions in the body of the ISO tariff.

I. Answer[5]

A. Item #1: Generators Interconnecting to Non-Participating TO Facilities Situated Inside the ISO Balancing Authority Area

SWP's comments include a desire to expand the scope of proposed GIP Section 8.4 in order to accommodate governmental agencies like itself. Toward this end, SWP puts forth several suggested modifications to the proposed tariff section.[6] In addition, SWP misinterprets proposed Section 8.4 as an exercise of jurisdictional outreach against which it seeks protection from the Commission. The situation that Section 8.4 seeks to address is actually just the opposite: it addresses the impact *to the ISO* of generation additions within a Non-Participating TO located within the ISO Balancing Authority Area, where that generation seeks to reach *within* the ISO Balancing Authority Area. The Commission should not require any of SWP's suggested revisions to be grafted onto proposed Section 8.4.

Proposed GIP Section 8.4 addresses full capacity deliverability status to the aggregate of load on the ISO grid, within the ISO, with respect to generation additions interconnecting within another electrical authority (Non-Participating TOs situated inside the ISO Balancing Authority Area) and offers a path for those

[5] For ease of reference, the numbered items in the section headings of this answer correspond to the numbered items in the GIP Phase 2 tariff amendment on which entities submitted comments and protests. *See* transmittal letter for GIP Phase 2 tariff amendment at 5-38.

[6] SWP at 2-4.

new generation additions located there to obtain full capacity deliverability status to the aggregate of load on the ISO grid.[7]

Section 8.4 introduces into the ISO tariff the opportunity for the other electrical authority interconnection customer to obtain a deliverability assessment on the ISO grid and to cause delivery network upgrades (along with associated reliability network upgrades) to be put in place on the ISO grid and to finance those upgrades as if the customer were an ISO interconnection customer. Today, without the additional feature of proposed Section 8.4, these other electrical area interconnection customers are evaluated by the ISO only as affected system interconnections, with the ISO identifying what reliability network upgrades are needed to avoid an adverse impact on the ISO that might result from the interconnection within the other electrical area. The new provision is a valuable tariff feature because it offers new generation increased opportunity to compete in the market by offering "deliverability" to satisfy resource adequacy as well as California Renewables Portfolio Standard requirements.

Proposed Section 8.4 does not *require* that another electrical authority provide for this possibility – it only speaks to what the ISO needs and does in this circumstance. Accordingly, contrary to SWP's assertions,[8] proposed Section 8.4 does not place any new requirements on a Non-Participating TO. It simply and solely addresses what conditions must be satisfied to obtain deliverability *on the ISO grid* when a generator seeks to interconnect from outside: *i.e.*, from a Non-

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[7] Proposed Section 8.4 does not create a pathway for existing generation to obtain such status because those facilities are *already* interconnected.

[8] *See* SWP at 2.

Participating TO that is physically located within the ISO Balancing Authority Area.

Regardless of whether Section 8.4 is incorporated into the GIP or not, the ISO Balancing Authority and the other electrical authority are affected systems with respect to each other. This is a principle of regional electrical configuration within the Western Interconnection and not an ISO edict under Section 8.4. Accordingly, SWP's request for the addition of a new subsection 8.4(g) to state that nothing in new Section 8.4 imposes any new obligations on the other electrical authority is unnecessary.

With respect to subsection 8.4(c), in order to implement full capacity deliverability status to the other electrical system interconnection customer, the ISO needs to assure itself that the generator has firm transmission (or other equivalent to provide full deliverability status) from the generating facility point of interconnection on the other electrical authority's system to the point of injection on the ISO controlled grid (otherwise, there is no possibility for full capacity deliverability status within the ISO grid). This demonstration has to be made to the ISO's satisfaction. There would be no adverse consequences to the other electrical system if the ISO were not satisfied; the other electrical system interconnection customer would simply not be able to avail itself of Section 8.4. And if the generator cannot make the showing, it would be illogical for the ISO to commit the time and resources to identify delivery network upgrades for the Participating TO to build or for ISO ratepayers to commit to repay the other authority's interconnection customer for up-front funding of those upgrades.

SWP apparently argues that the ISO should extend the scope of eligibility regarding what arrangements the other electrical system and its interconnection customer may have that comprise firm transmission service to the point of injection on the ISO grid. In this regard, SWP expends several paragraphs to explain that not every electrical authority may have an Open Access Transmission Tariff ("OATT") filed with the Commission. Section 8.4 does not require that the other electrical authority have an OATT.[9] Subsection 8.4(c) does not prescribe what mechanisms would provide the firm transmission service from the generating facilities' point of interconnection within the other electrical authority grid to the point of injection on the ISO grid.

In short, proposed Section 8.4 does not impose new or further requirements on another electrical authority. When viewed in this light, it becomes clear that there is no need for additional language that SWP proposes for proposed Section 8.4.

B. Item #2: Trigger for Interconnection Financial Security Posting Deadlines

1. The Commission Should Accept GIP Section 6.10.1 (Substantial Error or Omissions; Revised Study Report) as Filed by the ISO

Proposed new GIP Section 6.10.1 adds to the GIP the concept of a substantial error or omission in a final Phase I or Phase II interconnection study report and specifies that a substantial error or omission can be either:

[9] Although SWP's discussion on this point references proposed subsection 8.4(e), from the context of the discussion, the ISO believes that SWP's comments are actually directed to the prior subsection 8.4(c).

> (i) an *understatement* of the interconnection customer's cost responsibility for network upgrades or Participating TO interconnection facilities by either five percent or one million dollars, whichever is greater, or
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> (ii) an *overstatement* of the interconnection customer's cost responsibility for network upgrades or Participating TO interconnection facilities of more than twenty percent.[10]

LSA argues that the ISO should use, instead, the same metric for a substantial error or omission for both understatements and overstatements – namely, either five percent or one million dollars, whichever is greater.[11]

The Commission should reject LSA's argument to substitute its own proposal for the GIP Phase 2 design element. The GIP Phase 2 proposal to use a different metric for a cost overstatement than for a cost *under*statement is entirely appropriate. The rationale is that an upward revised cost estimate (because the original costs were understated) puts additional financial obligation on the interconnection customer, possibly requiring the customer to commit additional time to raise the additional component of financial security posting in the higher amount.

