California Independent System Operator Corporation

June 19, 2014

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

Re: California Independent System Operator Corporation
Docket No. ER14- ___-000

Tariff Amendment for Generator Interconnection and Deliverability Allocation Procedures Reassessment Initiative

Dear Secretary Bose:

The California Independent System Operator Corporation submits this tariff amendment to implement revisions to the CAISO's Generator Interconnection and Deliverability Allocation Procedures, referred to as the GIDAP.[1] The purpose of this amendment is to allow for adjustments to interconnection customers' maximum cost responsibility for network upgrade costs and financial security postings based on the results of the annual reassessment of the interconnection base case data the CAISO performs pursuant to the existing GIDAP. The proposed changes better accommodate the needs of customers and are broadly supported.

The CAISO requests that the Commission accept the tariff revisions contained in this filing effective as of September 1, 2014.

I. Summary

Pursuant to its Generator Interconnection and Deliverability Allocation Procedures the CAISO performs an annual reassessment of projects in its generation interconnection queue. The reassessment is performed following the phase I interconnection studies, and evaluates the impact on network

[1] The CAISO submits this filing pursuant to section 205 of the Federal Power Act ("FPA"), 16 U.S.C. § 824d. Capitalized terms not otherwise defined herein have the meanings set forth in the CAISO tariff, and references to specific sections and appendices are references to sections and appendices in the current CAISO tariff as revised or proposed in this filing, unless otherwise indicated.

upgrades identified in previous interconnection studies of: (i) status changes of earlier-queued projects, such as project withdrawals; (ii) the performance of earlier-queued projects with respect to milestones and other obligations; (iii) compliance of earlier-queued customers with transmission plan deliverability retention criteria; (iv) the results of transmission plan deliverability allocations; and (v) transmission additions and upgrades approved in the most recent Transmission Planning Process cycle. The CAISO uses the results of the reassessment to establish the study assumptions for the phase II interconnection studies and, in cases where the CAISO identifies changes to previously identified network upgrades, to amend existing interconnection agreements.

The first reassessment occurred in 2013. The results of that reassessment indicated that, due to project withdrawals, a number of previously identified transmission network upgrades were no longer needed to support remaining projects in the queue, or less costly alternatives could be constructed. These changes led to a reduction in the estimated cost responsibility of some customers for network upgrades.

Under the current GIDAP, the maximum cost responsibility of interconnection customers for network upgrade costs (known, colloquially, as their “cost cap”) and financial security posting requirements are established based on the results of the phase I and phase II interconnection studies, and are not revised based on the results of the annual reassessment. Because the annual reassessments can result in lower costs, some stakeholders urged the CAISO to adjust customers’ cost caps as well as their financial security posting requirements. Allowing such adjustments, particularly lowering the cost caps, raised significant policy implications, most notably the potential to shift the costs of still-needed upgrades from interconnection customers to participating transmission owners, in the event subsequent reassessments result in increased costs.

After conducting a stakeholder process to consider the merits of these requests, the CAISO proposes to make two changes to its GIDAP. First, a customer will be eligible for a cost cap adjustment if a reassessment results in a significant decrease in the customer’s estimated cost responsibility for network upgrades costs. Second, a change in network upgrade cost responsibility resulting from a reassessment will qualify a customer for a change in the amount of interconnection financial security the customer is required to post. These changes strike an appropriate balance between providing interconnection customers with reasonable certainty regarding their maximum cost responsibility for network upgrades without unfairly shifting risk to participating transmission owners.

II. Background

A. The Annual Interconnection Reassessment Process and Existing Rules Regarding Cost Responsibility and Financial Security

The Generator Interconnection and Deliverability Allocation Procedures set forth the interconnection process for new generation resources in cluster five, which entered the queue cluster study process in 2012, and subsequent clusters.[2] Pursuant to the GIDAP, the CAISO performs the phase I and phase II interconnection studies and an annual reassessment of projects in each cluster subject to the GIDAP.[3]

The purpose of the annual reassessment is to evaluate the impacts of changes to earlier-queued projects, such as project withdrawals, and to establish the base case for each cluster's phase II interconnection studies.[4] Project withdrawals may result in the reassessment identifying network upgrades that are no longer needed or different, less costly upgrades.[5] Such changes may cause revisions to the plans of service provided in executed generator interconnection agreements. Any revisions will be reflected in amendments to those agreements.[6] The reassessment is also an essential part of the preparation for the allocation of transmission plan deliverability to eligible projects that have completed the phase II interconnection study, an important requirement for resource adequacy purposes.[7]

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[2] The GIDAP is contained in appendix DD to the CAISO tariff, which the Commission accepted in 2012. *See California Independent System Operator Corp.*, 140 FERC ¶ 61,070 (2012). The CAISO tariff also includes a number of other provisions regarding generator interconnection, including the Generator Interconnection Procedures ("GIP"), which concerns the interconnection of generators in a queue cluster study process prior to cluster five.

[3] Tariff appendix DD, sections 2.4.3, 2.4.3.2, 7.4.1.

[4] Tariff appendix DD, section 7.4.1.

[5] The interconnection study cycle is defined in appendix A to the CAISO tariff as "[a]ll requirements, actions, and respective obligations of the CAISO, Participating TO [participating transmission owner], and Interconnection Customer under the GIP set forth in Appendix Y or the GIDAP set forth in Appendix DD applicable to an Interconnection Request submitted in the applicable annual Cluster Application Window and including execution by the parties or submission to FERC by one or more parties of a GIA [Generator Interconnection Agreement]."

[6] Tariff appendix DD, section 7.4.2.

[7] Transmission plan deliverability is defined in appendix A to the CAISO tariff as "[t]he capability, measured in MW, of the CAISO Controlled Grid as modified by transmission upgrades and additions modeled or identified in the annual Transmission Plan to support the interconnection with Full Capacity Deliverability Status or Partial Capacity Deliverability Status of additional Generating Facilities in a specified geographic or electrical area of the CAISO Controlled Grid."

The GIDAP, as well as the predecessor interconnection procedures, provides that an interconnection customer's maximum cost responsibility for up-front funding network upgrades is based on the lower of the phase I or phase II interconnection study cost estimates.[8] This maximum responsibility is often referred to as a customer's "cost cap." The customer's cost cap also determines the amount of interconnection financial security the customer is required to post.[9] The amount of network upgrade costs that a customer is ultimately responsible for up-front funding can vary as a result of withdrawals from the interconnection queue, so long as that amount does not exceed the customer's cost cap.

The applicable participating transmission owner(s) must up-front fund any network upgrade costs above a customer's cost cap.[10] Participating transmission owners are responsible for funding network upgrades when the upgrades are still needed and the costs thereof cannot be assigned to customers in the study group that originally triggered the need for the upgrades, either because (1) those costs would exceed the remaining customers' cost caps or (2) no customers remain in the study group, but the upgrades are still needed for later-queued customers.[11]

The existing interconnection tariff provisions do not provide a mechanism for making adjustments to cost caps or for making adjustments to interconnection financial security postings between specified posting milestones due to a reassessment.[12] Currently, to the extent that a customer's estimated costs for network upgrades are reduced as a result of a reassessment, such reduction would be reflected in the customer's next scheduled interconnection financial security posting.[13]

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[8] Tariff appendix Y, section 9.5; tariff appendix DD, section 10.1(a). Specifically, with regard to the GIDAP, an interconnection customer's maximum cost responsibility for reliability network upgrades ("RNUs") and local delivery network upgrades ("LDNUs") is based on the lower of the phase I or phase II interconnection study cost estimates. However, customers electing option (A) for full or partial capacity deliverability status do not fund or post interconnection security for area delivery network upgrades ("ADNUs"). Customers electing option (B) for full or partial capacity deliverability status that do not receive an allocation of transmission plan deliverability sufficient to provide their requested deliverability status will be responsible for the full cost of their required ADNUs. Thus, customers electing option (B) are not subject to any cap on their cost responsibility for ADNUs. Tariff appendix DD, sections 7.2, 10.1(a), 10.1(b).

[9] Tariff appendix Y, section 9.5; tariff appendix DD, section 10.1(a).

[10] Tariff appendix Y, section 12.3.1; tariff appendix DD, section 14.3.1.

[11] Tariff appendix Y, section 12.2.2; tariff appendix DD, section 14.2.2.

[12] Financial Security posting milestones are defined relative to the issuance of the phase I and phase II interconnection study results, and, for the final posting, the start of construction activities.

[13] Tariff appendix Y, sections 9.2, 9.3 (describing the system of three discrete interconnection financial security posting milestones, with adjustments to a customer's

B. The First Annual Reassessment and Stakeholder Concerns

The CAISO performed the first annual reassessment pursuant to the GIDAP in 2013. The reassessment results indicated that, due to project withdrawals, a number of previously identified transmission network upgrades in queue clusters prior to cluster five were no longer needed. The removal of these upgrades led to a reduction in the overall cost responsibility for certain customers.

After the participating transmission owners issued the reassessment reports in September 2013, some customers with reports indicating lower network upgrade costs, requested revisions to their maximum cost responsibilities (*i.e.*, cost caps) and their posted interconnection financial security amounts. Some customers contended that the reassessment results should be treated as an amendment to the phase I and phase II interconnection studies and, as such, a customer's cost cap should be adjusted to reflect any reduction in the estimated costs of network upgrades reflected by the reassessment. In addition, some customers advocated using the reassessment results as a basis for making revisions to the interconnection financial security amounts they had previously posted.

On October 29, 2013, the CAISO issued a technical bulletin that addressed these two issues. As the CAISO explained in the technical bulletin and throughout the stakeholder process for this tariff amendment, the imposition of binding cost caps on customers in queue clusters for network upgrades based on the lesser of the phase I and phase II interconnection study results was an important change in cost allocation policy that the CAISO made in its Generator Interconnection Process Reform ("GIPR") initiative in 2008. This implementation of binding cost caps was a break from the existing serial study process, under which a customer's total cost exposure could change dramatically depending on decisions made by other customers, *e.g.,* a decision to withdraw from the interconnection queue.[14]

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financial security being performed in conjunction with these three postings); tariff appendix DD, sections 11.2, 11.3 (same).

[14] *See* Technical Bulletin: GIDAP Reassessment Process – Reallocation of Cost Shares for Network Upgrades and Posting, at 6-7 (Oct. 29, 2013) ("technical bulletin"). The technical bulletin is available on the CAISO website at http://www.caiso.com/planning/Pages/ReportsBulletins/Default.aspx and is provided in attachment C to this filing. *See also* transmittal letter for GIPR tariff amendment, Docket No. ER08-1317-000, at 14, 25 (July 28, 2008) (explaining that the CAISO adopted a cost cap establishing a customer's maximum cost responsibility to address the cost uncertainty that resulted from restudies under the existing serial study process); *California Independent System Operator Corp.*, 124 FERC ¶ 61,292, at P 156 (2008) ("[I]n exchange for the posting of interconnection financial security, interconnection customers will have the benefit of knowing their total exposure to network upgrade costs well in advance of construction. . . . Finally, interconnection customers benefit from the GIPR LGIP's [large generator interconnection procedure's] adoption of a cap on the costs of network upgrades."); *id.* at P 178 (finding that "the GIPR proposal establishes a cap on the interconnection customer's liability for network upgrades by which cost uncertainty resulting from restudies that exists

Establishing cost caps based on the lesser of the phase I and phase II costs ensures that customers have certainty regarding their maximum cost exposure relatively early in the interconnection process. This also provides certainty to participating transmission owners, insofar as they are not required to up-front fund the costs of network upgrades still needed by interconnection customers, so long as the costs of those upgrades do not exceed the cost caps of customers remaining in the queue. If CAISO was required to adjust cost caps any time withdrawals from the queue allowed for the de-scoping or elimination or reduction in size of network upgrades, then the relevant participating transmission owner would be at risk to up-front fund any cost increases associated with subsequent queue withdrawals, even for upgrades still needed by remaining customers. The CAISO explained to stakeholders that it views this result as an unjustified shifting of the balance struck in the 2008 Generator Interconnection Process Reform initiative between interconnection customer and participating transmission owner funding responsibilities.

The technical bulletin also clarified that interconnection financial security postings are, per the CAISO's tariff, based on the lower of the phase I or phase II interconnection study cost estimates for network upgrades.[15] The technical bulletin noted that the CAISO tariff provided for adjustments to interconnection financial security only at discrete posting milestones and, therefore, to the extent that any customer's network upgrade costs are reduced due to a reassessment, such reduction would generally be reflected in the customer's next scheduled interconnection financial security posting.[16]

Due to continued concerns expressed by generation developers, the CAISO committed to initiate a stakeholder process to explore whether it would be appropriate and feasible to permit adjustments to interconnection customers' cost caps as a result of the reassessment, and to allow customers to revise their financial security postings based on the results of the

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under the current serial studies approach is eliminated."); *id.* at P 180 (finding that the GIPR tariff provisions are "reasonable to establish cost certainty and to equitably share cost responsibilities among interconnection customers and the PTOs [participating transmission owners] during the interconnection process").

[15] Technical bulletin at 11.

[16] *Id.* The technical bulletin stated that the one exception to this general rule was that, consistent with applicable Commission precedent, adjustments to financial security would be permitted prior to the next scheduled financial security posting only for those customers whose posted security exceeded 100 percent of their estimated network upgrade costs as reflected in the reassessment report. *Id.* at 11-12.

reassessment prior to the next scheduled financial security posting deadline.[17] That stakeholder process has led to the instant tariff amendment filing.

C. Stakeholder Process

In December 2013, the CAISO initiated the stakeholder process proposed by CAISO management at the November 7, 2013 Board meeting.[18] The stakeholder process included:

- A series of three papers issued by the CAISO;[19]
- The development of draft tariff provisions;
- Four stakeholder conference calls to discuss the CAISO papers and the draft tariff provisions; and

[17] In addition, the CAISO proposed to conduct a separate, expedited stakeholder process to consider whether it would be appropriate to forego performing the reallocation of the costs of those network upgrades still needed after considering queue withdrawals based the reassessment results reported in September 2013, as described in the technical bulletin. To that end, the CAISO posted an issue paper on November 13, 2013 that presented two options for stakeholder consideration: (1) implement the cost reallocation approach described in the technical bulletin for the September 2013 reassessment results or (2) not revise the September 2013 reassessment results. Issue Paper – Technical Bulletin: GIDAP Reassessment Process – Reallocation of Cost Shares for Network Upgrades and Posting (dated 10/29/13) (Nov. 13, 2013), available on the CAISO website at http://www.caiso.com/planning/Pages/GeneratorInterconnection/Default.aspx. The CAISO ultimately determined, however, that it could address stakeholders' concerns without a stakeholder process. This could be accomplished by expediting the calculation and dissemination of the results of the reallocation, so that the CAISO could make this information available to affected customers in approximately the same amount of time it would take to assess the submitted stakeholder comments and make a decision between the two options described above. Therefore, on November 20, 2013, the CAISO issued a market notice informing stakeholders that it had decided to implement the first option. On November 27, 2013, the CAISO issued revised cost allocation percentages and revised cost share amounts to affected customers based on the 2013 reassessment results.

[18] In this same stakeholder process, the CAISO and stakeholders also had some discussion on the topic of how to redistribute funds forfeited by withdrawing customers. However, on May 13, 2014, the CAISO issued a market notice announcing that, based on consideration of the stakeholder feedback received thus far, that topic would instead be addressed in the separate Interconnection Process Enhancements ("IPE") stakeholder initiative, in order to allow for additional stakeholder discussion. *See* http://www.caiso.com/informed/Pages/StakeholderProcesses/InterconnectionProcessEnhancements.aspx (page on CAISO website regarding IPE initiative).

[19] The first two papers in the series were an issue paper and a straw proposal. The third and culminating paper was the Generator Interconnection and Deliverability Allocation Procedures (GIDAP) Reassessment – Draft Final Proposal (Apr. 2, 2014) ("draft final proposal"), which is provided in attachment D to this filing.

- Four opportunities to submit written comments on the CAISO papers and the draft tariff provisions.[20]

The Board authorized the preparation and filing of this tariff amendment at its May 29, 2014 meeting.[21]

All stakeholders either fully supported, or supported with qualifications, the CAISO proposals reflected in this filing. The CAISO has addressed issues raised by stakeholders in the discussion of the specific issues below.

III. Proposed Tariff Revisions

A. Adjustments to Cost Caps

1. CAISO's Proposal to Adjust Cost Caps Is Just and Reasonable

The purpose of cost caps is to ensure that generation developers know, relatively early in the interconnection process, their maximum responsibility to finance network upgrades. Participating transmission owners bear the risk in the event the costs of network upgrades exceed customer's cost caps. Thus, if the CAISO were to adjust cost caps downward whenever queue withdrawals eliminated the need for some network upgrades, the participating transmission owner would be at risk of increased up-front funding responsibilities if subsequent customers withdrew but the associated network upgrades were still needed for remaining customers. In such cases, the lower cost caps for the remaining interconnection customers would preclude assigning them a share of the network cost responsibilities of the withdrawn projects resulting in increased cost responsibility for the participating transmission owner.

Even though the tariff provisions account for project withdrawals, they do not provide for any adjustment to a customer's assigned maximum cost responsibility. Thus, the annual reassessment does not shift the balance of funding risks between customers and participating transmission owners.

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[20] Materials related to the stakeholder process for this tariff amendment are available on the CAISO website at http://www.caiso.com/informed/Pages/StakeholderProcesses/GenerationInterconnection-DeliverabilityAllocationProceduresReassessment.aspx. A list of key dates in the stakeholder process is provided in attachment G to this filing.

[21] Materials related to the Board's authorization to prepare and submit this filing are available on the CAISO website at http://www.caiso.com/informed/Pages/BoardCommittees/Default.aspx. These materials include a memorandum from Keith Casey, Vice President, Market and Infrastructure Development to the Board (May 21, 2014) ("Board memorandum"). For ease of reference, the Board memorandum is provided in attachment E to this filing.

The CAISO continues to believe that the current approach of establishing a cost cap based on the lesser of phase I and phase II interconnection study results strikes a reasonable balance between providing customers with cost certainty as early as possible in the process on the one hand and limiting participating transmission owner financing exposure on the other. However, the CAISO also recognizes that there may be situations where the difference between a customer's existing cost cap and a revised cost allocation resulting from a reassessment may be significant. In recognition of this, the CAISO worked with stakeholders to develop tariff revisions that allow for cost cap adjustments in such circumstances while also mitigating cost exposure to the participating transmission owners by limiting the amount that the cost cap can be adjusted.

The CAISO proposes to revise the tariff by adding language to Section 7.4 of the GIDAP stating that an interconnection customer in a queue cluster earlier than the current interconnection study cycle will be eligible for a reduced cost cap if the reassessment results indicate that there is at least both a 20 percent and a one million dollar difference between the customer's existing cost cap and its revised estimated responsibility for network upgrade costs. This will ensure that only significant differences between a customer's original cost cap, as established by the phase I and phase II interconnection studies, and its estimated cost responsibility for network upgrades resulting from a reassessment, will trigger a cost cap adjustment.[22]

For a customer that meets this eligibility threshold, the customer's provisional revised cost cap amount will be equivalent to what the customer's cost responsibility would be if all other customers requiring the same upgrade withdrew from the interconnection queue, *i.e.*, assuming the customer was allocated 100 percent of the costs of all remaining network upgrades necessary to interconnect the projects in its study group. The amount of a customer's cost cap reduction will be limited in this manner to alleviate a potential transfer of financing risk from customers to participating transmission owners. Finally, if the customer's provisional revised cap is less than its existing cost cap, as calculated based on the results of the phase I and phase II interconnection studies, then the provisional cap will become the customer's new cost cap. Otherwise, the customer's existing cost cap will apply.

Customers that receive reductions to their cost caps pursuant to these criteria are subject to subsequent upward adjustments to their cost caps under limited circumstances involving significant changes on the CAISO's system. Specifically, if a change on the CAISO's system occurs after the completion of an interconnection customer's interconnection studies that requires additional or expanded network upgrades, and a reassessment identifies a resulting increase in the customer's estimated cost responsibility

[22] An example of the application of this threshold is contained on page 13 of the CAISO's February 19, 2014 presentation to stakeholders, included as Attachment F to this filing.

for network upgrades, then the customer's cost cap will be increased up to the level of the new estimated cost responsibility. This increase, however, cannot raise the customer's cost cap any higher than the cap originally established by the phase I and phase II interconnection studies. [23]

2. The CAISO Has Addressed the Alternative Proposals Suggested by Stakeholders

While some stakeholders expressed unqualified support for the CAISO's proposed tariff revisions, other stakeholders stated their support with the qualification that they preferred their own alternative proposals. The proper legal standard is whether the CAISO's proposal – not any alternative proposal – is just and reasonable under section 205 of the FPA.[24] As discussed above, the CAISO's proposal is just and reasonable because it appropriately balances the concerns of interconnection customers with respect to significant reductions in cost responsibility resulting from the reassessment, while ensuring that participating transmission owners are not unfairly exposed to the risk of increased up-front funding responsibilities. Moreover, the alternative approaches suggested by stakeholders are problematic.

Some stakeholders stated that, although they support the CAISO's proposal to moderate the amount of cost cap adjustment by making the revised cost cap equivalent to a 100 percent allocation to each remaining customer of the costs of all remaining upgrades, they preferred an alternative approach under which, for each remaining network upgrade, the CAISO would determine the generation capacity that would withdraw from the interconnection queue before the network upgrade was no longer needed and then adjust the customer's cost cap to reflect the withdrawal.

The CAISO explained that such an alternative approach would be unworkable for network upgrades intended to mitigate short circuit duty, because short circuit contribution is determined by the connection and impedance of all the interconnection facilities and is not directly linked to megawatt amounts. Further, for network upgrades linked to megawatt amounts, the alternative approach would be meaningful in terms of providing financial benefits to interconnection customers only if the queue cluster group

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[23] The CAISO proposes to include the tariff revisions discussed above in new section 7.4.3 of Appendix DD. The CAISO also proposes to revise sections 6.7 and 9.5 of appendix Y and sections 10.1(a) and 10.2(a) of Appendix DD to specify that customers' cost responsibilities under those sections are subject to adjustment as discussed above.

[24] *Calpine Corp. v. California Independent System Operator Corp.*, 128 FERC ¶ 61,271, at P 41 (2009). *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).

assigned the upgrade cost was the queue cluster group that continued to drive the need for the upgrade. However, pursuant to the reassessment methodology, withdrawals from the queue may result in later-queued customers driving the continued need for such upgrades, even though cost responsibility for such upgrades will continue to reside with customers in the earlier study group that originally triggered the need for these upgrades.[25]

One stakeholder asserted that if the CAISO allows cost cap adjustments, then adjustments should not only be downward , but they should also be upward if a subsequent reassessment indicates a higher estimated cost for a customer's network upgrades, regardless of a change in system configuration. The CAISO declined to adopt that alternative approach. As explained above, the primary purpose of instituting cost caps was to provide customers with a reasonable amount of certainty with respect to their maximum cost exposure. The ISO does not believe that allowing cost caps to increase absent a change in system configuration that would require new or expanded network upgrades would provide customers with reasonable certainty as to their maximum cost exposure.

B. Adjustments to Interconnection Financial Security Posting Requirements Due to a GIDAP Reassessment

As discussed above, the existing CAISO tariff does not provide a mechanism for making adjustments to interconnection financial security posting requirements between the specified posting milestones. To the extent that an interconnection customer's network upgrade costs are reduced as a result of a reassessment, such a reduction would be reflected in the customer's next scheduled interconnection financial security posting.

After discussing this issue with stakeholders, the CAISO agrees that it is appropriate to adjust an interconnection customer's financial security postings based on the results of the latest reassessment, even if a posting deadline is not currently pending. This will ensure that interconnection customers are required to maintain security for network upgrades that is directly proportional to their most current estimated cost responsibility. The CAISO proposes to revise the tariff to state that a change in estimated responsibility for network upgrade costs resulting from a reassessment will qualify a customer for a change in the amount of interconnection financial security the customer is required to post. Such a change can result in either an increase (*i.e.*, an upward adjustment) or a decrease (*i.e.*, a downward

[25] For example, assume a hypothetical queue cluster "A" that consists of five generator projects and triggers the need to construct a network upgrade. Now assume that two of those projects withdraw from the queue, so that three projects remain, and assume that the network upgrade is no longer needed for cluster A but is needed for projects in subsequent clusters. The three projects remaining in cluster A will still be responsible for the cost of the network upgrade. Therefore, the worst-case cost allocation for cluster A is always a single project that has to pay for 100 percent of the cost of the network upgrade, which accords with the proposed approach set forth in this tariff amendment.

adjustment) in a customer's interconnection financial security amount, as applicable.

The adjustments to interconnection financial security posting requirements will be automatic. However, a customer can opt out of a downward adjustment by notifying the CAISO in writing within 10 days of the issuance date of the reassessment report that the customer wants to keep the posting as is.[26]

Stakeholders all stated that they either support or do not oppose the tariff revisions proposed by the CAISO regarding adjustments to interconnection financial security posting requirements.

IV. Effective Date

CAISO requests that the tariff revisions contained in this filing be made effective as of September 1, 2014.

V. Communications

Correspondence and other communications regarding this filing should be directed to:

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VI. Service

The CAISO has served copies of this filing on the California Public Utilities Commission, the California Energy Commission, and all parties with scheduling coordinator agreements under the CAISO tariff. In addition, the CAISO has posted a copy of the filing on the CAISO website.

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[26] The CAISO proposes to include the tariff revisions discussed above in new section 7.4.3 of Appendix DD. Pursuant to existing CAISO tariff provisions, if a customer's total estimated share of network upgrade costs declines as a result of the most recent reassessment, then that new cost estimate will be used to calculate the amount of financial security that is at risk of forfeiture if the customer withdraws, even if the customer elects not to adjust the project's posting. *See* tariff appendix Y, section 9.4; tariff appendix DD, section 11.4.

VII. Contents of this Filing

In addition to this transmittal letter, this filing includes the following attachments:

Attachment A	Clean CAISO tariff sheets incorporating this tariff amendment
Attachment B	Red-lined document showing the revisions contained in this tariff amendment
Attachment C	Technical bulletin
Attachment D	Draft final proposal
Attachment E	Board memorandum
Attachment F	February 19, 2014 Stakeholder Presentation
Attachment G	List of key dates in the stakeholder process

VIII. Conclusion

For the reasons set forth in this filing, the CAISO respectfully requests that the Commission accept the tariff revisions proposed in the filing effective as of September 1, 2014.

Respectfully submitted,

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Attachment A – Clean Tariff Sheets

GIDAP Reassessment Initiative

California Independent System Operator Corporation

June 19, 2014

Appendix Y GIP

For Interconnection Requests

Generator Interconnection Procedures (GIP)

6.7 Effect of Phase I Study Cost Estimates on Initial Financial Security Posting and Cost Responsibility

Until such time as the Phase II Interconnection Study report is issued to the Interconnection Customer, the costs assigned to Interconnection Customers for Network Upgrades under this Section 6 of the GIP shall establish the maximum value for the Interconnection Financial Security required from each Interconnection Customer under GIP Section 9 for such Network Upgrades, as well as the maximum value for each Interconnection Customer's total cost responsibility for Network Upgrades. As set forth in Section 9.5 of this GIP, after issuance of the Phase II Interconnection Study, the Interconnection Customer's Interconnection Financial Security obligations and maximum cost responsibility for Network Upgrades will be based on the lesser of the cost estimates set forth in the Phase I and Phase II Interconnection Studies, and is subject to subsequent adjustment pursuant to Section 7.4 of Appendix DD of the CAISO Tariff.

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9.5 Maximum Cost Responsibility For Interconnection Customers

For Interconnection Customers in a Queue Cluster, after the CAISO issues the Phase II Interconnection Study report to the Interconnection Customer, the maximum value for the Financial Security required of each Interconnection Customer and the maximum cost responsibility of each Interconnection Customer for Network Upgrades shall be established by the lesser of the costs for Network Upgrades assigned to the Interconnection Customer in the final Phase I Interconnection Study report or the final Phase II Interconnection Study report.

For Interconnection Customers in the Independent Study Process, the maximum value for the Interconnection Customer’s Financial Security and the maximum cost responsibility for Network Upgrades shall be established by the lesser of the costs for Network Upgrades assigned to the Interconnection Customer in the final System Impact Study report or final Facilities Study report.

An Interconnection Customer’s maximum cost responsibility for Network Upgrades shall be subject to further adjustment based on the results of the annual reassessment process, as set forth in Section 7.4 of Appendix DD to the CAISO Tariff.

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Appendix DD

Generator Interconnection and Deliverability Allocation Procedures (GIDAP)

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7.4 Reassessment Process

7.4.1 The CAISO will perform a reassessment of the Phase I Interconnection Study base case prior to the beginning of the GIDAP Phase II Interconnection Studies. The reassessment will evaluate the

impacts on those Network Upgrades identified in previous interconnection studies and assumed in the Phase I Interconnection Study of:

(a) Interconnection Request withdrawals occurring after the completion of the Phase II Interconnection Studies for the immediately preceding Queue Cluster;

(b) the performance of earlier queued Interconnection Customers with executed GIAs with respect to required milestones and other obligations;

(c) compliance of earlier queued Interconnection Customers that were allocated TP Deliverability under Section 8.9.3 with the retention criteria;

(d) the results of the TP Deliverability allocation from the prior Interconnection Study cycle; and,

(e) transmission additions and upgrades approved in the most recent TPP cycle.

The reassessment will be used to develop the base case for the Phase II Interconnection Study

7.4.2 Where, as a consequence of the reassessment, the CAISO determines that changes to the previously identified Delivery Network Upgrades in Queue Clusters earlier than the current Interconnection Study Cycle will cause changes to plans of service set out in executed GIAs, such changes will serve as a basis for amendments to GIAs.

7.4.3 Such changes to plans of service in Queue Clusters earlier than the current Interconnection Study Cycle will also serve as the basis for potential adjustments to the maximum cost responsibility for Network Upgrades for Interconnection Customers in such earlier Queue Clusters, as follows:

(i) An Interconnection Customer shall be eligible for an adjustment to its maximum cost responsibility for Network Upgrades if a reassessment undertaken pursuant to this Section 7.4 reduces its estimated cost responsibility for Network Upgrades by at least twenty (20) percent and $1 million, as compared to its current maximum cost responsibility for Network Upgrades based on its Interconnection Studies or a previous reassessment.

The maximum cost responsibility for an Interconnection Customer who meets this eligibility criterion will be the lesser of (a) its current maximum cost responsibility and (b) 100 percent of the costs of all remaining Network Upgrades included in the Interconnection Customer's plan of service.

(ii) If an Interconnection Customer's maximum cost responsibility for Network Upgrades is adjusted downward pursuant to (i) above, and a subsequent reassessment identifies a change on the CAISO's system that occurs after the completion of the Interconnection Customer's Interconnection Studies and requires additional or expanded Network Upgrades, resulting in an increase in the Interconnection Customer's estimated cost responsibility for Network Upgrades above the maximum cost responsibility as adjusted based on the results of a prior reassessment, then the Interconnection Customer's maximum cost responsibility for Network Upgrades will be the estimated cost responsibility determined in the subsequent reassessment, so long as this amount does not exceed the maximum cost responsibility originally established by the Interconnection Customer's Interconnection Studies.

In such cases, where the estimated cost responsibility determined in the subsequent reassessment exceeds the maximum cost responsibility as adjusted based on the results of a prior reassessment, the Interconnection Customer's maximum cost responsibility for Network Upgrades shall be the maximum cost responsibility established by its Interconnection Studies.

The Interconnection Financial Security required of the Interconnection Customer for Network Upgrades shall be adjusted to correspond to each change to the Interconnection Customer's estimated cost responsibility resulting from a reassessment based on the Interconnection Financial Security posting rules set forth in the applicable CAISO interconnection procedures. An Interconnection Customer that receives a downward adjustment to its maximum cost responsibility pursuant to this Section may choose to decline the corresponding adjustment to its Interconnection Financial Security requirement by so notifying the CAISO in writing within ten (10) days of the issuance of the reassessment report that resulted in the downward adjustment of the Interconnection Customer's maximum cost responsibility.

*** * ***

10.1 Interconnection Customers in a Queue Cluster.

(a) RNUs and LDNUs.

Until the Phase II Interconnection Study report is issued to the Interconnection Customer, the costs assigned to Interconnection Customers for RNUs and LDNUs in the Phase I Interconnection Study report shall establish the maximum cost responsibility for such Network Upgrades and the maximum initial Interconnection Financial Security required in Section 11.2.

After the CAISO issues the Phase II Interconnection Study report to the Interconnection Customer, the maximum value for Interconnection Financial Security required of each Interconnection Customer for RNUs and LDNUs shall be established by comparing the subtotal cost for both RNUs and LDNUs determined in the final Phase I Interconnection Study with the subtotal cost for both RNUs and LDNUs determined in the final Phase II Interconnection Study, and utilizing the lower subtotal. The lower subtotal for both RNUs and LDNUs shall also establish the Interconnection Customers' maximum cost responsibility for RNUs and LDNUs after issuance of the Phase II Interconnection Study report.

The Interconnection Customer's maximum cost responsibility for RNUs and LDNUs shall be subject to further adjustment based on the results of the annual reassessment process, as set forth in Section 7.4.

(b) ADNUs. Interconnection Customers selecting Option (A) do not post Interconnection Financial Security for ADNUs. The cost estimate provided in the Phase I Interconnection Studies establishes the basis for the initial Interconnection Financial Security Posting under Section 11.2 for Interconnection Customers selecting Option (B). The Phase II Interconnection Studies shall refresh the cost estimate for ADNUs and shall provide the basis for second and third Interconnection Financial Postings as specified in Section 11.

The ADNU cost estimates provided any Interconnection Study report are estimates only and do not provide a maximum value for cost responsibility to an Interconnection Customer for ADNUs. However, subsequent to the Interconnection Customer's receipt of its Phase II Interconnection Study report, an Interconnection Customer having selected Option (B) may have its ADNUs adjusted in the reassessment process undertaken under Section 7.4. Accordingly, for such Interconnection Customers, the most recent annual

reassessment undertaken under Section 7.4 shall provide the most recent cost estimates for the Interconnection Customer's ADNUs.

10.2 Interconnection Customers in the Independent Study Process.

(a) RNUs and LNUs. the maximum value for the Interconnection Customer's Financial Security for RNUs shall be established by the lesser of the costs for such Network Upgrades assigned to the Interconnection Customer in the final System Impact Study report or final Facilities Study report.

For such Interconnection Customers choosing Full Capacity or Partial Capacity Deliverability status, the maximum value of LDNUs shall be established by the lesser of the costs for such Network Upgrades assigned to the Interconnection Customer in the final Phase I Interconnection Study or the final Phase II Interconnection Study.

The Interconnection Customer's maximum cost responsibility for RNUs and LDNUs shall be subject to further adjustment based on the results of the annual reassessment process, as set forth in Section 7.4.

(b) ADNUs. Interconnection Customers selecting Option (A) do not post Interconnection Financial Security for ADNUs. The cost estimate provided in the Phase I Interconnection Studies establishes the basis for the initial Interconnection Financial Security posting under Section 11.2 for Interconnection Customers selecting Option (B). The Phase II Interconnection Studies shall refresh the cost estimate for ADNUs and shall provide the basis for second and third Interconnection Financial Postings as specified in Section 11.