In contrast, the impact on the customer is less when the revised study report reduces the original cost estimates – a customer should not need an additional period of time to raise less money than was originally estimated. Some stakeholders argued in the GIP Phase 2 stakeholder process that they do

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[10] Transmittal letter for GIP Phase 2 tariff amendment at 9. In addition, new proposed GIP Section 6.10.1 provides that a substantial error or omission in a final Phase I or Phase II interconnection study report can be an error or omission that results in a delay to the schedule by which the interconnection customer can achieve commercial operation, based on the results of the final interconnection study, by more than one year. *Id.*

[11] LSA at 18-20, 25-26.

indeed need more time to raise a lower amount. If this is the case, however, the need for additional time would seem to arise from reasons other than a lower cost responsibility amount in the changed report. Thus, the metrics proposed by the ISO in proposed GIP Section 6.10.1 are appropriate, and there is no reason to adopt LSA's alternative proposal regarding the metrics for overstatements and understatements.

Moreover, in assessing LSA's argument, the proper legal standard to apply is whether the *ISO's* proposal – not LSA's – is just and reasonable under Section 205 of the Federal Power Act ("FPA").[12] Specifically, as the Commission has explained, "the courts and this Commission have recognized that there is not a single just and reasonable rate. Instead, we evaluate [proposals under Section 205] to determine whether they fall into a zone of reasonableness. So long as the end result is just and reasonable, the [proposal] will satisfy the statutory standard."[13]

The ISO's proposed metric falls well within the zone of reasonableness, because it reflects the potential for understatements of cost responsibility for interconnection facilities to have much more damaging effects than overstatements of cost responsibility for such facilities. Therefore, the

[12] 16 U.S.C. § 824d. Under Section 15 of the ISO tariff, the ISO is the entity authorized to submit filings for Commission approval pursuant to Section 205 of the FPA.

[13] *Calpine Corp. v. California Independent System Operator Corp.*, 128 FERC ¶ 61,271, at P 41 (2009) (citations omitted). *See also New England Power Co.*, 52 FERC ¶ 61,090, at 61,336 (1990), *aff'd*, *Town of Norwood v. FERC*, 962 F.2d 20 (D.C. Cir. 1992) (rate design proposed need not be perfect, it merely needs to be just and reasonable), *citing Cities of Bethany, et al. v. FERC*, 727 F.2d 1131, 1136 (D.C. Cir. 1984) (utility needs to establish that its proposed rate design is reasonable, not that it is superior to all alternatives).

Commission should not require the ISO to revise GIP Section 6.10.1 as requested by LSA.

2. The Commission Should Accept GIP Section 11.2 (GIA Negotiation) as Filed by the ISO

The GIP Phase 2 tariff amendment revises the time for negotiation of a generator interconnection agreement, extending that time from 90 to 120 days.[14] Again, LSA argues for different parameters – specifically, that the extension from 90 days to 120 days should be further augmented with an additional day-by-day extension of the negotiation period to match any Participating TO delay in tendering a draft generator interconnection agreement to the interconnection customer.[15]

The Commission should not adopt LSA's proposed revision. As discussed above with regard to GIP Section 6.10.1, the proper legal standard is whether the ISO's proposal (rather than LSA's) is just and reasonable under FPA Section 205. The GIP Phase 2 tariff amendment already proposes to extend the generator interconnection agreement phase of the interconnection process by an additional *one-third*, *i.e.*, from 90 to 120 days. This extension will *double* the current 60-day negotiation period that the Commission approved as just and reasonable in its own Standard Large Generator Interconnection Procedures ("Standard LGIP") issued in Order No. 2003.[16] Thus, the proposed 120-day

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[14] Transmittal letter for GIP Phase 2 tariff amendment at 11.

[15] LSA at 20, 26.

[16] *See Standardization of Generator Interconnection Agreements and* Procedures, Order No. 2003, FERC Stats. & Regs. ¶ 31,146, at Appendix C, Section 11.2 of Standard LGIP ("Order No. 2003"), *order on reh'g*, Order No. 2003-A, FERC Stats. & Regs. ¶ 31,160, at Appendix B, Section 11.2 of Standard LGIP (2004) ("Order No. 2003-A"), *order on reh'g*, Order No. 2003-B,

negotiation period should provide sufficient additional time for interconnection customers to review and analyze their interconnection agreements, and is presumptively just and reasonable. The Commission should not require an even longer period before the ISO has even had a chance to observe how well the 120-day generator interconnection agreement period works.

Furthermore, as even LSA points out,[17] the GIP already affords the negotiating parties the opportunity to agree to an extension beyond the negotiation period specified in GIP Section 11.2.[18] This provision in the ISO's generator interconnection procedures replicates the same provision in the Standard LGIP.[19] In the Order No. 2003 proceeding, the Commission did not find it necessary to also include a provision in the Standard LGIP requiring extension of the negotiation period in the absence of agreement by the negotiating parties. Nor should the Commission impose such a requirement in this GIP Phase 2 proceeding.

C. Item #3: Definitions of Start of Construction and Other Transmission Construction Phases, and Posting Requirements at Each Milestone

The Six Cities oppose the proposal in the GIP Phase 2 tariff amendment to revise the requirements for the third posting of interconnection financial

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FERC Stats. & Regs. ¶ 31,171, *order on reh'g*, Order No. 2003-C, FERC Stats. & Regs. ¶ 31,190 (2005).

17 LSA at 20.

18 ISO Generator Interconnection Procedures, Section 11.2 (permitting extension beyond the specified negotiation period if "agreed by the Parties").

19 *See* Order No. 2003 at Appendix C, Section 11.2 of Standard LGIP; Order No. 2003-A at Appendix B, Section 11.2 of Standard LGIP.

security (contained in GIP Section 9.3.2) to allow interconnection customers to parse the third posting of 100 percent of the customer's cost responsibility for network upgrades (and Participating TO interconnection facilities) to match discrete construction phases of these transmission assets. (In this regard, the Six Cities assume the discrete phases of the network upgrades will correspond to phases of the generating facility.[20] This may or may not be the case, depending on the individual facts of the interconnection configuration.) The Six Cities argue that the risk that lack of funding may lead to abandoned plant costs is driven by the entire cost of even a staged project.[21]

As the ISO explained in the transmittal letter, the ISO believes that its current tariff and policy already permit parsing of the third posting of interconnection financial security into separate and discrete components that reflect separate and discrete components or elements of the construction work on network upgrades, and so the revision of Section 9.3.2 does not introduce anything new. Nevertheless, the ISO agreed to revise GIP Section 9.3.2 at the request of stakeholders, so that the practice was expressly set out in the tariff section on the third financial security posting.[22] Therefore, the inclusion of revised GIP Section 9.3.2 in the tariff amendment does not create any risk of abandoned plant costs; but rather places within one tariff section language that expressly describes a practice already permitted under the ISO tariff and policy.