The ADNU cost estimates provided any study report are estimates only and do not provide a maximum value for cost responsibility to an Interconnection Customer for ADNUs However, subsequent to the Interconnection Customer's receipt of its Phase II Interconnection Study report, an Interconnection Customer having selected Option (B) may have its ADNU adjusted in the reassessment process undertaken under Section 7.4

* * *

Attachment B – Marked Tariff Sheets

GIDAP Reassessment Initiative

California Independent System Operator Corporation

June 19, 2014

Appendix Y GIP

For Interconnection Requests

Generator Interconnection Procedures (GIP)

6.7 Effect of Phase I Study Cost Estimates on Initial Financial Security Posting and Cost Responsibility

Until such time as the Phase II Interconnection Study report is issued to the Interconnection Customer, the costs assigned to Interconnection Customers for Network Upgrades under this Section 6 of the GIP shall establish the maximum value for the Interconnection Financial Security required from each Interconnection Customer under GIP Section 9 for such Network Upgrades, as well as the maximum value for each Interconnection Customer's total cost responsibility for Network Upgrades. As set forth in Section 9.5 of this GIP, after issuance of the Phase II Interconnection Study, the Interconnection Customer's Interconnection Financial Security obligations and maximum cost responsibility for Network Upgrades will be based on the lesser of the cost estimates set forth in the Phase I and Phase II Interconnection Studies, and is subject to subsequent adjustment pursuant to Section 7.4 of Appendix DD of the CAISO Tariff.

* * *

9.5 Maximum Cost Responsibility For Interconnection Customers

For Interconnection Customers in a Queue Cluster, after the CAISO issues the Phase II Interconnection Study report to the Interconnection Customer, the maximum value for the Financial Security required of each Interconnection Customer and the maximum cost responsibility of each Interconnection Customer for Network Upgrades shall be established by the lesser of the costs for Network Upgrades assigned to the Interconnection Customer in the final Phase I Interconnection Study report or the final Phase II Interconnection Study report.

For Interconnection Customers in the Independent Study Process, the maximum value for the Interconnection Customer's Financial Security and the maximum cost responsibility for Network Upgrades shall be established by the lesser of the costs for Network Upgrades assigned to the Interconnection Customer in the final System Impact Study report or final Facilities Study report.

An Interconnection Customer's maximum cost responsibility for Network Upgrades shall be subject to further adjustment based on the results of the annual reassessment process, as set forth in Section 7.4 of Appendix DD to the CAISO Tariff.

* * *

Appendix DD

Generator Interconnection and Deliverability Allocation Procedures (GIDAP)

* * *

7.4 Reassessment Process

7.4.1 The CAISO will perform a reassessment of the Phase I Interconnection Study base case prior to the beginning of the GIDAP Phase II Interconnection Studies. The reassessment will evaluate the

impacts on those Network Upgrades identified in previous interconnection studies and assumed in the Phase I Interconnection Study of:

(a) Interconnection Request withdrawals occurring after the completion of the Phase II Interconnection Studies for the immediately preceding Queue Cluster;

(b) the performance of earlier queued Interconnection Customers with executed GIAs with respect to required milestones and other obligations;

(c) compliance of earlier queued Interconnection Customers that were allocated TP Deliverability under Section 8.9.3 with the retention criteria;

(d) the results of the TP Deliverability allocation from the prior Interconnection Study cycle; and,

(e) transmission additions and upgrades approved in the most recent TPP cycle.

The reassessment will be used to develop the base case for the Phase II Interconnection Study

7.4.2 Where, as a consequence of the reassessment, the CAISO determines that changes to the previously identified Delivery Network Upgrades in Queue Clusters earlier than the current Interconnection Study Cycle will cause changes to plans of service set out in executed GIAs, such changes will serve as a basis for amendments to GIAs.

7.4.3 Such changes to plans of service in Queue Clusters earlier than the current Interconnection Study Cycle will also serve as the basis for potential adjustments to the maximum cost responsibility for Network Upgrades for Interconnection Customers in such earlier Queue Clusters, as follows:

(i) An Interconnection Customer shall be eligible for an adjustment to its maximum cost responsibility for Network Upgrades if a reassessment undertaken pursuant to this Section 7.4 reduces its estimated cost responsibility for Network Upgrades by at least twenty (20) percent and $1 million, as compared to its current maximum cost responsibility for Network Upgrades based on its Interconnection Studies or a previous reassessment.

The maximum cost responsibility for an Interconnection Customer who meets this eligibility criterion will be the lesser of (a) its current maximum cost responsibility and (b) 100 percent of the costs of all remaining Network Upgrades included in the Interconnection Customer's plan of service.

(ii) If an Interconnection Customer's maximum cost responsibility for Network Upgrades is adjusted downward pursuant to (i) above, and a subsequent reassessment identifies a change on the CAISO's system that occurs after the completion of the Interconnection Customer's Interconnection Studies and requires additional or expanded Network Upgrades, resulting in an increase in the Interconnection Customer's estimated cost responsibility for Network Upgrades above the maximum cost responsibility as adjusted based on the results of a prior reassessment, then the Interconnection Customer's maximum cost responsibility for Network Upgrades will be the estimated cost responsibility determined in the subsequent reassessment, so long as this amount does not exceed the maximum cost responsibility originally established by the Interconnection Customer's Interconnection Studies.

In such cases, where the estimated cost responsibility determined in the subsequent reassessment exceeds the maximum cost responsibility as adjusted based on the results of a prior reassessment, the Interconnection Customer's maximum cost responsibility for Network Upgrades shall be the maximum cost responsibility established by its Interconnection Studies.

The Interconnection Financial Security required of the Interconnection Customer for Network Upgrades shall be adjusted to correspond to each change to the Interconnection Customer's estimated cost responsibility resulting from a reassessment based on the Interconnection Financial Security posting rules set forth in the applicable CAISO interconnection procedures. An Interconnection Customer that receives a downward adjustment to its maximum cost responsibility pursuant to this Section may choose to decline the corresponding adjustment to its Interconnection Financial Security requirement by so notifying the CAISO in writing within ten (10) days of the issuance of the reassessment report that resulted in the downward adjustment of the Interconnection Customer's maximum cost responsibility.

* * *

10.1 Interconnection Customers in a Queue Cluster.

(a) RNUs and LDNUs.

Until the Phase II Interconnection Study report is issued to the Interconnection Customer, the costs assigned to Interconnection Customers for RNUs and LDNUs in the Phase I Interconnection Study report shall establish the maximum cost responsibility for such Network Upgrades and the maximum initial Interconnection Financial Security required in Section 11.2.

After the CAISO issues the Phase II Interconnection Study report to the Interconnection Customer, the maximum value for Interconnection Financial Security required of each Interconnection Customer for RNUs and LDNUs shall be established by comparing the subtotal cost for both RNUs and LDNUs determined in the final Phase I Interconnection Study with~~to~~ the subtotal cost for both RNUs and LDNUs determined in the final Phase II Interconnection Study, and utilizing the lower subtotal. The lower subtotal for both RNUs and LDNUs shall also establish the Interconnection Customers' maximum cost responsibility for RNUs and LDNUs after issuance of the Phase II Interconnection Study report.

The Interconnection Customer's maximum cost responsibility for RNUs and LDNUs shall be subject to further adjustment based on the results of the annual reassessment process, as set forth in Section 7.4.

(b) ADNUs. Interconnection Customers selecting Option (A) do not post Interconnection Financial Security for ADNUs. The cost estimate provided in the Phase I Interconnection Studies establishes the basis for the initial Interconnection Financial Security Posting under Section 11.2 for Interconnection Customers selecting Option (B). The Phase II Interconnection Studies shall refresh the cost estimate for ADNUs and shall provide the basis for second and third Interconnection Financial Postings as specified in Section 11.

The ADNU cost estimates provided any Interconnection Study report are estimates only and do not provide a maximum value for cost responsibility to an Interconnection

Customer for ADNUs. However, subsequent to the Interconnection Customer's receipt of its Phase II Interconnection Study report, an Interconnection Customer having selected Option (B) may have its ADNUs adjusted in the reassessment process undertaken under Section 7.4. Accordingly, for such Interconnection Customers, the most recent annual reassessment undertaken under Section 7.4 shall provide the most recent cost estimates for the Interconnection Customer's ADNUs.

10.2 Interconnection Customers in the Independent Study Process.

(a) RNUs and LNUs. the maximum value for the Interconnection Customer's Financial Security for RNUs shall be established by the lesser of the costs for such Network Upgrades assigned to the Interconnection Customer in the final System Impact Study report or final Facilities Study report.

For such Interconnection Customers choosing Full Capacity or Partial Capacity Deliverability status, the maximum value of LDNUs shall be established by the lesser of the costs for such Network Upgrades assigned to the Interconnection Customer in the final Phase I Interconnection Study or the final Phase II Interconnection Study.

The Interconnection Customer's maximum cost responsibility for RNUs and LDNUs shall be subject to further adjustment based on the results of the annual reassessment process, as set forth in Section 7.4.

(b) ADNUs. Interconnection Customers selecting Option (A) do not post Interconnection Financial Security for ADNUs. The cost estimate provided in the Phase I Interconnection Studies establishes the basis for the initial Interconnection Financial Security posting under Section 11.2 for Interconnection Customers selecting Option (B). The Phase II Interconnection Studies shall refresh the cost estimate for ADNUs and shall provide the basis for second and third Interconnection Financial Postings as specified in Section 11.

The ADNU cost estimates provided any study report are estimates only and do not provide a maximum value for cost responsibility to an Interconnection Customer for ADNUs However, subsequent to the Interconnection Customer's receipt of its Phase II Interconnection Study report, an Interconnection Customer having selected Option (B) may have its ADNU adjusted in the reassessment process undertaken under Section 7.4

* * *

Attachment C – Technical Bulleting

GIDAP Reassessment Initiative

California Independent System Operator Corporation

June 19, 2014

Technical Bulletin

GIDAP Reassessment Process
Reallocation of Cost Shares for Network Upgrades and Posting

October 29, 2013

REVISION HISTORY

VERSION NO. (Must match header)	DATE	REVISED BY	DESCRIPTION
1.0	10/29/2013	R. Emmert	Date the document was created.

TABLE OF CONTENTS

Purpose

This bulletin clarifies California ISO procedures related to the Generation Interconnection and Deliverability Allocation Procedures (GIDAP) reassessment process. The reassessment study is performed annually, prior to the Phase II study for each cluster, pursuant to ISO Tariff Appendix DD. As a result of the reassessment, projects in clusters prior to the current cluster may have changes to their required Network Upgrades (NUs). This bulletin addresses four issues associated with such changes:

1. *Revisions to cost share responsibility for NUs.*
2. *Adjustments to Interconnection financial security posting requirements.*
3. *Calculating the amount of financial security at risk of forfeiture.*
4. *Amendments to Generator Interconnection Agreements.*

This bulletin also addresses how the procedures described herein will be implemented and discusses the ISO's intention to open a new stakeholder process in 2014 to more broadly address these issues.

Background

As part of the GIDAP cluster study process a reassessment study is performed to develop the base cases for the Phase II studies. This study is described in Section 7.4 of Appendix DD.

7.4 Reassessment Process

7.4.1 The ISO will perform a reassessment of the Phase I Interconnection Study base case prior to the beginning of the GIDAP Phase II Interconnection Studies. The reassessment will evaluate the impacts on those Network Upgrades identified in previous interconnection studies and assumed in the Phase I Interconnection Study of:

(a) Interconnection Request withdrawals occurring after the completion of the Phase II Interconnection Studies for the immediately preceding Queue Cluster;

(b) The performance of earlier queued Interconnection Customers with executed GIAs with respect to required milestones and other obligations,

(c) Compliance of earlier queued Interconnection Customers that were allocated TP Deliverability under this GIDAP with the retention criteria;

(d) The results of the TP Deliverability allocation from the prior Interconnection Study cycle; and,

(e) Transmission additions and upgrades approved in the most recent TPP cycle.

The reassessment will be used to develop the base case for the Phase II Interconnection Study.

7.4.2 Where, as a consequence of the reassessment, the ISO determines that changes to the previously identified Delivery Network Upgrades in Queue Clusters earlier than the current Interconnection Study Cycle will cause changes to plans of service set out in executed GIAs, such changes will serve as a basis for amendments to GIAs.

The reassessment is not an amendment to the Phase I or Phase II Interconnection Study. The first reassessment performed under the GIDAP was conducted to develop the base case for the Cluster 5 Phase II study. That reassessment indicated that due to project withdrawals, a number of network upgrades were no longer needed for projects that were originally studied in clusters prior to cluster 5. This affects 83 pre-Cluster 5 projects. Each affected project was given a reassessment study report documenting changes to the plan of service for their project. Some of the reassessment study reports provided cost information related to the remaining NUs required for the project, which showed a reduction in the project's total cost responsibility for NUs. However, the report did not attempt to reallocate the cost share responsibility for remaining NUs where the number of projects in the relevant study group utilizing the remaining NUs had decreased subsequent to the issuance of the Phase II study reports due to project withdrawals. Without reallocating the cost share responsibility for such NU portions to the projects still in the study group, the costs of the remaining NUs that were previously borne by withdrawn projects would be inappropriately shifted to the applicable Participating TO. In other words, if the sum of the cost share percentages of all projects in a study group utilizing a particular NU becomes less than 100 percent due to project withdrawals, absent a reallocation of the costs of the NU, the shortfall would be borne by the Participating TO. The ISO does not believe that this outcome is consistent with the underlying methodology and purpose of its cluster study procedures and the establishment of the cost cap, which was to define the risk to the Participating TOs.

Some Interconnection Customers (ICs) received a reassessment study report indicating a change in their plans of service resulting in a lower overall network upgrade costs and requested revisions to their second Interconnection Financial Security (IFS) posting amounts. Although the ISO intended to communicate changes to the plan of service of projects in clusters prior to the current cluster, where costs typically decrease, but also have the potential to increase, the ISO did not intend that the reassessment study process would result in revisions to

customers' existing security postings. However, in light of recent concerns raised by stakeholders in the ongoing Interconnection Process Enhancements (IPE) initiative, the ISO has reviewed this issue more closely. In addition, the ISO has reviewed a related issue, which concerns the amount of IFS that should be at risk of forfeiture if a customer withdraws its project following a revision to its plan of service as a result of the reassessment.

Reassessment Study Process Clarifications

Revisions to Cost Share Responsibility for NUs

The Cluster 5 reassessment study results have revealed an issue related to the sharing of costs when one or more of the projects that were originally assigned a cost share responsibility for NUs have withdrawn. In these cases, there is a question of how to allocate the costs of the NUs that are still needed for the remaining projects in the study group, particularly in cases where some of the network upgrades originally identified for the study group have been removed. As described above, the results of the initial reassessment study indicated that such costs would be assigned to the applicable Participating TO. However, after considering this issue more closely, including examining the relevant provisions and underlying purpose of its interconnection procedures, the ISO determined that this is not the proper way to treat such costs.

The ISO's interconnection procedures define a customer's maximum cost responsibility (often referred to as the "cost cap") as the lesser of the costs assigned to that customer in the Phase I and Phase II interconnection studies.[1] The purpose of this cost cap is to ensure that customers have certainty regarding their maximum cost exposure relatively early in the interconnection process.[2] The tariff does not, however, restrict the ISO and/or applicable Participating TO from reallocating the costs of NUs among customers in a study group, so long as such reallocation does not result in a customer being assigned costs greater than its cost cap.[3] Moreover,

[1] CAISO Tariff Appendix Y, Section 9.5; Appendix DD, Section 10.

[2] *See* Generator Interconnection Process Reform Initiative Tariff Amendment, Docket No. ER08-1317 (July 28, 2008), Transmittal Letter at 14, 25 (noting that a cost cap establishing a customer's maximum cost responsibility was adopted in order to address the cost uncertainty that resulted from restudies under the serial process); *California Independent System Operator Corp.*, 124 FERC¶ 61,292 (2008) at P 178.

[3] *See, e.g.,* CAISO Tariff Appendix Y, Section 6.7 ("the Interconnection Customer's Interconnection Financial Security obligations and maximum cost responsibility for Network Upgrades will be based on the lesser of the cost estimates set forth in the Phase I and Phase II Interconnection Studies."); Section 9.5 ("For Interconnection Customers in a Queue Cluster, after the CAISO issues the Phase II Interconnection Study report to the Interconnection Customer, the maximum value for the Financial Security required of each Interconnection Customer and the maximum cost responsibility of each Interconnection Customer

the tariff does not contemplate that Participating TOs will be held responsible for NU costs except in those cases when a NU is still needed and the costs of that NU cannot be assigned to customers in the study group that originally triggered the need for the NU, either because those costs would exceed the remaining customers' cost caps, or because no customers remain in the study group.[4] Providing customers in a study group with the cost benefits of removed NUs, while requiring the Participating TO to assume the costs of the NUs still needed that were previously assigned to the withdrawn customers, would provide the remaining customers with an unjustified relief of their cost responsibility.

A significant number of study groups have had one or more NUs removed from their plans of service. This has reduced the total cost responsibility for the remaining customers in such study groups, but does not reset their cost caps. For the reasons described above, the ISO has determined that the most appropriate treatment of the costs of still-needed NUs in such study groups is to reallocate the costs of such NUs among the remaining projects in the study group, based on their pro rata share of the original allocation, up to their cost cap. To the extent that such reallocation does not account for the entire costs of the remaining NUs for a study group, then the excess costs will be assumed by the applicable Participating TO. This assumption of excess costs by the applicable Participating TO pursuant to the reallocation methodology is consistent with the risk that the Participating TOs currently face under the current tariff due to defining the cost cap as the lesser of the costs assigned to customers in the Phase I and Phase II interconnection studies.[5]

This reallocation will be done mathematically as compared to the original study process of allocating costs on a pro rata basis of the short circuit duty contribution for reliability NUs, and on a flow impacts based on the distribution factor methodology for deliverability NUs. The mathematical approach will be used in lieu of the methodologies used in the original studies because utilizing the original study methodology would effectively require full cluster studies for all previous cluster and serial projects, which would adversely impact the GIDAP study timelines.

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for Network Upgrades shall be established by the lesser of the costs for Network Upgrades assigned to the Interconnection Customer in the final Phase I Interconnection Study report or the final Phase II Interconnection Study report."); Appendix DD, Section 10.

[4] *See* CAISO Tariff Appendix DD, Section 14.2.2. "Construction of Network Upgrades that are or were an Obligation of an Entity other than the Interconnection Customer."

[5] *See California Independent System Operator Corp.*, 124 FERC ¶ 61,292, at P 180 (2008) (finding that the tariff provisions are "reasonable to establish cost certainty and to equitably share cost responsibilities among interconnection customers and the PTOs [Participating TOs] during the interconnection process.").

The example provided below is used to illustrate how the reallocation of costs will be accomplished.

Example of Cost Reallocation for NUs in the Reassessment Process

In this example there are three projects that share cost responsibility for two NUs. All three projects have provided their second IFS posting and their cost share for each NU is shown in the Table 1 below.

Table 1

Initial Cost Allocations

	NU-1 Cost	NU-2 Cost	Total NU Cost (Cost Cap)	Cost Share of NU-1	Cost Share of NU-2
Project A	$8,000,000	$9,000,000	$17,000,000	20%	30%
Project B	$12,000,000	$9,000,000	$21,000,000	30%	30%
Project C	$20,000,000	$12,000,000	$32,000,000	50%	40%
Total	$40,000,000	$30,000,000	$70,000,000	100%	100%

The information in Table 1 is shown graphically in Figure 1 below.

Figure 1

Total Phase II Cost Responsibilities

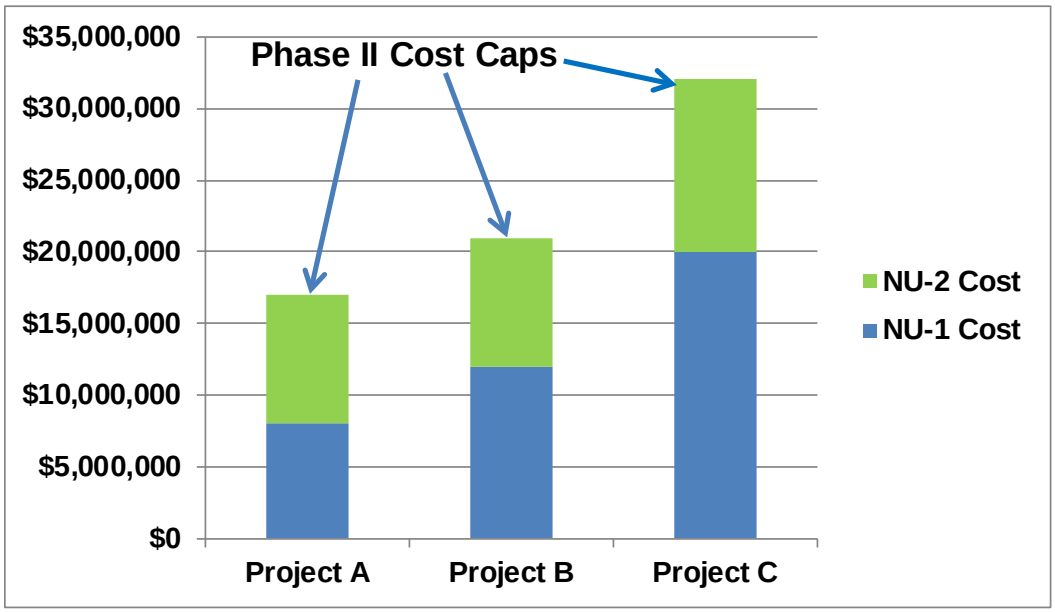


Table 2 below illustrates the example where Project C withdraws, resulting in NU-2 no longer being needed for the remaining active Projects A and B.

Table 2

Project C Withdraws & NU-2 is No Longer Needed

	NU-1 Cost	~~NU-2 Cost~~	Total NU Cost (Cost Cap)	Cost Share of NU-1
Project A	$8,000,000	~~$9,000,000~~	$17,000,000	20%
Project B	$12,000,000	~~$9,000,000~~	$21,000,000	30%
~~Project C~~	~~$20,000,000~~	~~$12,000,000~~	~~$32,000,000~~	~~50%~~
Total	$40,000,000	~~$30,000,000~~	$70,000,000	100%

Figure 2 illustrates how the removal of NU-2 creates “head room” under each remaining project’s cost cap. In this context, “head room” is the difference between the customer’s cost cap and their current total cost responsibility.

Figure 2

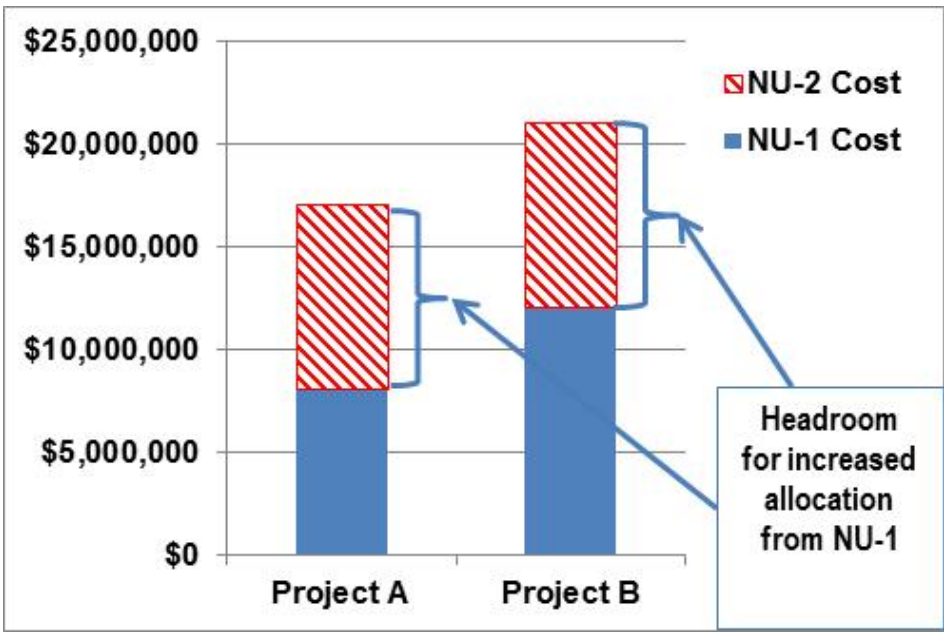


Table 3 shows the revised cost share responsibilities for Projects A and B following the reallocation process within the reassessment study process.

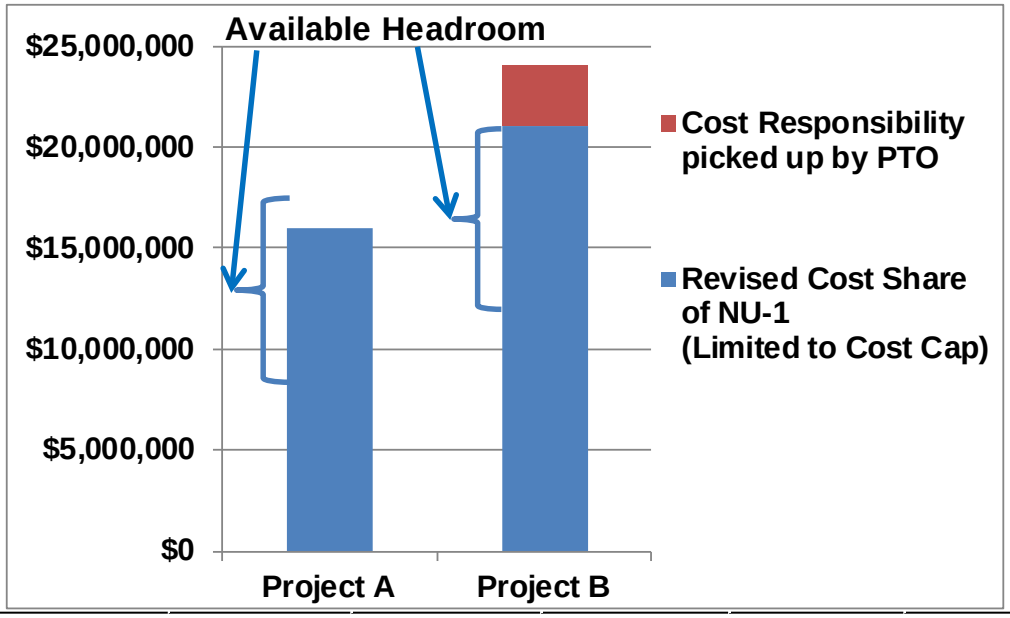
Table 3

Revised Cost Share Allocations After Reassessment

	Cost Share of NU-1 (Prior to Adjustments)	Revised Cost Share of NU-1	Revised Cost Share of NU-1	Revised Cost Share of NU-1 (Limited to Cost Cap)	Cost Responsibility picked up by PTO
Project A	20%	40%	$16,000,000	$16,000,000	$0
Project B	30%	60%	$24,000,000	$21,000,000	$3,000,000
Total	50%	100%	$40,000,000	$37,000,000	$3,000,000

Figure 3 shows that Project A still has some headroom after the reallocation of costs associated with NU-1 with its cost cap of $17 million. However, Project B's $21 million cost cap would be exceeded in the reallocation and its allocation on NU-1 costs is capped at the $21 million amount. In this instance the Participating TO will pick up the remaining $3 million to fully cover NU-1's total cost.

Figure 3



Adjustments to Interconnection Financial Security Posting Requirements

Some interconnection customers who received a reassessment study report indicating a change in their plans of service resulting in lower overall network upgrade costs have requested revisions to their IFS posting amounts. The reassessment process, however, was never intended to amend the Phase I or Phase II Interconnection Study and therefore never intended to result in adjustments to IFS postings when a project's total cost responsibility changes as a result of the reassessment. Neither the GIP nor the GIDAP procedures provide a mechanism for adjustments to IFS postings between the three posting milestones.[6] Therefore, the IFS postings have and will continue to be based on the total cost responsibility assigned to the Interconnection Customer for Network Upgrades in either the final Phase I Interconnection Study Report, or the final Phase II Interconnection Study Report, whichever is lower.

To the extent that a customer's network upgrade costs are reduced as a result of a reassessment, such reduction will be reflected in the customers next scheduled IFS posting. Attempting to adjust individual postings for all customers whose costs are impacted by the reassessment results would create a substantial administrative burden for the ISO and the Participating TO. Moreover, because reassessment results do not change a customer's cost cap, it is possible that customers who realize a reduction in network upgrade costs in one reassessment may see an increase in costs in a subsequent reassessment, which would require the ISO to then increase the customer's required IFS posting amount, exacerbating the administrative burden.

The limited exception to this rule is in circumstances where a customer's total cost responsibility for NUs decreases as a result of the reassessment study such that the customer's second posting requirement is greater than 100 percent of its revised total share of network upgrade cost responsibility. The ISO will inform customers in this situation and allow them to request an adjustment to their IFS amounts prior to the next scheduled posting requirement. If a customer in this situation requests an adjustment, the ISO and the applicable Participating TO will permit the customer to modify its IFS so that the total IFS posted in favor of the Participating TO for NUs equals but does not exceed 100 percent of the customer's current total estimated cost share of NUs, based on the most recent reassessment results. The revised

[6] *See* CAISO Tariff Appendix Y, Sections 9.2, 9.3; Appendix DD, Sections 11.2, 11.3 (describing the system of three discrete IFS posting milestones, with adjustments to a customer's financial security being performed in conjunction with these three postings).

total cost responsibility for NUs will include any reallocation of cost responsibility based on withdrawals of projects that once shared in the NU's total costs, per the methodology described in the previous section of this bulletin. In addition, if the total estimated share of NUs increased in subsequent reassessment studies to the point where the current IFS posting amount no longer meets the 30 percent second posting requirement, the ISO will require the customer to increase its IFS posting to the 30 percent amount.

This limited exception is necessary to prevent a customer from having to maintain a posting of IFS that is more than 100 percent of the customer's revised total share of network upgrade costs. The limited exception is consistent with Commission precedent indicating that it would be inappropriate for the ISO to require a customer to maintain financial security in excess of 100 percent of the customer's cost responsibility.[7]

Calculating the amount of financial security at risk of forfeiture

The ISO will utilize any revisions to the plan of service that may occur throughout the life of a project as the basis for determining the amount of financial security that is at risk of forfeiture upon a project's withdrawal. As such, if a customer's total estimated share of network upgrade costs decline as a result of the most recent reassessment, then that new cost estimate will be used to calculate the amount of financial security that is at risk of forfeiture if the customer withdraws. The rationale for this outcome is the same as that underlying the adjustment of postings for customers whose second postings exceed 100% of their most recent estimate of network upgrade costs, as discussed above. Namely, it would not be appropriate to require a customer to forfeit security based on an amount that is greater than the most recent estimate of its total allocated network upgrade costs.

Amendments to Generator Interconnection Agreements

The procedures described in this bulletin will be used to calculate any revised cost responsibility sharing for NUs that were impacted by the Cluster 5 reassessment results. Those projects affected will receive a revised reassessment study report.

[7] *See California Independent System Operator Corp.*, 133 FERC ¶ 61,223, at P 108 (2010) ("Consistent with Commission precedent, we agree with Wellhead that requiring security postings to be modified to ensure that financial security deposits do not exceed the customer's possible cost exposure for its resized project is reasonable."); *California Independent System Operator Corp.*, 132 FERC ¶ 61,005, at P 37 (2010) ("Our review indicates that the appropriate limitations should be revised so that the interconnection customer who switches from Full Capacity to Energy-Only should have its financial security requirements limited to no greater than the amount of Reliability Upgrades required for its Energy-Only interconnection.").

Such revised reports will serve as the basis for any required amendments to executed GIAs, or for revisions to GIAs currently under negotiation.

Implementation

Implementation of the procedures described in this Bulletin will begin on the date of its posting. The ISO will calculate the revised total cost responsibility for customers affected by this Bulletin. The results will be included in revised reassessment study reports that will be sent to each affected customer. These revised reports are anticipated to be completed before the end of this year.

In addition, the ISO will open a new initiative in 2014 to consider more broadly the matter of adjustments to security posting requirements resulting from the reassessment studies.

Attachment D – Draft Final Proposal

GIDAP Reassessment Initiative

California Independent System Operator Corporation

June 19, 2014

Generator Interconnection and Deliverability Allocation Procedures (GIDAP) Reassessment

Draft Final Proposal

April 2, 2014

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Generator Interconnection and Deliverability Allocation Procedures (GIDAP) Reassessment

Draft Final Proposal

1 Introduction

In this paper, the ISO offers proposals resulting from an examination of three topics associated with the Generator Interconnection and Deliverability Allocation Procedures (GIDAP) reassessment that came to light following the first annual reassessment performed in 2013. These topics include whether to adjust (1) cost caps and (2) interconnection financial security posting requirements based on the results of a reassessment. The third topic is whether to use funds forfeited by withdrawing interconnection customers to offset the financial impacts of project withdrawals on interconnection customers remaining in the queue and on the applicable participating transmission owners (PTOs). This last topic was previously designated as Topic 14 in the 2013 Interconnection Process Enhancements initiative, however given the synergy with the first two topics above, the use of forfeited funds topic has been moved into this initiative.

The ISO launched the GIDAP reassessment initiative to address these three topics when it published an issue paper on December 16, 2013. Based on a review of stakeholder comments, the ISO published a straw proposal paper on February 12. After considering stakeholder feedback on the straw proposal, the ISO further refined its proposals and now offers its draft final proposal in the present paper. The ISO has scheduled a stakeholder web conference for April 9 from 1:00 p.m. to 3:00 p.m. (Pacific Time) to discuss this draft final proposal with stakeholders. The ISO is requesting that stakeholders submit written comments to GIP@caiso.com by 5:00 p.m. (Pacific Time) on April 23. The ISO anticipates requesting ISO Board approval in May.

2 Background

2.1 Reassessment overview

The annual reassessment is an element of the GIDAP approved by FERC in 2012. The GIDAP rules are contained in ISO Tariff Appendix DD; specifically, Section 7.4 describes the reassessment. The reassessment is performed annually, prior to the beginning of the phase II interconnection study for each cluster. The primary purpose of the reassessment is to develop the base case for the phase II study.[1] In addition, the reassessment is an essential part of the preparation for the

[1] *See* ISO Tariff Appendix DD, Section 2.4.3.

allocation of transmission plan deliverability (TP deliverability) to eligible projects that have completed the phase II study.[2] To accomplish these functions, the reassessment evaluates the impacts on those network upgrades identified in previous interconnections studies and assumed in the phase I interconnection study based on:

a. Interconnection request withdrawals occurring after the completion of the phase II studies for the immediately preceding queue cluster;
b. The performance of earlier-queued interconnection customers with executed generator interconnection agreements (GIAs) with respect to required milestones and other obligations;
c. Compliance of earlier-queued interconnection customers that were allocated TP deliverability under the GIDAP with the retention criteria;
d. The results of the TP deliverability allocation from the prior interconnection study cycle; and,
e. Transmission additions and upgrades approved in the most recent transmission planning cycle.[3]

As a consequence of the reassessment, the ISO may identify changes to previously identified network upgrades in the queue clusters earlier than the current interconnection study cycle,[4] which, in turn, may cause changes to the plans of service set out in executed generator interconnection agreements. The GIDAP specifies that such changes will serve as a basis for amendments to generator interconnection agreements.[5]

2.2 2013 reassessment

The ISO performed the first annual reassessment in 2013. This reassessment evaluated the network upgrade requirements for generation projects queued ahead of cluster 5 and established the study assumptions in the base case for the cluster 5 phase II study to be performed subsequent to the reassessment study.

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[2] TP deliverability is defined in Appendix A to the ISO tariff as "[t]he capability, measured in MW, of the CAISO Controlled Grid as modified by transmission upgrades and additions modeled or identified in the annual Transmission Plan to support the interconnection with Full Capacity Deliverability Status or Partial Capacity Deliverability Status of additional Generating Facilities in a specified geographic or electrical area of the CAISO Controlled Grid."

[3] ISO Tariff Appendix DD, Section 7.4.1.

[4] The interconnection study cycle is defined in Appendix A to the ISO tariff as all requirements, actions, and respective obligations of the ISO, PTO, and interconnection Customer under the Generator Interconnection Procedures (GIP) set forth in Appendix Y or the GIDAP set forth in Appendix DD applicable to an interconnection request submitted in the applicable annual cluster application window and including execution by the parties or submission to FERC by one or more parties of a GIA. The GIP applies to queue clusters prior to cluster 5 and the GIDAP applies to cluster 5 and subsequent queue clusters.