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[20] Six Cities at 3 ("Six Cities oppose the CAISO's suggested modification of security posting requirements to allow Interconnection Customers to negotiate deferred posting of security for later stages of phased construction projects.").

[21] *Id*.

[22] Transmittal letter for GIP Phase 2 tariff amendment at 12-13.

The option to parse the third posting of interconnection financial security into separate and discrete components provides greater flexibility for all parties in the interconnection process. By providing greater flexibility, the ISO will increase the chance that generation projects will remain viable and reach commercial operation, thereby decreasing, not increasing, the risk of construction of network upgrades that are not fully utilized. For these reasons, the modifications to GIP Section 9.3.2 are appropriate.

D. Item #5: Permitted Reduction in Generating Facility Size for Permitting or Other Extenuating Circumstances

1. The Commission Should Accept LGIA Article 5.19.4 (Five Percent Reduction Safe Harbor) as Filed by the ISO

Proposed new LGIA Article 5.19.4 provides the interconnection customer a right to reduce the MW capacity of its generating facility by up to five percent for any reason, during the time period between the effective date of the LGIA and the commercial operation date.[23] The new article further permits the interconnection customer to request a reduction in MW capacity greater than five percent under conditions where the interconnection customer reasonably demonstrates to the ISO and applicable Participating TO that the reduction is warranted due to reasons beyond the control of the interconnection customer.[24]

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[23] The generating facility baseline or reference point from which to determine the five percent amount is the generating facility MW capacity size that the interconnection customer chose during the interim period between the Phase I and Phase II interconnection studies. During the interim period, a customer has the right to decrease the MW capacity, and completes an Exhibit B from the interconnection request form, in which the customer informs the ISO of the size of the generating facility that the customer wants the ISO to study in Phase II.

[24] Transmittal letter for GIP Phase 2 tariff amendment at 14-16.

LSA argues that an interconnection customer should instead have the right to reduce the MW capacity of its generating facility by up to twenty percent for any reason.[25] The Commission should reject LSA's request. Again, the proper legal standard is whether the ISO's proposal – not LSA's – falls within the zone of reasonableness under FPA Section 205. LSA provides no explanation as to how the ISO's proposal is unjust or unreasonable. Rather, LSA simply asserts that a twenty percent safe harbor is better because it would make it easier for developers to obtain financing. Even assuming, *arguendo*, that LSA is correct, this does not render the ISO's proposal deficient. The ISO explained in the transmittal letter that, based on an assessment of deliverability on the ISO's current system, it determined that a five percent safe harbor strikes a reasonable balance between providing customers the flexibility to downsize their projects while protecting ratepayers against bearing the costs of under- or non-utilized transmission assets.[26] The ISO also explained that most of the transmission upgrades on the ISO's system are triggered by overloads higher than one-hundred five percent. Therefore, a five percent reduction in generator size will generally not change the scope of identified transmission upgrades.[27] Furthermore, the proposed tariff revisions give customers the ability to reduce their MW capacities by more than five percent due to (as LSA puts it) "risks that cannot be identified in advance"[28] so long as the customer can reasonably

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[25] LSA at 20-22, 25.

[26] Transmittal letter for GIP Phase 2 tariff amendment at 15.

[27] *Id.*

[28] LSA at 21.

demonstrate that the reduction is warranted due to reasons beyond its control. As a result, the proposed tariff revisions fall within the zone of reasonableness required by the FPA and should be approved.

2. The Commission Should Reject Attempts to Raise Issues That Are Beyond the Scope of This GIP Phase 2 Proceeding

CalWEA and enXco urge the Commission to direct the ISO to "clarify" that the ISO does not have the authority to unilaterally terminate a generator interconnection agreement in its entirety if a portion of the project fails to achieve commercial operation by the third anniversary of the commercial operation date set forth in the generator interconnection agreement.[29]

This request is really:

(i) a petition for declaratory order by the Commission as to the rights and obligations of the parties to a *pro forma* interconnection agreement;[30] and

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[29] CalWEA at 20-24; enXco at 5-9. From the GIP Phase 2 stakeholder process, the ISO understands that embedded in these parties' request "that the ISO not be allowed to unilaterally terminate" is the desire to split the generating facility subject to an interconnection request into one or more phases and have the earlier phases separate out their contractual liability under the generator interconnection unit so that they are contractually unaffected by the potential that the later phases of the generating facility are not completed. As indicated later in this section of this answer, the subject is one for discussion in the upcoming GIP Phase 3 stakeholder process to take place during 2012.

[30] *See, e.g.*, Rutter Group Practice Guide: Federal Civil Procedure before Trial, (Calif. & 9th Cir. Editions), Chapter 10, Sections 10:1 to 10:5:

> [10:3] **Nature of action:** Declaratory relief is an equitable remedy. Its distinctive characteristic is that it allows adjudication of the parties' rights and obligations on a matter in dispute regardless of whether claims for damages or injunctive relief have yet arisen: "In effect, it brings to the present a litigable controversy, which otherwise might only be tried in the future." [*Societe de Conditionnement v. Hunter Eng. Co., Inc.*, 655 F.2d 938, 943 (9th Cir. 1981)]
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> [10:5] **Purposes:** An action for declaratory relief serves several purposes:

(ii) a collateral attack on those orders the Commission has issued accepting the non-conforming LGIAs containing the partial termination provision, beginning with *Southern California Edison Co. and California Independent System Operator Corp.*, 134 FERC ¶ 61,087 (2011) (order conditionally accepting Palo Verde II LGIA). In these proceedings, SCE and the ISO explained that the partial termination provision provided a contractual path for the interconnection customer to partially terminate the LGIA with respect to some of the generating units comprising the generating facility.

The Commission should deny CalWEA and enXco's request, because the subject on which they request clarification does not concern any proposed tariff revisions in the GIP Phase 2 tariff amendment. Thus, their requests are beyond the scope of this GIP Phase 2 proceeding and should be rejected.[31]

• [10:5.1] The Declaratory Judgment Act is "intended to fix the problem that arises when the other side does not sue." [*Sony Electronics, Inc. v. Guardian Media Technologies, Ltd.*, 497 F.3d 271, 1284 (Fed. Cir. 2007)]

[10:5.2] It permits parties uncertain of their obligations to avoid incurring liability for damages by obtaining a declaratory judgment in advance of performance. [S*ociete de Conditionnement v. Hunter Eng. Co., Inc.*, *supra*, 655 F2d at 943]

[31] *See, e.g.*, *ISO New England Inc.*, 134 FERC ¶ 61,144, at P 62 (2011) ("We reject as beyond the scope of this proceeding arguments concerning the treatment and modeling of the CSC and the NNC, and specific tie benefit values for those interconnections. The tie benefit values related to the CSC, NNC, or any other individual interconnections have not been filed by ISO-NE here."); *California Independent System Operator Corp.*, 123 FERC ¶ 61,288, at P 40 (2008) ("We reject as beyond the scope of this proceeding NCPA's argument that allocation of start-up and minimum load costs to NCPA is contrary to the terms of its MSS Aggregator Agreement with the CAISO and that the CAISO's current proposal does not mitigate NCPA's concerns."); *Public Service Company of New Mexico*, 111 FERC ¶ 61,038, at P 26 (2005) ("We will reject as beyond the scope of this proceeding PNM's request for the Commission to clarify that PNM is not currently under an obligation to report changes in status unless and until the Commission so orders").

Further, the ISO already plans to discuss with stakeholders, in GIP Phase 3, whether to include within the GIP a further design proposal that would allow an interconnection customer to elect not to build later phases of a phased generating facility.

E. Item #6: Repayment of Interconnection Customer Funding for Network Upgrades Associated with a Phased Generating Facility

1. Timing of Repayment for Network Upgrades

The GIP Phase 2 tariff amendment revises Section 12.3.2 of the GIP, Article 11.4.1 of the LGIA, and Article 5.3.1 of the SGIA to provide that, upon the commercial operation date of each phase of a phased generating facility and satisfaction of certain other specified conditions, an interconnection customer will be entitled to repayment of the interconnection customer's cost contribution to the cost of network upgrades associated with the completed generating facility phase.[32]

These proposed revisions modify existing language in the GIP, the LGIA, and the SGIA and broaden the timing and opportunity for repayment. The current provisions do not entitle the interconnection customer to repayment of its contribution until the commercial operation date of the *entire* generating facility, which means that under the ISO's current tariff, a customer is not eligible to receive any repayment of amounts advanced to fund network upgrades until all phases of a generating facility constructed in phases are placed into commercial

[32] Transmittal letter for GIP Phase 2 tariff amendment at 16-20.

operation.[33] This means that an interconnection customer might never receive any repayment if it fails to build all phases of the generating facility.

One of the conditions that the ISO has specified for customers to be eligible for repayment of amounts advanced to fund network upgrades is that the network upgrades necessary for a completed phase to meet the desired level of deliverability must be placed into service. The ISO is also proposing to clarify that this requirement applies to non-phased projects as well. CalWEA and LSA urge the Commission to reject these provisions.[34]

Many of CalWEA and LSA's arguments are based on the misunderstanding that the ISO is proposing to condition the repayment of network upgrade costs not only on the placement into service of the applicable network upgrades, but also the incorporation of such upgrades into the ISO's Transmission Access Charge ("TAC"). Although the ISO's proposed tariff language does not even mention the TAC, to be absolutely clear, the ISO is not proposing to require that network upgrades be included in the TAC before repayment to customers that funded the construction of those upgrades commences. The only repayment condition that the ISO proposes to clarify in the GIP Phase 2 tariff amendment is that network upgrades must be placed into service before customers have a right to receive repayment for such upgrades.[35]

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[33] See the existing provisions of GIP Section 12.3.2, LGIA Article 11.4.1, and SGIA Article 5.3.1.

[34] CalWEA at 6-13; LSA at 4-14, 24-25.

[35] It should also be noted that this requirement is only the "default" option under the ISO tariff. Consistent with the Commission's *pro forma* interconnection procedures, the ISO tariff recognizes the ability of an interconnection customer and Participating TO to agree to an

In the GIP Phase 2 tariff amendment, the ISO explained why conditioning the repayment of upgrade costs on the placement of those upgrades into service best captures the Commission's intent in the Order No. 2003 series of orders to strike a balance between ensuring that customers are fairly repaid for their contributions to network upgrade costs, while at the same time avoiding the insulation of customers from the consequences of their interconnection decisions.[36] Nevertheless, CalWEA and LSA argue that the ISO's proposal violates Commission precedent because the only condition that the Commission explicitly stated needed to be satisfied to trigger repayment of amounts advanced for network upgrades was achievement of commercial operation.

The primary flaw in this position is, ironically, revealed in CalWEA's own pleading. Taking the CalWEA/LSA argument to its logical conclusion, CalWEA contends that because the only trigger for repayment that the Commission explicitly stated in Order No. 2003 was a customer's commercial operation date, if a customer achieves commercial operation prior to the commencement or completion of network upgrades, then the customer must be absolved of any further obligation to provide up-front funding for those assets.[37]

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alternative payment scheme, provided that repayment occurs within the mandated five-year period.

[36] Transmittal letter for GIP Phase 2 tariff amendment at 19-20.

[37] CalWEA at 12-13 ("[I]t should be clear that a PTO does not require up-front network upgrade payments from a generator that has achieved commercial operation before the PTO has completed or begun work on the upgrades. *The Commission should direct the CAISO to clarify its tariff to eliminate any ambiguity on this point. In addition, the CAISO should clarify that any financial security or future payment obligation for Network Upgrades that are not yet complete when the generator achieves commercial operation, as well as any obligations associated with upgrades that are not yet begun, should cease at that time*." (emphasis added.)).