[5] ISO Tariff Appendix DD, Section 7.4.2.

The ISO issued the results of the 2013 reassessment in September. The results indicated that due to project withdrawals, a number of previously identified network upgrades in queue clusters prior to cluster 5 were no longer needed to support the interconnection of customers remaining in the queue. Also, due to system condition changes, alternate network upgrades were identified in some study areas. The affected projects were given an area reassessment report documenting the changes to network upgrades. Some of the affected projects were also given individual reassessment reports. Some of the individual customer reassessment reports showed a reduction in the customer's total upgrade costs due to the elimination of network upgrades from the customer's plan of service because of withdrawals of other customers from the study group. Other individual reassessment reports listed the network upgrades that were no longer needed and the network upgrades that were not previously identified but are now required; however, those reassessment reports did not indicate any adjustments to the costs.

After the issuance of the reassessment reports, the ISO realized that it needed to address reallocation of the costs of network upgrades still needed by remaining customers in the queue up to their cost caps. This issue was not addressed in any of the reports. The ISO issued a technical bulletin on October 29 explaining the rationale and methodology for reallocating the costs of the remaining upgrades to remaining customers, up to their cost caps.[6] The October 29 technical bulletin also addressed an issue raised by customers who received a reassessment report indicating lower overall network upgrade costs as to whether those lower costs would result in a reduction in their posted interconnection financial security. The October 29 technical bulletin explained that the tariff provided for adjustments to financial security only at the discrete posting milestones, and therefore adjustments would be permitted only for those customers whose posted security exceeded 100 percent of their estimated network upgrade costs as reflected in the reassessment report.

2.3 Stakeholder process

2.3.1 *Actions leading up to this initiative*

On November 6, 2013, the ISO held a web conference to discuss the technical bulletin with stakeholders. Representatives of generation developers were generally opposed to the reallocation described in the technical bulletin, while SCE and PG&E strongly supported the technical bulletin. Some of the developer representatives also took the position that the results of the reassessment process should be treated as an amendment to the phase I and phase II interconnection study, and as such a customer's maximum cost responsibility or cost cap should be

[6] *Technical Bulletin: GIDAP Reassessment Process – Reallocation of Cost Shares for Network Upgrades and Posting* (Oct. 29, 2013). The October 29 technical bulletin is available on the ISO website at http://www.caiso.com/planning/Pages/GeneratorInterconnection/Default.aspx.

adjusted to reflect any cost reduction resulting from the reassessment. In addition, some interconnection customers continued to advocate for revisions to the interconnection financial security amounts they had previously posted. During the web conference, the ISO offered to work with stakeholders to develop a process for addressing the concerns expressed by generation developers and present that to the ISO Governing Board in December.

That same day, the ISO received a letter from the Large-scale Solar Association (LSA) expressing concerns related to the recent reassessment results and the October 29 technical bulletin. In the letter LSA expressed appreciation for ISO Management's offer to work with stakeholders to develop a proposal to present to the ISO Board in December "but respectfully suggests that the problems with the [Reassessment] Study cannot wait that long to be fixed." LSA asserted that generation developers have made commercial commitments based on the reassessment by entering into negotiations for long-term power purchase agreements and were moving to finalize their power purchase agreements and generator interconnection agreements. LSA expressed concern that the developers' progress would be adversely impacted by the additional time they must wait for the revised results and suggested that "the ISO should keep the [Reassessment] Study results already issued for this cycle, and revise both the IFS [interconnection financial security] postings and cost allocations accordingly." In the letter LSA also indicated concern with the technical bulletin's explanation that only projects with financial security postings exceeding 100 percent of their revised total shares of network upgrade costs will be permitted to modify their postings, as well as the clarification that the reassessment report does not adjust a customer's maximum cost responsibility or cost cap.

LSA expressed these same concerns and made the same request during the opportunity for public comments at the November 7, 2013 meeting of the ISO Board. Recurrent Energy made similar comments. Pacific Gas and Electric Company (PG&E) and Southern California Edison Company (SCE) provided comments supporting the technical bulletin and emphasized that the reallocation of costs as explained in the technical bulletin is critical to prevent inappropriate cost shifts to the PTOs. Further, PG&E asserted that the reallocation process would provide the actual costs for network upgrades that projects should be using in power purchase agreement processes to ensure that the most cost-effective projects are chosen.

In response to these public comments, ISO Management conveyed three points during the November 7 ISO Board meeting:

1. The reassessment process never contemplated an adjustment in cost caps, and making such adjustments could have broad policy implications. Thus, any consideration of adjusting cost caps in subsequent reassessment cycles would need to be examined in a comprehensive manner and the ISO is committed to do so in a stakeholder process to begin later in 2013.
2. Making an adjustment in interconnection financial security postings beyond that provided in the technical bulletin may have broad policy implications and would therefore need to be

examined in a comprehensive manner. The ISO is committed to engage with stakeholders in the same stakeholder process mentioned in (1) above to examine the question of allowing adjustments to financial security postings pursuant to the results of the reassessment and, if the result of the stakeholder process determines that such adjustments are appropriate, to make such adjustments available to the projects impacted by the current reassessment.

3. With regard to the technical bulletin's intent to revise the reassessment results issued in September by reallocating the costs of still-needed network upgrades, potentially up to the remaining customers' cost caps, the ISO acknowledged the concerns expressed by generators. Generation developers asserted that they have made commercial commitments based on the original reassessment results issued in September and have also asserted that the ISO's determination, a month later, to reallocate the costs within a timeframe that does not comport with their deadlines for finalizing their power purchase agreements would put these projects in jeopardy. Therefore, the ISO committed to conduct an expedited stakeholder process to consider whether it would be appropriate to forego performing the reallocation for the reassessment results reported in September, as described in the October 29 technical bulletin.

Thus, the ISO proposed to address these issues in two parts. First, it would immediately address item (3) through an expedited stakeholder process. Second, it would address items (1) and (2) in a more comprehensive manner through a new stakeholder initiative.

Following through on its commitment to address item (3) in an expedited manner, the ISO posted an issue paper on November 13, less than a week after the Board meeting.[7] In the issue paper, the ISO gave consideration to whether it would be appropriate to forego the reallocation of the costs of still-needed network upgrades among the remaining projects in a study group as described in the technical bulletin. The issue paper presented two options for stakeholder consideration. Under the first option, the ISO proposed to implement the cost reallocation approach, as described and illustrated in the October 29 technical bulletin. Under the second option, the ISO would not revise the 2013 reassessment results released in September by reallocating the costs of still-needed network upgrades among the remaining projects in a study group. The second option, if it had been adopted, would have applied only to the 2013 reassessments. This would mean that, depending on the outcome of the stakeholder process to address items (1) and (2), a customer's total cost responsibility could be adjusted upwards – but no higher than its maximum cost responsibility – based on the results of a subsequent reassessment.

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[7] *Issue Paper: Technical Bulletin: GIDAP Reassessment Process – Reallocation of Cost Shares for Network Upgrades and Posting (dated 10/29/13)* (Nov. 13, 2013). The November 13 issue paper is available on the ISO website at http://www.caiso.com/planning/Pages/GeneratorInterconnection/Default.aspx.

The ISO ultimately determined that it could address stakeholders' concerns by expediting the calculation and dissemination of the results of the reallocation, so that it could make this information available to affected interconnection customers in approximately the same amount of time it would take to assess the submitted stakeholder comments and make a decision between the two options offered in the November 13 issue paper. The ISO issued a market notice on November 20 informing stakeholders that the ISO had decided to implement the reallocation of costs as described in the October 29 technical bulletin (*i.e.*, to implement the first option described above). On November 27, the ISO issued revised cost allocation percentages and revised cost share amounts to affected generator interconnection customers based on the 2013 reassessment results.

2.3.2 *GIDAP reassessment initiative*

The ISO launched the GIDAP reassessment initiative to address topics within the scope of this initiative when it published an issue paper on December 16, 2013. Following release of the issue paper, the ISO held a stakeholder web conference on January 8, 2014 and stakeholders provided written comments on January 15.

Based on a review of the January 8 stakeholder comments, the ISO published a straw proposal paper on February 12. The ISO held a stakeholder web conference on February 19 and stakeholders provided written comments on March 5.

After consideration of this most recent stakeholder feedback, the ISO refined its proposals and now offers this draft final proposal. To provide an opportunity to discuss this draft final proposal with stakeholders, the ISO has scheduled a stakeholder web conference for April 9 from 1:00 p.m. to 3:00 p.m. (Pacific Time). The ISO is requesting that stakeholders submit written comments to GIP@caiso.com by 5:00 p.m. (Pacific Time) on April 23.

The stakeholder process schedule for this initiative is provided in the following table.

Table 1 – Stakeholder process schedule

Date	Milestone
December 16, 2013	Post Issue Paper
January 8, 2014	Stakeholder web conference
January 15	Stakeholder comments due
February 12	Post Straw Proposal
February 19	Stakeholder web conference
March 5	Stakeholder comments due

Table 1 – Stakeholder process schedule	
Date	**Milestone**
April 2	Post Draft Final Proposal
April 9	Stakeholder web conference (1:00 p.m. to 3:00 p.m. Pacific Time)
April 23	Stakeholder comments due by 5:00 p.m. (Pacific Time)
May 28-29	ISO Board meeting
June	FERC filing

3 Topics

This section addresses the three topics that constitute the scope for this initiative and the ISO draft final proposal for each. The three topics are (1) adjustments to cost caps; (2) adjustments to posting requirements; and, (3) use of forfeited funds. The draft final proposals presented here are the culmination of several rounds of ISO proposals and stakeholder feedback within this initiative. The ISO appreciates the time and effort that stakeholders have committed to this initiative and the informative feedback that stakeholders have provided.

3.1 Adjustments to cost caps

The ISO's interconnection procedures for queue clusters specify the means for establishing the maximum cost responsibility of each interconnection customer for network upgrades. This maximum responsibility is often referred to as a customer's "cost cap." The GIDAP initiative never contemplated that a downward adjustment to a customer's cost cap would result from the annual reassessment. Because the reassessment is performed annually and may, in each annual cycle, modify the network upgrades required in an electrical area, making downward adjustments to cost caps would have significant ramifications for the allocation of cost responsibilities under the ISO's interconnection process. For example, cost cap reductions could increase the risk of a PTO having to up-front fund, in whole or in part, network upgrades that are the responsibility of interconnection customers in accordance with the ISO tariff. The focus of this section of the issue paper is to examine these policy implications and consider whether such adjustments could, and should, be made.

To accomplish this, section 3.1.1 first provides some background on the means for establishing cost caps pursuant to the ISO tariff. Section 3.1.2 discusses the purpose of cost caps and related FERC precedent. Section 3.1.3 examines the policy implications of adjusting cost caps and considers

whether such adjustments could and should be made. Section 3.1.4 provides a summary of stakeholder comments on the February 12 straw proposal paper. Finally, in section 3.1.5 the ISO offers its draft final proposal for this topic.

3.1.1 *Current ISO tariff language establishing cost caps*

The provisions of the GIP and GIDAP clearly state that an interconnection customer's maximum cost responsibility for network upgrades is based on the lower of the phase I or phase II interconnection study cost estimates.[8]

For projects in queue clusters prior to cluster 5, after the ISO issues the phase II interconnection study report to the interconnection customer, the maximum cost responsibility of each interconnection customer for network upgrades and the resulting maximum value for the interconnection financial security required of each interconnection customer are established by the lesser of the costs for network upgrades assigned to the customer in the final phase I interconnection study report or the final phase II interconnection study report.[9]

For projects in queue cluster 5 and later, after the ISO issues the phase II interconnection study report to the interconnection customer, the maximum cost responsibility for each interconnection customer for reliability network upgrades (RNUs) and local deliverability network upgrades (LDNUs) is established by the lower subtotal cost for RNUs and LDNUs assigned to the customer in the final phase I interconnection study and the final phase II interconnection study.[10] With regard to area deliverability network upgrades (ADNUs), interconnection customers electing Option (A) under Appendix DD do not fund or post interconnection financial security for ADNUs; however, customers electing Option (B) under Appendix DD and not receiving an allocation of TP deliverability sufficient to provide their requested deliverability status will be responsible for the full cost of their required ADNUs, so there is no cap on their cost responsibility for ADNUs.[11]

3.1.2 *Purpose of cost caps*

The imposition of binding cost caps for network upgrades based on the lesser of the phase I and phase II study results was an important change in cost allocation policy made through the Generator Interconnection Process Reform (GIPR) initiative in 2008. The ISO has consistently explained that the purpose of including, as part of the cluster study process, a cap on interconnection customers' responsibility for network upgrades is to ensure that generation developers know, relatively early in the interconnection process, their maximum responsibility to

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[8] Serial projects do not have cost caps but could be impacted by the reassessment process.

[9] ISO Tariff Appendix Y, Section 9.5.

[10] ISO Tariff Appendix DD, Section 10.1(a).

[11] ISO Tariff Appendix DD, Section 10.1(b). Options (A) and (B) are defined in Section 7.2 of Appendix DD.

finance needed transmission upgrades. This is in contrast to the prior serial study process where an interconnection customer's total cost exposure could change dramatically depending on decisions made by other interconnection customers (*e.g.*, a decision to withdraw from the interconnection queue).[12] One of the main reasons for providing interconnection customers with certainty as to their maximum cost exposure early in the process is to encourage customers to make decisions regarding the viability of their projects as early as possible. Providing customers with their maximum cost exposure early in the process is also important in light of the increased financial security commitments that GIPR required from interconnection customers. As FERC explained in its order conditionally accepting the GIPR filing:

> [I]n exchange for the posting of interconnection financial security, interconnection customers will have the benefit of knowing their total exposure to network upgrade costs well in advance of construction. Unlike the current [*i.e.*, serial] LGIP [Large Generator Interconnection Procedures] where security requirements can rise and fall as estimates change, the GIPR LGIP eliminates that uncertainty. . . . Finally, interconnection customers benefit from the GIPR LGIP's adoption of a cap on the costs of network upgrades.[13]

Of course, by limiting the cost responsibility of customers for network upgrades, the cost cap also creates some risk that a PTO will have to up-front fund some portion of the upgrades. Such risk exists because for projects in a queue cluster prior to cluster 5, the applicable PTO is responsible for funding any capital costs for network upgrades that exceed the maximum cost responsibility assigned to the interconnection customers.

It is also important to recognize that the cost cap is just that – a limit on a customer's *maximum* responsibility for network upgrade costs. In other words, the cost cap does not definitively establish a customer's final cost responsibility for network upgrade costs. Under the GIP and GIDAP, the amount of network upgrade costs that an interconnection customer is ultimately responsible for up-front funding may vary as a result of withdrawals from the queue, so long as it does not exceed its established cost cap.[14] If cost caps were to be ratcheted downwards whenever

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[12] *See* Transmittal Letter for GIPR Tariff Amendment, Docket No. ER08-1317-000, at 14, 25 (July 28, 2008) (explaining that a cost cap establishing a customer's maximum cost responsibility was adopted in order to address the cost uncertainty that resulted from restudies under the serial process); *California Independent System Operator Corp*., 124 FERC¶ 61,292, at P 178 (2008) (explaining that "the GIPR proposal establishes a cap on the interconnection customer's liability for network upgrades by which cost uncertainty resulting from restudies that exists under the current serial studies approach is eliminated").

[13] *California Independent System Operator Corp.*, 124 FERC ¶ 61,292, at P 156 (2008).

[14] *See* ISO Tariff, Appendix Y, Section 12.3.1 ("Unless the applicable Participating TO(s) elects to fund the full capital for identified Reliability and Delivery Network Upgrades, they shall be funded by the Interconnection Customer(s) either by means of drawing down the Interconnection Financial Security or by the provision of additional

queue withdrawals allowed some network upgrades to be eliminated, then the relevant PTO would be at risk to up-front fund any cost increases that might result from subsequent queue withdrawals.

This same policy rationale informs the design of the GIDAP – *i.e.*, even though the GIDAP reassessment acknowledges and accounts for interconnection request withdrawals occurring after the completion of the phase II studies for the immediately preceding queue cluster, the GIDAP provisions do not provide for an adjustment to a customer's assigned maximum cost responsibility. Thus, the reassessment does not shift the balance of funding risks between the customers and the PTOs.

3.1.3 *Consideration of cost cap adjustments*

As noted above, the reassessment is specifically intended to account for project withdrawals (and other changes) in order to develop the base case for the phase II interconnection study for GIDAP customers. It was never intended to serve as the basis for adjusting interconnection customers' maximum cost responsibility. Amending the ISO tariff to adjust customers' cost caps based on the results of the annual reassessments would undermine the fundamental structure and balances established in the ISO's GIPR reforms.

Adjusting interconnection customers' cost caps based on the reassessment results would create the potential for inequitable shifting of network upgrade funding responsibilities to the PTOs. As explained above, the cost cap was established so that customers would know early in the interconnection process their *maximum* cost exposure. The tariff reflects this protection by providing that PTOs will be responsible for funding network upgrades in those cases when an upgrade is still needed and the costs thereof cannot be assigned to customers in the study group that originally triggered the need for the upgrade, either because those costs would exceed the remaining customers' cost caps, or because no customers remain in the study group but the upgrades are needed for later queued customers.[15] Using the reassessment results to reset customer's cost caps would, however, significantly increase the PTOs' cost exposure, because it would make the PTOs responsible for funding network upgrades that are still needed by interconnection customers in a particular study group any time that an interconnection customer in that study group withdraws from that group, regardless of whether the costs of the still-needed upgrades exceed the remaining customers' phase I/phase II study cost caps. This would, in effect, transform the cost cap from a mechanism designed to provide customers with early information regarding their maximum cost exposure into a means for providing remaining interconnection

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capital, at each Interconnection Customer's election, up to a maximum amount no greater than that established by the cost responsibility assigned to each Interconnection Customer(s) under GIP Sections 7.3 and 7.4.").