In short, CalWEA and LSA ask the Commission to all but abandon its interconnection pricing policy. In Order No. 2003-A, the Commission explained that one of the primary reasons for placing the interconnection customer initially at risk for the full cost of the network upgrades is because doing so "provides the Interconnection Customer with a strong incentive to make efficient siting decisions."[38] Moreover, by limiting the credits to transmission service actually taken by the specific generating facility, the Commission made clear that this goal would not be met merely because a generator achieved commercial operation. As the Commission explained, if an interconnection customer was eligible to receive credits for services unrelated to the generating facility, this could result in other transmission customers having to bear the cost of the network upgrades in cases where the interconnection customer takes little additional transmission service that is associated with the new facility, or where the interconnection customer retires the facility early.[39]

Adopting the CalWEA/LSA position would undermine this balancing of risks, and indeed, could perversely incentivize interconnection customers to make *less* efficient siting decisions. This is because, were interconnection customers absolved of any obligation to up-front fund network upgrade costs in situations when they achieved commercial operation prior to the commencement or completion of network upgrades, some customers could have a financial incentive to lengthen the schedule for construction of network upgrades. Such

[38] Order No. 2003-A at P 613.

[39] *Id.* at P 615.

customers would benefit by choosing points of interconnection that require more expansive and expensive upgrades so as to increase the chance that the customer could achieve commercial operation before some or all of the identified network upgrades are constructed, thereby avoiding any up-front funding obligation. For this reason, and the reasons stated in the ISO's transmittal letter, the ISO urges the Commission to reject CalWEA and LSAs' arguments.

The Six Cities argue that the Commission should not authorize repayment of network upgrade funding before all associated upgrades are completed, on the grounds that doing so will increase exposure of transmission customers to abandoned plant costs.[40] The Commission should reject this argument. As explained above, the tariff language in the GIP Phase 2 tariff amendment regarding repayment achieves the same result as the Commission's *pro forma* LGIA language, by giving the interconnection customer a right to repayment based on the transmission assets that it is actually utilizing. Thus, repayment to interconnection customers in the circumstances set forth in the tariff amendment is appropriate and consistent with the Order No. 2003 series of orders.

2. Offsets of Losses or Damages

In the GIP Phase 2 tariff amendment, the ISO proposes to include in GIP Section 12.3.2.2 a provision stating that if the interconnection customer completes one or more phases and then defaults on the interconnection agreement, then the Participating TO and the ISO will be entitled to offset any losses or damages resulting from the default against any repayments made for

[40] Six Cities at 3-4.

network upgrades related to the completed phases, provided that the party seeking to exercise the offset has complied with any requirements which may be required to apply the stream of payments utilized to make the repayment to the customer as an offset.[41]

LSA proposes to limit the offset right to cases where the parties agree that there is a default and damages or, if there is not agreement, where the Participating TO and the ISO can demonstrate a default and actual damages.[42]

The Commission should reject LSA's proposed change. The repayment provisions are contained in the LGIA as well as the GIP. Because LGIA Article 27.1 already states that "in the event the Parties do not agree to submit such claim or dispute to arbitration, each Party may exercise whatever rights and remedies it may have in equity or at law consistent with the terms of this LGIA," and offset is such a right in law, LSA's proposal to limit the offset right would have no additional effect in the GIP.

F. Item #7: Accommodation of Qualifying Facility Conversions, Repowering, Deliverability at Distribution Level, and Other Special Circumstances

1. Tariff Section 25.1

The GIP Phase 2 tariff amendment proposes a new ISO tariff subsection 25.1(e) to reference commercial rollovers for existing Qualifying Facilities ("QFs") that are not repowering or reconfiguring the unit. The new subsection expressly references that such facilities may utilize the "affidavit process" set forth in

41 Transmittal letter for GIP Phase 2 tariff amendment at 19.

42 LSA at 16-18.

Section 25.1.2 of the ISO tariff. This process allows owners of certain types of generating units already connected to the ISO's grid to submit an affidavit representing that the generator's capability and electrical characteristics will be substantially unchanged, and thereby avoid the need to enter the interconnection queue and proceed directly to execution of a standard ISO generator interconnection agreement. Section 25.1.2 also states that the ISO and the applicable Participating TO are authorized to verify whether or not the total capability or electrical characteristics of the QF have changed or will change.

In the tariff amendment, the ISO also proposes to add new language to Section 25.1 stating that the ISO is authorized to verify whether the other requirements in Section 25.1 (including those in Section 25.1(e)) apply to each existing generating unit and that the generating unit owner shall bear responsibility for the costs of verification as set forth in the Business Practice Manual.[43]

CAC/EPUC and PG&E support the addition of procedures applicable to QFs converting to the status of Participating Generator without reconfiguring or repowering, but they raise concern about this new language. Specifically, they ask why the affidavit process set forth in Section 25.1.2 is not sufficient, and PG&E raises concern that the Business Practice Manual provisions have not been created contemporaneously with the tariff amendment.[44]

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43 Transmittal letter for GIP Phase 2 tariff amendment at 21.

44 CAC/EPUC at 3-4; PG&E at 3-4.

The ISO concedes that the tariff language that it proposed to add to Section 25.1 regarding verification could be somewhat clearer. The intent of the ISO's proposal was not to create a new verification process, as suggested by PG&E, but rather to accomplish two straightforward and reasonable objectives: (1) to make clear that generators seeking to obtain interconnection service from the ISO pursuant to new Section 25.1(e) will be subject to the affidavit and verification process already set forth in Section 25.1.2; and (2) to provide a mechanism for the ISO to recover the costs of any such verification work that it performs.

With respect to the first goal, neither PG&E nor CAC/EPUC seems to dispute that QFs that are seeking to become Participating Generators and obtain interconnection service from the ISO without repowering or reconfiguring should be subject to the existing provisions of Section 25.1.2. As noted above, Section 25.1.2 already permits the ISO to verify a generation owner's statements in an affidavit with respect to whether a unit's capability or electrical characteristics have or will change. It is entirely appropriate that this verification authority, which currently applies to units that are transitioning from selling all of their output to a Participating TO or an on-site customer to making wholesale sales, should also apply to QFs seeking to become Participating Generators.

Second, the ISO's proposal to add language stating that it can recover the costs of any verification work performed under this section is entirely reasonable. In a number of instances, because of the absence of original technical documentation verifying the generating capacity of a unit, the ISO has had to engage in considerable effort to evaluate historical performance data from the unit in order to verify the output level stated by the owner. Ratepayers should not be required to bear the cost of such investigatory work. Instead, it is appropriate for such costs to be borne by the generation owners. The ISO plans to add relevant procedures regarding the recovery of these costs to a Business Practice Manual in the near future.

In order to make the tariff language clearer on these issues, the ISO proposes three changes to be made on compliance: (1) removing the first sentence of the last paragraph of Section 25.1; (2) adding to Section 25.1.2 a reference to Section 25.1(e) to make clear that the affidavit and verification procedures already set forth in Section 25.1.2 apply to generators of the type described in Section 25.1(e); and (3) moving the language proposed in Section 25.1 regarding recouping the costs of verification activities to Section 25.1.2.

2. GIP Section 4.2.1.2 (Refinements to the Independent Study Track for Behind-the-Meter Expansions)

In the tariff amendment, the ISO proposes to add new Section 4.2.1.2 to the GIP, in order to set forth a new set of alternative requirements by which an interconnection request may satisfy the "flow impact test" component of the Independent Study Process under the GIP. The new set of alternative requirements consists of technical criteria and business criteria that apply to an interconnection request relating to a behind-the-meter capacity expansion. As submitted on November 30, new Section 4.2.1.2 applies where the existing generating facility prime mover is wind technology or solar technology.[45]

[45] Transmittal letter for GIP Phase 2 tariff amendment at 21-23.

Employing similar and sometimes overlapping arguments, CalWEA, enXco, GEA, and TGP propose revisions to the technical criteria set forth in GIP Section 4.2.1.2. In response to their comments, the ISO proposes, as further explained below, to clarify certain points in a compliance filing. The ISO requests that the Commission reject those parties' requests for directives that extend beyond this clarification.

The technical criteria in GIP Section 4.2.1.2 include a requirement that the total nameplate capacity of an existing generating facility plus an incremental increase in the behind-the-meter capacity of that generating facility may not exceed, in the aggregate, 125 percent of the previously studied capacity or 100 MW.[46] CalWEA requests that the ISO clarify that the 100 MW limit applies only to the incremental increase in capacity, not to the combination of the existing capacity plus the incremental increase in capacity.[47] The ISO clarifies that the 100 MW limit does apply only to the incremental increase in capacity, and proposes to make that change in GIP Section 4.2.1.2 in a compliance filing.

CalWEA, enXco, GEA, and TGP argue that GIP Section 4.2.1.2 should be revised so that there is *no limit* on the permissible amount of an increase in behind-the-meter capacity.[48] The Commission should reject these parties' alternative proposals regarding the limit. As discussed above, the proper legal

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[46] Proposed GIP Section 4.2.1.2(i) at the first bullet point.

[47] CalWEA at 14 fn.24.

[48] CalWEA at 14-16; enXco at 9-11; GEA at 3; TGP at 5. CalWEA and enXco also argue in the alternative that, if the Commission requires a limit on the amount of an increase in behind-the-meter capacity, the limit should be set at the total capacity of the generating facility as originally studied, or 150 MW, whichever is lower. CalWEA at 16; enXco at 11.

standard is whether the ISO's proposal, not another party's proposal, falls within the zone of reasonableness under FPA Section 205. The ISO's proposal sets appropriate boundaries on incremental behind-the-meter capacity expansions. In contrast, allowing the unlimited increases in behind-the-meter capacity that the parties propose would mean that a behind-the-meter capacity "expansion" could exceed the size of the existing capacity.

The technical criteria also include a requirement that a behind-the-meter capacity expansion may not take place until after the original generating facility has achieved commercial operation and all network upgrades for the original generating facility have been placed into service.[49] CalWEA, enXco, GEA, and TGP express concern with this requirement.[50]

To the extent that these parties' concerns relate to the timing of the ISO's consideration of a request to study a proposed expansion, the ISO agrees that GIP Section 4.2.1.2 should be clarified to expressly state that an interconnection customer may submit a request for an incremental behind-the-meter capacity expansion prior to the commercial operation date of the original generating facility. However, the ISO continues to maintain that it is not appropriate for the incremental capacity associated with a proposed expansion to achieve commercial operation until the original generating facility does so. Permitting an incremental capacity expansion to achieve commercial operation prior to the commercial operation date of the original generating facility would undermine the

[49] Proposed GIP Section 4.2.1.2(i) at the second bullet point.

[50] CalWEA at 16-17; enXco at 10-11; GEA at 3; TGP at 6-7.

entire concept behind this provision; that is, providing a faster study process for "expansions" to generating facilities. Doing so would be tantamount to providing the customer a backdoor means to increase the size of its project during the process of studying the original interconnection request.[51]

Also, the ISO proposes to clarify the provisions in a compliance filing to state that only all *reliability* network upgrades for the original generating facility must have been placed in service prior to commercial operation of the incremental capacity expansion. The reliability network upgrades are needed for purpose of ensuring the reliable operation of the facility, including any expansion, but all other network upgrades are not needed before the incremental capacity expansion can safely begin commercial operation.

The technical criteria in GIP Section 4.2.1.2 include a requirement that the expanded capacity of the generating facility be placed under a separate breaker (the expansion breaker) such that the expansion can be metered separately at all times.[52] TGP argues that the interconnection customer should instead be allowed to identify a combination of original and expanded generating facilities that add up to the total behind-the-meter capacity expansion to be controlled

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[51] In this regard, during the 2009 Cluster LGIA stakeholder process leading to the 2009 tariff amendment in the Generator Interconnection Process Reform ("GIPR") proceeding, the ISO proposed an option to permit interconnection customers to increase the MW capacity size of the generating facility between the Phase I and Phase II interconnection studies. Stakeholders objected to creating such a permanent option, because of potential gaming concerns. Accordingly, the ISO modified the proposal to allow only a one-time increase opportunity for the transition cluster. *See* transmittal letter for GIPR tariff amendment, Docket No. ER09-1722-000, at 6 (Sept. 18, 2009), accessible on the ISO website at http://www.caiso.com/Documents/September18_2009Amendment-provisionsonGeneratorInterconnectionProcessReforminDocketNo_ER09-1722.pdf.

[52] Proposed GIP Section 4.2.1.2(i) at the third bullet point.

through an expansion breaker.[53] To address this issue, the ISO proposes to revise the provisions in GIP Section 4.2.1.2 to permit the interconnection customer, with the consent of the ISO and the Participating TO, to make the generating facilities that will be tied to the expansion breaker a mixture of original and expanded generating facilities such that the total installed capacity behind the expansion breaker is equal to or greater than the planned amount of behind-the-meter capacity expansion.