[15] *See* ISO Tariff Appendix Y, Section 12.2.2; Appendix DD, Section 14.2.2.

customers with reduced forfeiture risk or other financial benefit, at the expense of the applicable PTOs, when other customers withdraw from the queue.

Moreover, one of the fundamental tenets of the ISO's GIPR reforms was to encourage customers to make decisions regarding project viability as early as possible in the interconnection process. When the ISO interconnection queue was first established, a large proportion of requests were for the interconnection of conventional generation needed to address load growth and plant retirements. Since then, California's renewable portfolio standards and environmental goals have resulted in significant interconnection requests from new renewable solar and wind generation projects. But it is widely anticipated that only a fraction of these generation projects will be needed and actually built. The resulting oversubscribed queue reinforces the need to encourage customers to make commitment decisions as early as possible, including financial posting. Redefining interconnection customers' maximum cost responsibility based on the results of each annual reassessment would not only diminish this incentive, it would also provide a contrary incentive for customers to remain in the queue for as long as possible in the hopes of reducing its forfeiture risk or receiving other financial benefit through subsequent reassessments.

3.1.4 *Stakeholder comments on the February 12 straw proposal*

Stakeholder comments due March 5 on this topic following publication of the February 12 straw proposal are summarized below. Stakeholder comments are organized in response to each element of the straw proposal.

1. Make cost cap adjustments only in instances where an interconnection customer's existing cost cap is significantly higher than the revised cost allocation resulting from the reassessment.

California Public Utility Commission (CPUC) staff agrees. Independent Energy Producers (IEP) supports the concept of adjusting cost caps down as the results of the GIDAP reassessment may indicate, and views the ISO's proposal as better than no opportunity to adjust cost caps at all. The Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside (Six Cities) do not support adjusting cost caps based on the results of the reassessment process, including in instances where the existing cost cap may be significantly higher than the cost allocation resulting from the reassessment. Southern California Edison (SCE) believes that there should be no cost cap adjustments, under any circumstance, based on the revised cost allocation resulting from the annual reassessment; however, should there be cost cap adjustments, SCE believes that such changes should not be limited to only downward adjustments. SCE further believes that should a reassessment study identify a certain scope is no longer required, then all executed generator interconnection agreements which contain the network upgrades and associated costs that are subsequently eliminated through a reassessment must be amended prior to formalizing the de-scoping of network upgrades. SCE suggests that this will ensure that PTOs are not saddled with the costs of network upgrades that are eliminated in one reassessment, only to be identified as needed in a subsequent study. Pacific Gas & Electric (PG&E) is persuaded that under limited circumstances

cost cap adjustment is reasonable. The CPUC Office of Ratepayer Advocates' (ORA) position is that interconnection customers should not be allowed to reduce their cost caps based on reassessment results. If cost cap adjustments are allowed, then ORA believes that cost caps should be adjusted upward in the event an interconnection customer's reassessed costs are found to be higher than the original cost cap. ORA believes that it is fundamentally unfair to allow generators all the benefit of the reassessment while placing all the risks on ratepayers. The Large-scale Solar Association (LSA) and the California Wind Energy Association (CalWEA) believe that the ISO's straw proposal is a reasonable approach that would benefit developers without increasing PTO risk.

2. Use the following threshold as a means of identifying the set of interconnection customers under item 1 above that would qualify for a cost cap adjustment: If the reassessment results indicate a difference between an interconnection customer's existing cost cap and its revised cost allocation of more than 20% or $1 million, whichever is greater, then a cost cap adjustment would be made per items 3 and 4 below. Note as proposed, both conditions – the 20% and the $1 million – would need to be exceeded. CPUC staff believes that small generation projects would generally have smaller cost allocations and that a $1 million differential would be a much more difficult criterion for a small project to meet, making such a criterion discriminatory. CPUC staff recommends that instead of $1 million, the second criterion be set at the lower of $1 million or $25 per kW. Six Cities does not support the adoption of a new threshold that would trigger reductions to the cost cap. Six Cities suggests that if the ISO intends that both conditions be satisfied then the threshold—which Six Cities do not support—should instead be described as "greater than 20% and more than $1 million." SCE believes it is inappropriate to rely on arbitrary threshold levels to establish whether a cost difference between an interconnection customer's existing cost cap and its revised cost allocation is "significant". PG&E supports this ISO straw proposal element. LSA and CalWEA agree that this is a reasonable eligibility threshold for cost cap adjustments. However, to avoid confusion, LSA and CalWEA suggest that an adjustment be allowed if a project reaches this threshold, instead of requiring that it exceed the threshold.

3. For interconnection customers that qualify under the threshold in item 2 above, the following approach would be used to determine a revised cost cap amount: The revised cost cap amount would be equivalent to a 100% cost allocation to each project for all remaining network upgrades. CPUC staff agrees, as long as concerns expressed under item 5 below are addressed. IEP believes that this approach is reasonable and should not result in any shifting of cost risk to other customers. Although Six Cities does not support changing the existing methodology, it does believe that the proposed approach may mitigate additional financial exposure for Participating TOs, subject to the modification discussed below in item 4. While SCE believes that this may possibly diminish the transfer of financing risk to the PTO, it still leaves indeterminable the interconnection customer's maximum cost responsibility after the completion of the Phase II studies, which will cause an interconnection customer to defer making a financial commitment to move forward with the project or withdraw, in the hopes of getting a lower cost responsibility from the reassessment.

PG&E supports this proposal element. LSA and CalWEA believe that this would be an improvement over the current rules but believes that an approach which resets the cost cap to the point at which individual upgrades would no longer be needed would be more accurate.

4. The new cost cap would be the lesser of the existing cost cap and the revised cost cap amount determined under item 3 above. CPUC staff agrees as long as concerns expressed under item 5 below are addressed. Six Cities suggests that the ISO should explore whether reassessment should only result in a one-sided reduction to the cost cap or whether the cost cap should be subject to upward adjustment as a result of the reassessment. PG&E supports this proposal element. LSA and CalWEA believe this is reasonable and believe that developers would benefit without placing additional risk on PTOs.

5. If there is a subsequent significant change in system configuration, then the original cost cap would apply. CPUC staff agrees, provided that a "significant change in system configuration" is more clearly and predictably defined. CPUC staff suggests that if the resulting increased costs are still lower than the original cap, then the cap should be raised to this increased cost level, but not all the way up to the original cap. IEP recommends that the ISO seek to determine, to the degree possible, the risk of such significant system changes occurring prior to any downward revision of a customer's cost cap. IEP suggests that if a significant change in system configuration occurs, then perhaps a second revised cost cap could be calculated that will not exceed the original cost cap rather than automatically returning to the original cap. Six Cities do not support changing the existing methodology. PG&E supports this proposal element. LSA and CalWEA agree that this is reasonable. LSA and CalWEA do not believe that these configuration changes must be identified in advance, other than a statement that such changes would be similar to those that could impact an FCDS designation, as this is a threshold that stakeholders and investors have understood and accepted.

3.1.5 *Draft final proposal*

The ISO continues to believe that the current approach based on the lesser of phase I and phase II study results provides an appropriate balance between providing interconnection customers with cost certainty as early as possible in the process on the one hand and PTO financing exposure on the other. However, the ISO also recognizes that there may be situations where the difference between an interconnection customer's existing cost cap and a revised cost allocation resulting from the reassessment may be significant and proposes to allow cost cap adjustments in these limited circumstances. Moreover, for projects in this situation, the amount of cost cap adjustment they could realize is moderated by the proposal – i.e., the new cost cap would be equivalent to a 100 percent cost allocation to each project for all remaining upgrades rather than corresponding reduction in network upgrade cost responsibility resulting from the reassessment. While many stakeholders support this approach (CPUC staff, LSA, CalWEA, PG&E, and IEP), several stakeholders remain opposed (SCE, Six Cities, and ORA).

After reviewing and considering the stakeholder comments received, the ISO proposes to retain the concept of a threshold as a means of identifying those interconnection customers eligible for a cost cap adjustment. Many stakeholders found the ISO's proposed threshold to be reasonable; however, a few stakeholders suggested modifications to the threshold. CPUC staff suggested changes that it believes will make it easier for small projects to qualify for a cost cap adjustment (i.e., "the lower of $1 million or $25 per kW"). The ISO does not believe that this additional criteria should be adopted. No developers have raised this concern. Also, the threshold is designed to identify those instances where a reassessment results in a significant decrease in a project's estimated cost responsibility, regardless of project size. Six Cities suggests that if the ISO intends both conditions to be satisfied then the threshold—which Six Cities do not support—should instead be described as "greater than 20% and more than $1 million." The ISO agrees and has made this change to its proposal with an additional slight modification (i.e., the ISO is proposing the threshold be defined as equal to or greater than 20% and equal to or greater than $1 million).

A few stakeholders expressed the view that if cost cap adjustments are allowed, then such changes should not be limited to only downward adjustments (SCE, ORA). The ISO disagrees for two reasons. First, the ISO does not believe that such a mechanism is necessary because the ISO's proposal would only apply in situations involving significant decreases in cost responsibility, and moreover will moderate the amount of any downward cost cap adjustment so as to ensure that it is less than any reduction in network upgrade cost responsibility resulting from the reassessment. Second, the ISO's proposal retains the provision that if there is a subsequent significant change in system configuration, then the customer's cost cap would be adjusted upwards (but no higher than its original cost cap).

Commenting on the proposal element addressing subsequent significant changes in system configuration, CPUC staff suggests that if the resulting increased costs are still lower than the original cap, then the cap should be raised to this increased cost level, but not all the way up to the original cap. The ISO agrees and has made this change to its proposal.

All other elements of the ISO's proposal have been retained.

The ISO's draft final proposal is comprised of the following four elements:

1. An interconnection customer is eligible for a cost cap adjustment if the reassessment results indicate the difference between the customer's existing cost cap and its revised cost allocation to be equal to or greater than 20% and equal to or greater than $1 million.
2. For interconnection customers that qualify under item 1 above, their provisional revised cost cap amount would be equivalent to a 100% cost allocation to each project for all remaining network upgrades.
3. The customer's new cost cap would be the lesser of the customer's existing cost cap and the provisional revised cost cap amount determined under item 2 above.

4. If for customers who received a cost cap adjustment under item 3 above there is a subsequent significant change in system configuration that results in an increased cost responsibility above their new cost cap, their cost cap will be adjusted upwards to this increased cost level. If this increased cost level is greater than their original cost cap, then their original cost cap will apply.

The ISO requests stakeholder feedback on this draft final proposal.

3.2 Adjustments to posting requirements

The ISO tariff provides that the maximum value for the interconnection financial security required of each interconnection customer is established by the lesser of the costs for network upgrades assigned to the customer in the final phase I interconnection study report or the final phase II interconnection study report. The annual reassessment set forth in the GIDAP does not alter this tariff provision.

Nevertheless, the ISO is committed to engage with stakeholders to examine the question of whether, and to what extent, the ISO should permit adjustments to financial security postings pursuant to the results of the annual reassessment. If through this stakeholder initiative it is determined that such adjustments are appropriate, then the adjustments will be made available to the projects impacted by the 2013 reassessment, as well as subsequent reassessments.

To accomplish this examination, section 3.2.1 first provides some background on posting requirements and the 2013 reassessment. Section 3.2.2 examines the policy implications of adjusting posting requirements and considers whether such adjustments could, and should, be made. Section 3.2.3 provides a summary of stakeholder comments on the February 12 straw proposal paper. Finally, in section 3.2.4 the ISO offers its draft final proposal for this topic.

3.2.1 *Posting requirements and the 2013 reassessment*

Following the issuance of the reassessment reports in September, some interconnection customers who received a reassessment report, indicating lower network upgrade costs, requested revisions to their posted interconnection financial security amounts.

The ISO addressed this issue in the October 29 technical bulletin. Therein, the ISO clarified that the reassessment process was never intended to amend the phase I or phase II interconnection studies, and that interconnection financial security postings have and will continue to be based on the total cost responsibility assigned to the interconnection customer for network upgrades in either the final phase I interconnection study report or the final phase II interconnection study report, whichever is lower. The technical bulletin also explained that the ISO tariff does not provide a mechanism for making adjustments to financial security postings between the three

posting milestones,[16] and therefore, to the extent that any customer's network upgrade costs are reduced as a result of a reassessment, such reduction will be reflected in the customer's next scheduled interconnection financial security posting.

The ISO determined, however, that pursuant to applicable FERC precedent, it would be inappropriate to require a customer to maintain a posting of interconnection financial security in excess of 100 percent of the customer's estimated costs of network upgrades as reflected in the reassessment report.[17] To prevent this outcome, the ISO provided a limited exception in the technical bulletin to permit customers in this situation to modify their interconnection financial security postings so that the total interconnection financial security posted in favor of the PTO for network upgrades may equal but not exceed 100 percent of the customer's current total estimated cost share of network upgrades, as reflected in the most recent reassessment results.

The technical bulletin further explained that the ISO would utilize any revisions to the plan of service that may occur throughout the life of a project as the basis for determining the amount of interconnection financial security that is at risk of forfeiture upon a project's withdrawal. As such, if a customer's total estimated share of network upgrade costs decline as a result of the most recent reassessment, then that new cost estimate will be used to calculate the amount of financial security that is at risk of forfeiture if the customer withdraws. The rationale for this outcome is the same as that underlying the adjustment of postings for customers whose second postings exceed 100 percent of their most recent estimates of network upgrade costs, as discussed above. Namely, it would not be appropriate to require a customer to forfeit security based on an amount that is greater than the most recent estimate of its total allocated network upgrade costs.

3.2.2 *Consideration of adjustments to posting requirements*

As previously discussed, the maximum value for the interconnection financial security required of each interconnection customer is established by the lesser of the costs for network upgrades assigned to the customer in the final phase I interconnection study report or the final phase II interconnection study report, not the reassessment report. Moreover, the ISO tariff does not provide a mechanism for making adjustments to financial security postings between the three

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[16] *See* ISO Tariff Appendix Y, Sections 9.2, 9.3; Appendix DD, Sections 11.2, 11.3 (describing the system of three discrete interconnection financial security posting milestones, with adjustments to a customer's financial security being performed in conjunction with these three postings).

[17] *See California Independent System Operator Corp.*, 133 FERC ¶ 61,223, at P 108 (2010) ("Consistent with Commission precedent, we agree with Wellhead that requiring security postings to be modified to ensure that financial security deposits do not exceed the customer's possible cost exposure for its resized project is reasonable."); *California Independent System Operator Corp.*, 132 FERC ¶ 61,005, at P 37 (2010) ("Our review indicates that the appropriate limitations should be revised so that the interconnection customer who switches from Full Capacity to Energy-Only should have its financial security requirements limited to no greater than the amount of Reliability Upgrades required for its Energy-Only interconnection.").

posting milestones. Therefore, using the reassessment results as the basis for modifying interconnection customers' financial security postings, except to the extent that they exceed 100 percent of customers' estimated network upgrade costs, would require a tariff change. Absent such modification to the ISO tariff, the same approach used with respect to the 2013 reassessment, as set forth in the October 29 technical bulletin, will be used in all subsequent reassessment cycles.

However, in the December 16 issue paper the ISO expressed a willingness to at least consider other approaches and suggested that, to the extent there is broad stakeholder support for making adjustments to financial security postings based on reassessment results, such adjustments should only be made in instances where the calculated adjustment exceeds some reasonable threshold or "deadband." In addition, the ISO explained in the issue paper that if such an approach is adopted it should not be applied only to decrease a customer's security posting; it could in some instances result in an increase in a customer's security posting requirement.[18] Further, the ISO suggested in the issue paper the following threshold for stakeholder consideration: if the reassessment results indicate a difference between the customer's current second security posting and the second posting amount based on the reassessment of more than five (5) percent or one million dollars ($1,000,000), whichever is greater, an adjustment would then be made.[19]

3.2.3 *Stakeholder comments on the February 12 straw proposal*

Stakeholder comments due March 5 on this topic following publication of the February 12 straw proposal are summarized below. Stakeholder comments are organized in response to each element of the straw proposal.

1. Make adjustments to posting requirements only in instances where an interconnection customer's financial security postings are significantly higher than the required financial security postings based on the revised cost estimate for network upgrades reflected in the most recent reassessment. CPUC staff agrees with this general principle. IEP agrees with the concept of adjusting the posting requirement when the customer's financial security postings are significantly higher than required. The Six Cities do not oppose adjusting posting requirements based on the results of the reassessment. SCE is not opposed to allowing immediate adjustments to posting requirements following a reassessment as long as the current cost cap structure is maintained. PG&E supports. LSA and CalWEA agree that this is a reasonable approach, given the apparent PTO issues with re-setting the security amount, because it would focus posting reductions where they would make the most difference to the developer while limiting the PTO's workload.

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[18] This could occur if a customer's network upgrade costs decreased in one annual reassessment and then increased in a subsequent annual reassessment.

[19] This threshold was later modified in the February 12 straw proposal and in the current draft final proposal based on stakeholder feedback and further ISO consideration.

2. Use the following threshold as a means of identifying the set of interconnection customers under item 1 above that would qualify for a posting requirement adjustment: If the reassessment results indicate a difference between an interconnection customer's current second security posting and the second posting amount based on the revised cost estimate for network upgrades reflected in the most recent reassessment of more than 20% or $1 million, whichever is greater, an adjustment could then be made. Note that as proposed, both conditions—the 20% and the $1 million—would need to be exceeded. CPUC staff are concerned that when the determinative posting differential is $1 million, then smaller generation projects will be much less likely than larger projects to be eligible for downward adjustments of postings. CPUC staff suggests that the $1 million threshold be replaced with the lesser of $1 million and $25 per kW. IEP concurs with this threshold. The Six Cities do not oppose, although their non-opposition is contingent upon the postings being subject to both a potential increase as well as a potential decrease. Six Cities suggests that if the ISO intends that both conditions be satisfied, which is the Six Cities' understanding, then the threshold should be described as "greater than 20% and more than $1 million." SCE does not believe it necessary to establish an arbitrary threshold for determining when an immediate adjustment should be made. SCE believes that any reduction in network upgrades cost responsibility resulting from a reassessment should qualify an interconnection customer as eligible for a corresponding reduction in interconnection financial security. PG&E supports. LSA and CalWEA agree that this is a reasonable eligibility threshold for financial security adjustments at this time. However, LSA and CalWEA suggest that an adjustment be allowed if a project reaches this threshold instead of requiring that it exceed the threshold. LSA and CalWEA add that the ISO should monitor the number of adjustments made under this threshold and consider lowering the threshold in the future if that number declines, so that eventually all or most of the postings are reduced to the level specified in the tariff for the applicable posting.