CalWEA, enXco, GEA, and TGP argue that GIP Section 4.2.1.2 should be revised to accommodate behind-the-meter capacity expansion of all prime mover technologies.[54] The ISO has determined that it is appropriate to permit all prime mover technologies – not just wind and solar – to utilize GIP Section 4.2.1.2, so long as such generating facilities satisfy all of the requirements in that tariff section. The ISO proposes to revise GIP Section 4.2.1.2 accordingly in a compliance filing.

G. Item #14: Participating TO Cost Recovery

The GIP Phase 2 tariff amendment includes proposed tariff revisions to permit presumptive eligibility for Participating TO cost recovery (through the Participating TO's Transmission Revenue Requirement and thereby through the ISO's TAC), in three situations where the ISO tariff *requires* the Participating TO to involuntarily up-front fund the costs of network upgrades when these costs are not allocated to interconnection customers. The three situations are as follows:

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[53] TGP at 7.

[54] CalWEA at 17-19; enXco at 10-11; GEA at 3; TGP at 7-10.

1. Where an interconnection customer has withdrawn its interconnection request, but the network upgrade cannot be downsized because it is still required for other customers in later queue clusters. (GIP Section 12.2.2.)

2. Where the costs of the project exceed the maximum cost responsibility of the relevant interconnection customers, but the scope of the project cannot be adjusted because the upgrades are still needed for those customers. (GIP Section 12.3.1.)

3. Where network upgrades are re-evaluated in the transmission planning process and, within that process, the transmission project is "upsized" or otherwise modified, and the resulting transmission project costs exceed the applicable interconnection customer cost responsibility. (ISO tariff Section 24.4.6.5.)[55]

The Six Cities argue that the Commission should reject all of these tariff revisions, on the grounds that (1) Participating TOs are in a better position than transmission customers (who ultimately pay the TAC) to manage any risks of abandoned-plant cost recovery, and (2) the ISO has not shown that cost recovery by Participating TOs should be addressed through the ISO tariff revisions rather than be resolved on a case-by-case basis in individual Commission proceedings.[56]

The objections that the Six Cities raise are inapt. As to the first argument, it is important to reiterate that:

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[55] GIP Phase 2 tariff amendment transmittal letter at 31-34. These three situations are sometimes referred to as "picking up the delta." In the first situation, the Participating TO is picking up the cost responsibility of the withdrawing customer, which is the "delta" between the cost of the network upgrade and the cost responsibilities of those customers in the group who collectively triggered the upgrade and who have not withdrawn. In the second situation, the Participating TO is picking up the "delta" between the cost estimates and the actual costs, and in the third situation, the Participating TO is picking up the "delta" between transmission upgrade costs for a Transmission Planning Process-"upsized" transmission project and the cost responsibility assigned to the interconnection customers for the project as originally sized.

[56] Six Cities at 4-5.

(i) the ISO tariff will provide only presumptive eligibility for cost recovery in the TAC, not an automatic approval of abandoned plant costs, because, as stated in each of the tariff sections discussed above, cost recovery by any Participating TO is "subject to prudency and any other applicable review by FERC." Thus, parties will have an opportunity to express any concerns about cost recovery in the Commission's review proceedings. The proposed tariff provisions do not extend to imprudently incurred costs and the prudency determination remains with the Commission.

(ii) Moreover, the tariff revisions extending presumptive cost recovery relate to ISO tariff outcomes that *direct* the Participating TO to finance and construct. They do not extend to situations where the Participating TO has itself elected to undertake the action. In the first situation, the ISO and Participating TO will have concurred in determining that the upgrades are still needed despite the fact that interconnection customer(s) have withdrawn. In the second situation, the expense is a result of actual incurred costs exceeding estimates. And in the third situation, the decision to modify the network upgrades will have been made through the ISO's transmission planning process. Accordingly, the tariff revisions address situations where the decision to finance and construct the upgrade is largely outside of the control of the Participating TO and so there is limited ability to manage abandoned-plant risks through a decision not to construct and finance.

Accordingly, under the circumstances provided in the cost recovery provisions it is appropriate to recognize that the Participating TO should be able to recover prudently incurred costs related to such circumstances.

The Six Cities' second argument fares no better. The Six Cities fail to consider that allowing presumptive cost recovery through the ISO tariff revisions will allow such cost recovery to occur in a more efficient and timely manner than would the filing of individual Participating TO petitions for abandoned plant approval.

After the ISO Board of Governors approved the GIP Phase 2 proposal on August 25, 2011, and during the ISO's distribution of draft tariff language to implement the tariff amendment, SCE raised the argument that the ISO's proposed presumptive cost recovery tariff provisions did not go far enough because they did not address a fourth situation: the situation where the Participating TO has voluntarily committed to up-front fund network upgrades, conditioned upon interconnection customer project development of associated generating facilities, but then the customer subsequently does not complete project development. In this regard, SCE comments that "regardless of how the requirement to up-front finance is reached" the expense should be covered by TAC.[57]

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[57] SCE at 3.

The fourth situation that SCE describes is different in kind from the prior three in that the decision to undertake the obligation does not arise from operation of the ISO tariff, or action of the ISO Board of Governors, through approval of a transmission plan, but instead from the business decision of the Participating TO. Accordingly, the rationale for extending presumptive recovery for the first three situations does not apply to the fourth one. The extension that SCE seeks may well have merit – but it simply was not vetted in the GIP Phase 2 stakeholder process. Moreover, this proposal to extend the scope of presumptive ratepayer cost responsibility was clearly not raised to the ISO Board of Governors for consideration. These facts signal that the appropriate action is for SCE to raise the issue in the upcoming GIP Phase 3 stakeholder process to be undertaken in 2012.

SCE's comments further seek a clarification from the Commission that the three situations specified in the GIP Phase 2 proposal are not the exclusive grounds under which the Commission may obtain rate recovery when a Participating TO is "required" to up-front fund certain generator costs.[58] SCE's request is effectively a petition for declaratory order relating to other potentialities external to the GIP Phase 2 tariff amendment. As such, it raises issues beyond the scope of this proceeding, which simply requests the Commission to accept the GIP Phase 2 amendment. Accordingly, SCE's request for "clarification" in this regard should be denied.

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58 *Id.*

SCE's request that the Commission require the ISO to graft the fourth situation into the presumptive cost recovery provisions is even more inappropriate. The current provision incorporated into the proposal came from SCE. Indeed, it was SCE that proposed cost recovery *in solely these three situations*.[59] The ISO and stakeholders reached general agreement in the GIP Phase 2 stakeholder process that presumptive eligibility for recovery would be included in the tariff amendment for these three situations only. SCE's late-offered proposal to expand the set of situations for presumptive ratepayer recovery is untimely and it is unfair to other stakeholders not to have the opportunity to vet it. SCE can raise that issue in the GIP Phase 3 stakeholder process.

H. Minor Clarifications of ISO Tariff Provisions

1. Item #12: Posting Cap for Financial Security Relating to Participating TO Interconnection Facilities

LSA states that GIP Section 9.3.1.3, as revised in the tariff amendment, should be further revised to include the phrase "assigned to the Interconnection Customer for Participating TO Interconnection Facilities," in place of the erroneous phrase "assigned to the Interconnection Customer for Network Upgrades."[60] The ISO agrees with LSA's comment and proposes to make this change in a compliance filing submitted in this proceeding.

[59] *See* Revised Draft Final Proposal (Attachment D to the GIP Phase 2 tariff amendment) at 59-61. In the GIP Phase 2 stakeholder process, SCE also made a proposal related to interconnection agreement suspension rights, *i.e.*, item #13 (see Revised Draft Final Proposal at 61). SCE did not address item #13 in its comments in this proceeding.

[60] LSA at 23, 26-27. On pages 26-27 of LSA's filing, GIP Section 9.3.1.3 is incorrectly referred to as GIP Section 9.3.1.1.

2. Item #15: Partial Deliverability as an Interconnection Option

LSA correctly notes that, in the GIP Phase 2 stakeholder process, the ISO concurred that proposed new GIP Section 6.9.4 should state that the ISO and Participating TO will evaluate whether one or more delivery network upgrades <u>and/or reliability network upgrades</u> can be eliminated from the cost estimate for purposes of calculating the financial security amount. However, this change was inadvertently not included in the GIP Phase 2 tariff amendment.[61] The ISO proposes to make the change in a compliance filing submitted in this proceeding.

3. Compliance Filing Regarding Interconnection Requirements Applicable to Asynchronous Generating Facilities

On December 19, 2011, the ISO submitted a filing in Docket No. ER10-1706 to comply with directives in the Commission order issued in that proceeding on November 17, 2011. The December 19 compliance filing included revisions to the LGIAs contained in Appendices BB and CC to the ISO tariff regarding interconnection requirements applicable to asynchronous generating facilities.

The ISO proposes to include those same tariff revisions in the SGIA (Appendix T to the ISO tariff) in a compliance filing submitted in this GIP Phase 2 proceeding. Including the tariff revisions in that compliance filing is appropriate because the GIP Phase 2 tariff amendment contained proposed revisions to the interconnection requirements applicable to asynchronous generating facilities that are set forth in SGIA.[62]

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[61] LSA at 23-24, 27.

[62] Transmittal letter for GIP Phase 2 tariff amendment at 35-36.

I. Issue Raised by a Party That Is Beyond the Scope of This Proceeding

Wellhead does not object to the GIP Phase 2 tariff changes. However, Wellhead states that those tariff changes do not address the issue that the existing interconnection study process seems to prescribe unrealistic interconnection requirements. Wellhead acknowledges that this issue "has been a topic of discussion in ongoing ISO stakeholder processes regarding the interconnection process," but nevertheless requests that the Commission "direct quick, corrective efforts" to address this purported issue.[63]

The Commission should decline Wellhead's request. As Wellhead recognizes, the issue it describes is not implicated by the GIP Phase 2 tariff changes. Therefore, the Commission should find that the issue is beyond the scope of this GIP Phase 2 proceeding and should not be the subject of Commission directives in the proceeding. Instead, the issue should continue to be addressed in the ongoing ISO stakeholder processes on interconnection matters that Wellhead references.[64]

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63 Wellhead at 3-4.

64 *See, e.g.*, *California Independent System Operator Corp.*, 132 FERC ¶ 61,269, at P 18 (2010) ("[W]e find that the modifications requested by Dynegy regarding CAISO's market issues process are premature and beyond the scope of this proceeding. Dynegy's concerns appear to be more appropriately addressed in CAISO's stakeholder process regarding the BPM modification to finalize ISO's market issues process."); *California Independent System Operator Corp.*, 135 FERC ¶ 61,110, at P 23 (2011) ("The instant filing does not propose to modify the tariff provisions regarding that election, and, accordingly, issues related to those provisions are beyond the scope of the instant proceeding. Parties should raise any additional concerns regarding the bid cost recovery mechanism in the stakeholder process."); *PJM Interconnection, L.L.C.*, 137 FERC ¶ 61,145, at P 143 (2011) ("These issues, however, are beyond the scope of this proceeding. . . . We do not intend to preclude PJM stakeholders from discussing this issue, however.").

II. Conclusion

For the reasons explained above, the Commission should accept the GIP Phase 2 tariff amendment as filed in this proceeding, subject only to the tariff clarifications discussed above.

Respectfully submitted,

<u>/s/ Bradley R. Miliauskas</u>

Nancy Saracino
General Counsel
Sidney M. Davies
Assistant General Counsel
Baldassaro "Bill" Di Capo
Senior Counsel
The California Independent
System Operator Corporation
250 Outcropping Way
Folsom, CA 95630
Tel: (916) 608-7144
Fax: (916) 608-7296
E-mail: sdavies@caiso.com
bdicapo@caiso.com

Michael Kunselman
Bradley R. Miliauskas
Alston & Bird LLP
The Atlantic Building
950 F Street, NW
Washington, DC 20004
E-mail: michael.kunselman@alston.com
bradley.miliauskas@alston.com

Attorneys for the California Independent System Operator Corporation

Dated: January 5, 2012

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all of the parties listed on the official service list for the above-referenced proceeding, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Washington, D.C. this 5th day of January, 2012.

/s/ Bradley R. Miliauskas
Bradley R. Miliauskas