3. Even if the threshold under item 2 above is not met, postings in excess of 100% will be reduced to eliminate this excess. IEP agrees. The Six Cities do not oppose. SCE agrees that an interconnection customer should receive a partial refund of its interconnection financial security for postings already made in excess of the interconnection customer's cost responsibility for network upgrades, as determined by the reassessment. PG&E supports. LSA continues to believe that requiring security above the limits specified in the tariff (e.g., above 30 percent for the second posting) is a tariff violation, and CalWEA agrees. However, LSA and CalWEA take the position that allowing a reduction to the 100 percent level is more reasonable than requiring it to be maintained above that level.

4. Adjustments made pursuant to item 2 above may result in an increase or decrease, as applicable. IEP does not understand how a customer whose IFS requirements have previously been calculated based upon their original cost responsibility before any GIDAP reassessment can or should be required to increase their posting requirement as a result of GIDAP reassessment. Six

Cities' non-opposition is contingent upon the adjustments potentially resulting in an increase as well as a decrease. SCE supports. PG&E supports. LSA and CalWEA agree that this is reasonable.

5. Downward adjustments made under items 2 or 3 above would be voluntary rather than mandatory. IEP agrees. Six Cities supports. SCE supports. PG&E supports. LSA agrees; however, LSA and CalWEA expect that few developers will forego such large security adjustments.

6. Upward adjustments made under item 2 above would be mandatory. IEP is not clear how the customer's posting requirements would increase above the original posting requirement unless the "upward adjustment" is describing the change from a posting requirement that had previously been reduced as the result of a prior round of the GIDAP reassessment. IEP requests clarification. Six Cities supports. SCE believes that all upward interconnection financial security adjustments resulting from the reassessment should be mandatory to ensure that network upgrades are properly collateralized and the PTO does not assume additional financing risks from the interconnection customer. PG&E supports. LSA and CalWEA agree that this is reasonable.

7. For voluntary adjustments made under items 2 or 3 above, the interconnection customer would need to request adjustment within 30 days of their reassessment report. IEP believes that so long as notice is provided on a timely basis, 30 days should be sufficient. Six Cities do not oppose. SCE agrees that a 30-day window, starting from the issuance date of the reassessment report, is sufficient time for an interconnection customer to elect to exercise a downward adjustment. PG&E supports. LSA and CalWEA suggest that it might be more efficient for the posting reduction to be the default selection and require instead a request to keep the posting as is, because they expect that few developers will forego such large security adjustments.

8. Adjustments made pursuant to item 2 above will not be made if a project's 3rd posting is (a) due within 6 months and (b) would be greater than the current 2nd posting. CPUC staff agree that if the ultimate true-up via the 3rd posting is less than six months away, then expedited reimbursement prior to the 3rd posting is unnecessary. However, CPUC staff do not believe this should apply if the reassessment leaves the generation project having greatly over-posted security through the first two postings to such an extent that the total for those first two postings now exceeds the readjusted total amount due through all three postings. IEP does not oppose. Six Cities do not oppose. SCE supports not making any adjustments to an interconnection customer's interconnection financial security if the customer's third posting is due within six months and would exceed the current second posting. SCE adds that to make posting adjustments in such instances would unnecessarily further complicate the posting process and create an additional administrative burden. PG&E supports. LSA and CalWEA understand that the PTOs may want to avoid two posting adjustments close together; however they have serious concerns about this provision and recommend its deletion. First, LSA argues that the third posting due date is not known before the GIA is executed and may not be specified in the GIA. Second, for developers that

have negotiated phased third postings, LSA asks whether this proposal element would apply to the first installment of the third posting, the last installment, or something else?

9. The October 29, 2013 technical bulletin would apply relative to the amount of interconnection financial security at risk of forfeiture upon a project's withdrawal. As such, if a customer's total estimated share of network upgrade costs decline as a result of the most recent reassessment, then that new cost estimate will be used to calculate the amount of financial security that is at risk of forfeiture if the customer withdraws. CPUC staff agree with this provision. IEP supports. Six Cities do not oppose. SCE agrees that the interconnection financial security at risk of forfeiture upon a project's withdrawal should be linked to the most recent reassessment if it establishes a lower total estimated share of network upgrade costs. SCE adds that an interconnection should never be required to post an interconnection financial security that is greater than the interconnection financial security amount established by utilizing the lower network upgrade cost estimates produced through a reassessment. PG&E supports. LSA and CalWEA strongly support this Technical Bulletin feature.

10. Cost reallocation will only apply to remaining costs and not costs already paid by a project that has withdrawn. If a project that has paid PTO invoices for work on required network upgrades withdraws after that work has already begun, any cost reallocation resulting from a reassessment will only apply to remaining costs, and not to costs already covered by the project that has withdrawn. CPUC staff suggest that the first sentence should be clarified to read: Cost reallocation will only apply to remaining costs faced by projects that have not withdrawn by the time of the reassessment, and not to costs already paid by a project that has withdrawn. IEP supports. Six Cities do not oppose. SCE agrees that cost allocation should only apply to remaining costs and not costs already paid by a project that has withdrawn. SCE adds that to do otherwise would result in double recovery of costs associated with the required network upgrades. PG&E supports. LSA and CalWEA supports and add that there is no justification for reallocating costs that have already been paid by other generation projects.

3.2.4 *Draft final proposal*

Throughout this initiative, the ISO has consulted with stakeholders to examine the possibility of allowing immediate adjustments to posting requirements following a reassessment. To address apparent concerns about the possibility that annually re-setting interconnection financial security amounts may increase the burden on PTO workload, the ISO proposed limiting such adjustments to those instances where an interconnection the customer's financial security postings are significantly higher than required. Stakeholder feedback indicates that there is broad support for the proposal that the ISO offered in the February 12 paper (the only exception being that SCE is supportive only as long as the current cost cap structure is maintained).

To identify those instances where interconnection financial security postings are significantly higher than required, the ISO proposed a threshold or "deadband" which is broadly supported by stakeholders. However, LSA and CalWEA express interest in a possible reduction of the proposed threshold in the future. Of particular note, SCE suggests that there is no need to establish an "arbitrary threshold" to determine when an immediate adjustment to an interconnection customer's interconnection financial security should be made. SCE adds that any reduction in network upgrade cost responsibility resulting from a reassessment should qualify an interconnection customer as eligible for a corresponding reduction in its posting requirement.

The ISO's proposal to use a threshold to limit the number of customers eligible for an adjustment in posting requirements was intended to address the apparent concern about impacts to PTO workload. However, SCE's comments raise the question whether the additional complexities introduced by a threshold are necessary or even justified. After giving this further consideration, the ISO is now proposing to eliminate the threshold provision from its proposal. As a result, the proposal element regarding postings in excess of 100 percent is no longer needed. In addition, since all adjustments would thus be automatic, the proposal element addressing 3rd postings due within 6 months of the reassessment adjustment date has been eliminated. Regarding the proposal element that downward adjustments be voluntary and that the interconnection customer would need to request such an adjustment within 30 days of their reassessment report being issued, the ISO is persuaded by LSA's and CalWEA's suggestion that such a reduction be the default selection and require instead a request to keep the posting as is. All other elements of the ISO's proposal have been retained. The result is a more streamlined proposal.

The ISO's draft final proposal is comprised of the following six elements:

1. A change in estimated network upgrade cost responsibility resulting from a reassessment will qualify an interconnection customer for a corresponding change in its posted interconnection financial security.
2. A change in estimated network upgrade cost responsibility resulting from a reassessment may result in an increase (i.e., an upward adjustment) or a decrease (i.e., a downward adjustment) in a customer's interconnection financial security amount, as applicable. The ISO clarifies that IEP is correct insofar as an upward adjustment would only occur when a customer's cost responsibility is reduced as a result of a GIDAP reassessment, but then increased through a subsequent reassessment.
3. All adjustments (i.e., both upward and downward) will be automatic. However, an interconnection customer can opt out of a downward adjustment by submitting notification to the ISO within 10 days of the issuance date of the reassessment report that the customer wants to keep the posting as is.

4. The interconnection financial security at risk of forfeiture upon a project's withdrawal will be based on the most recent reassessment to the extent it establishes a lower total estimated share of network upgrade costs. As such, if a customer's total estimated share of network upgrade costs decline as a result of the most recent reassessment, then that new cost estimate will be used to calculate the amount of financial security that is at risk of forfeiture if the customer withdraws. This is consistent with the October 29, 2013 technical bulletin. This rule will apply even if the interconnection customer elects to not adjust the project's posting, as discussed in item 3 above.
5. Cost reallocation for required network upgrades only applies to remaining costs and not costs already paid by a project that has withdrawn. If a project that has paid PTO invoices for work on network upgrades withdraws after that work has already begun, and those network upgrades are still needed by remaining customers in its cluster, any reallocation of those costs resulting from a reassessment will only apply to the remaining costs of the upgrades, and not to costs already covered by the project that has withdrawn.
6. The ISO clarifies that if a customer elects to make its third financial security posting earlier than required (i.e. prior to the start of construction), and the customer's cost responsibility for network upgrades subsequently increases, the customer will still be required to update its financial security posting so as to ensure that its total security posting equals 100 percent of its estimated cost responsibility.

The ISO requests stakeholder feedback on this draft final proposal.

3.3 Use of forfeited funds

The question of how to redistribute funds forfeited by withdrawing interconnection customers was initially raised as topic 14 in the 2013 IPE initiative. Discussions with stakeholders last year regarding the GIDAP reassessment process led the ISO to move the question into the present initiative to consider the possibility of using such funds to offset increases in network upgrade funding requirements for customers remaining in the queue and for PTOs that result from project withdrawals.

3.3.1 *Background*

The ISO tariff currently provides that funds forfeited by interconnection customers that withdraw from the generator interconnection queue, including both study deposit funds and interconnection financial security postings, will be redistributed on an annual basis to scheduling coordinators. Many stakeholders argued in the IPE initiative that this approach should be changed, and the ISO agreed. In the December 16, 2013 issue paper for the present initiative, the ISO presented two alternative approaches (called Option A and Option B) and requested that stakeholders comment

on the pros and cons and their preferences for either of these alternatives.[20] In the February 12, 2014 straw proposal the ISO proposed a variation of Option A, modified to include suggestions made by several stakeholders to apply forfeited funds to PTO-specific low voltage transmission revenue requirements (LVTRR) in addition to the system-wide high voltage transmission revenue requirements (HVTRR), in accordance with specific criteria for allocating the funds among these accounts.

3.3.2 *Draft final proposal*

The ISO proposes to maintain the February 12 straw proposal and adopt a modified version of Option A in which the funds forfeited by the withdrawn interconnection customer would be applied to both the system-wide HVTRR and the PTO-specific LVTRR, in proportion to the customer's last pre-withdrawal cost responsibilities for network upgrades in each of these categories. The ISO proposes to utilize the same balancing account mechanism and timing for implementing this approach as originally described under Option A in prior papers, and would utilize the pro rata approach of Option A for allocating shares of the HVTRR portion of the forfeited funds among the PTOs.

The ISO proposes to perform this distribution of forfeited funds on an annual cycle that combines funds forfeited from July 1 of each year through June 30 of the following year, except for the first cycle of this process which would distribute all funds forfeited from January 1, 2013 through June 30, 2014.

To provide a hypothetical example, suppose the customer's phase II study results indicate that the customer's share of network upgrades (including both RNUs and DNUs) is $20 million, of which $12 million is for high voltage facilities and $8 million is for low voltage facilities on the system of the PTO to which the customer is interconnecting. Suppose the customer makes its second security posting for $6 million, and then a year later withdraws from the queue and forfeits the $6 million. Suppose also that during the intervening year the customer's cost responsibilities were not revised pursuant to a reassessment process, so that the phase II results would determine how the forfeited funds would be allocated. Under this proposal, $3.6 million would be applied to the ISO system-wide HVTRR and $2.4 million would be applied to the LVTRR of the PTO to which the customer had requested to interconnect.

The ISO also proposes the following:

a) If the customer's cost responsibilities were adjusted pursuant to a reassessment process after the phase II study and prior to the customer's withdrawal from the queue, the

[20] These Options A and B under the present GIDAP reassessment stakeholder initiative should not be confused with Options (A) and (B) as defined in Section 7.2 of Appendix DD.

adjusted cost responsibilities would be used to determine the allocation of the forfeited funds.

b) If the customer's cost responsibilities include low voltage network upgrades on a second PTO's system as well as low voltage upgrades on the system of the PTO to which the customer had requested to interconnect, the forfeited funds would be split three ways to include the ISO system-wide HVTRR, the LVTRR of the PTO to which the customer had requested to interconnect, and the second PTO's LVTRR. The basic pro rata principle described above would still apply.

Under the present proposal, consistent with Option A described in the straw proposal, the ISO will distribute forfeited funds to transmission ratepayers via offsets to the HVTRR recovered through the ISO's transmission access charge (TAC) and to the PTO-specific LVTRR collected by the PTOs. For this purpose, the ISO will utilize the crediting mechanism allowed in the transmission revenue balancing account adjustment (TRBAA)[21] of the PTOs according to the following methodology.

First, for each IC that has withdrawn and forfeited funds during the current cycle, the ISO will allocate those funds among the following three categories in proportion to the IC's last pre-withdrawal cost responsibilities for network upgrades in each category:

a. the system-wide HVTRR
b. the LVTRR of the PTO to which the IC's project was intending to interconnect, and
c. the LVTRR of any other PTO on whose system the IC was responsible for funding LV network upgrades.

Second, the ISO will sum all funds distributed to categories (b) and (c) above by PTO, including all funds forfeited by all ICs that withdrew during the time period of the current cycle.

Third, the ISO will allocate pro rata shares of the total category (a) forfeited funds to each PTO in proportion to the ratio of each PTO's HVTRR to the total of all PTOs' HVTRR as of the last day of the current forfeited funds distribution cycle, which will be June 30 of each year as illustrated in the example below.

Finally, the combined results of the second and third steps will comprise each PTO's share of the funds forfeited during the current cycle.

The transmission revenue balancing account (TRBA) is used to track revenues that the PTO receives towards its transmission revenue requirement (TRR) outside of the TAC payments received from the ISO (for the HVTRR), and outside of whatever mechanism the PTO uses to collect its LVTRR. For

[21] Today, the ISO uses the TRBA credit mechanism to allocate excess funds from wheeling service, location-constrained resource interconnection generators (LCRIG) with respect to location-constrained resource interconnection facilities (LCRIF), revenues from existing rights, and the annual congestion revenue rights balancing account to offset the HVTRR of the PTOs. *See* ISO Tariff Appendix F, Schedule 3, Section 6.1(b); ISO Tariff Appendix A, definition of transmission revenue credit.

a non-load serving PTO, the TRBA also includes amounts by which the TAC collections each month from loads and exports may exceed or fall short of the amount required to exactly recover its HVTRR and LVTRR.[22]

The TRBAA applies on an annual cycle that runs from October 1 to September 30, so that the PTO can include the TRBAA results in its annual filing at FERC for its TRR to be recovered the following year. Under the present proposal, the ISO would distribute the forfeited funds to PTOs each year prior to September 30, in time to be included in the PTOs' FERC filings of their TRBAAs for the coming year's TRRs. In order to minimize the delay between when the funds are forfeited and when they are reflected in the TAC reduction, the ISO proposes to accumulate and distribute forfeited funds on an annual cycle that runs from July 1 to June 30.

The following example illustrates how this annual procedure would work in practice. Consider the year from July 1, 2014 through June 30, 2015, and suppose that funds were forfeited during that period by interconnection customers dropping out of the ISO queue. The ISO would calculate each PTO's share of these funds in accordance with the methodology described above, including the distribution of pro rata shares of the HV forfeited funds to each PTO in proportion to the amount of its HVTRR as of June 30, 2015. The PTO would then account for these funds in its TRBA that closes on September 30, 2015, to be reflected in the PTO's FERC filing of its TRBAA, which would become effective January 1, 2016 for purposes of establishing the adjusted TRR amount that would be collected TAC during 2016.

The example above is a good illustration of how this proposal would work on an annual basis going forward. For the first year, however, the ISO proposes to accumulate all the funds forfeited from January 1, 2013 through June 30, 2014 – an eighteen-month period – and distribute these in the TRBAA cycle that closes on September 30, 2014, allocating the HVTRR portion of the funds to each PTO in proportion to its HVTRR as of June 30, 2014.

Finally, the ISO proposes not to make any revisions or adjustments to the allocation of forfeited funds after the shares for each PTO have been determined based on the June 30 HVTRR amounts in the relevant year.[23]

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[22] The reason for this additional nuance for the non-load serving PTOs' TRBA is that they do not have a GWh load as a basis for calculating their monthly shares of TAC revenues, and instead are expecting to receive 1/12 of their filed annual HVTRR and LVTRR per month. The ISO collects revenues for these entities through the HVAC and LVAC to recover both their HVTRR and their LVTRR. For HVAC, when the revenues are allocated to the PTOs on a monthly basis, they are first allocated (a) to the load serving PTOs based on the actual GWh load for that PTO in that month times the high voltage utility-specific rate, and then (b) to the non-load serving PTO in proportion to their HVTRR. The ISO collects LVAC for the non-load serving PTOs from the utility distribution companies (UDC) and metered subsystem operators (MSS) that utilize the LV facilities of the non-load serving PTO. The LVAC amount is calculated by applying a LV rate, which is calculated based on the load-serving PTO's annual gross load projection for the relevant UDCs and MSS, as filed with the FERC, to the actual gross load of the relevant UDCs and MSS for the month. Thus it is possible that the TAC revenues allocated to non-load serving PTOs in each month may not exactly equal 1/12 of each non-load serving PTO's total TRR. The TRBA is used annually to adjust for any such discrepancies.

3.3.3 *Stakeholder comments*

Stakeholders submitted seven sets of comments regarding this issue on or about March 6. The ISO received comments from CPUC staff, IEP, LSA and CalWEA (combined), ORA, PG&E, SCE and Six Cities. Among these parties only LSA and CalWEA objected to the ISO's straw proposal to adopt the modified Option A approach. All the other parties either supported or did not oppose the elements of the ISO's straw proposal.

LSA and CalWEA provide several arguments for their opposition to the ISO's proposal. Their central assertion is that forfeited funds should be applied against the costs of the specific network upgrades the forfeiting customer was responsible for funding. This would, LSA and CalWEA argue, then reduce the financing responsibilities of customers remaining in the queue who have cost shares associated with the same network upgrades. They state: "There is no justification for requiring remaining projects to finance costs already covered by the forfeit." (LSA and CalWEA comments, page 7)

The ISO disagrees in principle with LSA's and CalWEA's proposed approach. Going as far back as the June 3, 2013 issue paper for the IPE initiative, the ISO suggested it might be appropriate to use forfeited funds to offset any adverse impacts of project withdrawals on customers remaining in queue (page 55). Indeed, consideration of such use of forfeited funds was the explicit reason for moving this topic into the present GIDAP reassessment initiative, as stated at the beginning of this section. As such this idea was captured in the ISO's option B presented in the February 6 straw proposal.

LSA's and CalWEA's proposal goes beyond mitigating adverse impacts of withdrawals, however, and proposes to provide financial benefits to remaining projects utilizing the same network upgrades as a withdrawn project. The ISO has consistently expressed concern with such use of forfeited funds. In the November 7, 2013 IPE straw proposal, the ISO articulated the need "to avoid creating any perverse incentives." (page 53). In that regard, "a general principle the ISO advocates in considering all the options is to avoid having specific entities benefit from the failure of specific projects in the queue. A related incentives principle is to avoid using the forfeited funds to alter the balance of incentives for interconnection customers that were developed in prior initiatives to enhance or reform the interconnection procedures. These principles apply to a number of the suggestions offered by stakeholders, such as applying the funds to offset study costs or security deposits for other projects in the same cluster, or to pay down costs of reliability network upgrades that exceeded the reimbursement cap established in the GIDAP." (pages 53-54)

The ISO continues to believe that it is important not to distribute forfeited funds in a manner that would undermine the principle of up-front funding by interconnection customers or incentivize

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[23] If the PTO has a HVTRR in effect on June 30 that is subject to refund, the ISO is proposing to allocate the forfeited based on that effective rate and not reallocate the forfeited funds once the PTO's HVTRR is approved by FERC.

otherwise non-viable projects to remain longer in the queue. The ISO therefore disagrees with LSA and CalWEA on the appropriateness of their proposal.

As a secondary matter, LSA and CalWEA continue to insist that implementing their proposed approach would be easy. With respect to the ISO's explanation during the last stakeholder meeting for why it did not support the approach LSA had proposed in its January 15 comments, they said:

> "Finally, LSA and CalWEA disagree with the CAISO's contention on the conference call that it would be too complex to apply the forfeited funds to NU costs before a reassessment reallocation. There are relatively few NUs remaining in most GIAs after this first reassessment, and the funds could simply be applied proportionally to the remaining NUs before the reallocation. This would not be a difficult calculation, and not much harder than the proportional allocations that the CAISO is proposing for the HVTAC and multiple LVTAC."

While it may not be difficult to calculate an allocation of the funds to remaining network upgrades, the complexity is not mainly in the calculation but in the mechanism for actually applying the funds against the costs of the network upgrades in question. Moreover, the ISO does not believe that this approach would yield enough potential benefit to the interconnection customers remaining in the queue to justify the additional complexity. A crucial point in considering the potential benefits to interconnection customers is the fact that transmission ratepayers ultimately pay the costs of network upgrades. Thus the costs facing the interconnection customers are not really the costs of the upgrades themselves, but just the costs of posting security and up-front funding network upgrades for which they will later be reimbursed. The following example illustrates these points.

Suppose that six customers are each responsible for one-sixth share of network upgrades costing $60 million, or $10 million per customer. Now suppose that two customers drop out, which allows the upgrade costs to be reduced to $36 million, or $9 million per remaining customer. Suppose that the two who dropped out each made their second posting of $3 million, of which they forfeited 50 percent for a total of $3 million in forfeited funds. If the ISO were to apply these funds to the cost of the remaining upgrades, it would reduce the cost to $33 million, or $8.25 million per remaining customer. Thus the benefit of this approach would be the avoided cost of posting security for and up-front funding the additional $0.75 million for each remaining customer. In terms of each customer's second posting, this would be the cost of posting security for and up-front funding the additional $225,000 (30 percent of $0.75 million).

As a variation of the above, suppose that the withdrawal of the two customers resulted in a smaller reduction of network upgrade costs, down to $44 million instead of $36 million. In that case, there would be no change to any remaining customer's cost responsibility, with or without applying the forfeited funds to the cost of the remaining upgrades. Instead, the forfeited funds would be applied against the expenditures by the relevant PTO for building the upgrades, which eventually becomes a reduction in the TAC for ratepayers.

To consider the mechanism for implementing the LSA and CalWEA approach, suppose that all six customers make their second postings in May 2015, and then two customers withdraw a year later, in May 2016. Construction on the network upgrades was originally scheduled to begin in January 2017, but due to the withdrawals the ISO must perform the annual reassessment in first quarter of 2017 to identify any changes to network upgrade requirements. Meanwhile, the $3 million in funds forfeited by the withdrawn customers are not distributed to ratepayers in the TRBA adjustment for the period ending June 30, 2016, as they would have been under the ISO's proposal. Instead the funds must be held in an escrow account pending the results of the reassessment. By April 2017 or thereabouts when the reassessment is completed, following the example above the ISO finds that network upgrades in the area can be reduced in cost to $36 million and construction is rescheduled to begin in January 2018.

Until that time the ISO is continuing to retain the $3 million in forfeited funds in an escrow account. If there are no further queue withdrawals or network upgrade needs in the area and construction begins on schedule, then each customer will make its third posting to bring its security deposit up to $9 million under the ISO's proposal, or up to $8.25 million under the LSA and CalWEA approach. Thus, in order to save each of the remaining customers the carrying cost of $0.75 million security posting – just over 8 percent of the required posting – the ISO must hold $3 million until January 2018 and the funds would benefit ratepayers only in a later year when the costs of the upgrades are added to the TAC. In contrast, under the ISO's proposal this money would have been returned to ratepayers in the form of reduced TAC rates starting in January 2017.

Finally, it must be pointed out that the above example is relatively simple compared to the complexity of real-life interconnection situations, and captures only a single electrical location on the grid. In light of this, the ISO believes that the modest potential benefit of reduced security requirements for a subset of project developers – even if this approach were justified on principle – would not justify the complexity of holding and accurately applying the funds against specific network upgrades and the delay in distributing these funds to ratepayers.

Attachment E – Board Memorandum

GIDAP Reassessment Initiative

California Independent System Operator Corporation

June 19, 2014

Memorandum

To: ISO Board of Governors

From: Keith Casey, Vice President, Market and Infrastructure Development

Date: May 21, 2014

Re: **Decision on generator interconnection and deliverability allocation procedures reassessment proposal**

This memorandum requires Board action.

EXECUTIVE SUMMARY

The ISO performs an annual reassessment of projects in its generation interconnection queue pursuant to the Generator Interconnection and Deliverability Allocation Procedures (GIDAP) tariff provisions approved by the Federal Energy Regulatory Commission in 2012. The reassessment is performed following the phase I interconnection studies to reflect status changes of earlier-queued projects, such as project withdrawals, and establishes the study assumptions to be used for the phase II interconnection studies.

The first reassessment occurred in 2013 as part of the initial implementation of the GIDAP. The reassessment results indicated that, due to project withdrawals, a number of previously identified transmission network upgrades were no longer needed to support the interconnection of customers remaining in the queue. The removal of these upgrades led to a reduction in the overall cost responsibility for certain customers.

As a result of these effects, generation developers requested that the reassessment results serve as a basis for adjusting interconnection customers' cost caps and interconnection financial security posting requirements. However, because the GIDAP reassessment was never intended to serve as a basis for making such adjustments, Management conducted a new stakeholder process to examine the policy implications of making such adjustments and to consider whether such adjustments could be made. Through this process, Management has proposed solutions to these issues that are broadly supported by stakeholders.

To address these issues, Management proposes two tariff amendments. First, Management recommends that an interconnection customer be eligible for a cost cap adjustment if a reassessment results in a significant difference between the customer's existing cost cap and its revised estimated responsibility for network upgrade costs.

Second, Management recommends that a change in network upgrade cost responsibility resulting from a reassessment will qualify a customer for a change in the amount of interconnection financial security the customer is required to post.

Management recommends the following motion:

> ***Moved, that the ISO Board of Governors approves the proposal to make adjustments to an interconnection customer's maximum cost responsibility for network upgrades and interconnection financial security posting requirement, as described in the memorandum dated May 21, 2014; and***
>
> ***Moved, that the ISO Board of Governors authorizes Management to make all necessary and appropriate filings with the Federal Energy Regulatory Commission to implement the proposed tariff change.***

DISCUSSION AND ANALYSIS

The ISO performs an annual reassessment pursuant to the Generator Interconnection and Deliverability Allocation Procedures (GIDAP). The reassessment is performed following the phase I interconnection studies to reflect status changes of earlier-queued projects, such as project withdrawals, and establishes the study assumptions to be used for the phase II interconnection studies.[1]

The ISO issued the results of the first annual reassessment in September 2013. The results indicated that, due to project withdrawals, a number of previously identified network upgrades were no longer needed to support the interconnection of customers remaining in the queue.

After the reassessment reports were issued in September, some interconnection customers with reassessment results indicating lower network upgrade costs requested revisions to their maximum cost responsibilities (*i.e.*, cost caps) and their posted interconnection financial security amounts. Some customers contended that the reassessment results should be treated as an amendment to the phase I and phase II interconnection studies, and as such a customer's cost cap should be adjusted to reflect any reduction in the estimated costs of network upgrades reflected by the reassessment. In addition, customers advocated for using the reassessment results as a basis for making revisions to the interconnection financial security amounts they had previously posted.

[1] The interconnection study process consists of two phases. The phase I study starts July 1 of each year, takes 170 calendar days to complete, and preliminarily identifies all network upgrades needed to address impact on the ISO grid, required interconnection facilities, and establishes maximum cost responsibility for network upgrades. The phase II study begins May 1 of each year, takes 205 calendar days to complete, and forms the basis for executing the generator interconnection agreement. The reassessment occurs in between these two phases.

In response to these concerns, during the November 7, 2013 Board of Governors meeting, Management conveyed that the ISO's tariff does not provide for such adjustments, and that because the reassessment never contemplated an adjustment to cost caps or to interconnection financial security, making such adjustments could have broad policy implications. Thus, any consideration of adjusting cost caps and interconnection financial security in subsequent reassessment cycles would need to be examined in a comprehensive manner through a new stakeholder process. In December 2013, Management initiated a stakeholder process dedicated to these issues. That stakeholder process resulted in this proposal.

Adjustments to cost caps

The tariff provisions that implement the ISO's generator interconnection process, including the GIDAP, state that an interconnection customer's maximum cost responsibility for network upgrades is based on the lower of the phase I or phase II interconnection study cost estimates. This maximum responsibility is often referred to as a customer's "cost cap."

The imposition of binding cost caps for network upgrades based on the lesser of the phase I and phase II study results was an important change in cost allocation policy made through the Generator Interconnection Process Reform initiative in 2008. The ISO has consistently explained that the purpose of including, as part of the cluster study process, a cap on interconnection customers' responsibility for network upgrades is to ensure that generation developers know, relatively early in the interconnection process, their maximum responsibility to finance needed transmission upgrades. This is in contrast to the prior serial study process where an interconnection customer's total cost exposure could change dramatically depending on decisions made by other interconnection customers (*e.g.*, a decision to withdraw from the interconnection queue). One of the main reasons for providing interconnection customers with certainty as to their maximum cost exposure early in the process is to encourage customers to make decisions regarding the viability of their projects as early as possible. Providing customers with their maximum cost exposure early in the process is also important in light of the increased financial security commitments that the Generator Interconnection Process Reform required from interconnection customers.

Reducing the cost responsibility of customers for network upgrades creates some risk that a participating transmission owner (PTO) will have to, up-front, fund some portion of the upgrades. This risk exists because the applicable PTO is responsible for funding any capital costs for network upgrades that exceed the maximum cost responsibility assigned to the interconnection customers. If cost caps were to be ratcheted downwards whenever queue withdrawals eliminated the need for some network upgrades, then the relevant PTO would be at greater risk to up-front fund any cost increases that might result from subsequent queue withdrawals. Such a risk would arise if a network upgrade was still needed despite subsequent queue withdrawals. In such a case, the lower cost caps for the remaining customers would preclude assigning

them a share of the network cost responsibilities of the withdrawn projects and would consequently require the PTO to up front fund these costs.

This same policy rationale informs the design of the GIDAP – *i.e.*, even though the GIDAP reassessment acknowledges and accounts for interconnection request withdrawals, it does not provide for an adjustment to a customer's assigned maximum cost responsibility. Thus, a reassessment does not shift the balance of funding risks between the interconnection customers and the PTOs. Adjusting interconnection customers' cost caps based on the results of the annual reassessments would undermine the fundamental structure and balances established in the ISO's reforms to its generation interconnection procedures.

Management continues to believe that the current approach based on the lesser of phase I and phase II study results provides a reasonable balance between providing interconnection customers with cost certainty as early as possible in the process on the one hand and PTO financing exposure on the other. However, Management also recognizes that there may be situations where the difference between an interconnection customer's existing cost cap and a revised cost allocation resulting from the reassessment may be significant. In recognition of this, Management worked with stakeholders and developed this proposal to allow cost cap adjustments in these limited circumstances while also mitigating cost exposure to the PTOs by moderating the amount of any cost cap reduction allowed.

Management proposes that an interconnection customer be eligible for a reduced cost cap if the reassessment results indicate the difference between the customer's existing cost cap and its revised estimated responsibility for network upgrade costs is at least 20% and at least $1 million. For a customer that meets this eligibility threshold, the provisional revised cost cap amount would be equivalent to what the customer's cost responsibility would be if all other customers requiring the same upgrade withdrew from the interconnection queue (*i.e.*, a 100% cost allocation to each project for all remaining network upgrades). Moderating the amount of cost cap reduction in this way addresses concerns about a potential transfer of financing risks from interconnection customers to the PTOs. The revised cost cap amount would be provisional because the customer's actual new cost cap would be the lesser of the customer's existing cost cap and the provisional revised cost cap amount. However, should there be, at any time, a subsequent significant change in system configuration that results in an increased cost responsibility above the customer's new cost cap (*e.g.*, such as occurred with the loss of the San Onofre Nuclear Generating station), the customer's cost cap will be adjusted upwards to this increased cost level. If the increased cost level is greater than the customer's original cost cap, then the original cost cap would apply.

Adjustments to posting requirements

After the reassessment reports were issued in September 2013, some interconnection customers with reassessment results indicating lower network upgrade costs also

requested immediate revisions to their posted interconnection financial security amounts.

The GIDAP provides that the maximum value for the interconnection financial security posting required of each interconnection customer is established by the lesser of the costs for network upgrades assigned to the customer in the final phase I interconnection study report or the final phase II interconnection study report, not the reassessment report. The GIDAP does not provide a mechanism for making adjustments to interconnection financial security postings between the specified posting milestones. Thus, to use the reassessment results as the basis for modifying interconnection customers' financial security postings requires a tariff change. Under the current rules, to the extent that a customer's network upgrade costs are reduced as a result of a reassessment, such reduction would be reflected in the customer's next scheduled interconnection financial security posting the following year.

To address this situation, Management worked with stakeholders and developed a proposed solution that allows posting requirements to be adjusted based on reassessment results. Management recommends that a change in estimated network upgrade cost responsibility resulting from a reassessment qualify an interconnection customer for a change in the amount of interconnection financial security the customer is required to post. A change in estimated network upgrade cost responsibility resulting from a reassessment can result in an increase (*i.e.*, an upward adjustment) or a decrease (*i.e.*, a downward adjustment) in a customer's interconnection financial security amount, as applicable. The adjustments will be automatic. However, an interconnection customer can opt out of a downward adjustment by submitting notification to the ISO within 10 days of the issuance date of the reassessment report that the customer wants to keep the posting as is.

If a customer's total estimated share of network upgrade costs declines as a result of the most recent reassessment, then that new cost estimate will be used to calculate the amount of financial security that is at risk of forfeiture if the customer withdraws. This rule will apply even if the interconnection customer elects not to adjust the project's posting.

POSITIONS OF THE PARTIES

Most stakeholders either fully support, or support with qualification, Management's proposal that an interconnection customer be eligible for a cost cap adjustment if the reassessment results in a significant difference between the customer's existing cost cap and its revised estimated upgrade costs. The qualifications expressed and Management's responses are summarized in the attached stakeholder matrix.

Additionally, as shown in the stakeholder matrix, most stakeholders fully support Management's proposal that a change in network upgrade cost responsibility resulting from a reassessment will qualify a customer for a change in the amount of interconnection financial security the customer is required to post.

CONCLUSION

Management recommends that the Board approve the proposal described in this memorandum. Management's proposal is broadly supported by stakeholders and was refined over the course of the initiative to address their comments and concerns. Management believes that this proposal will further enhance the generator interconnection process to better accommodate the needs of interconnection customers.

Attachment F – February 19, 2014 Stakeholder Presentation

GIDAP Reassessment Initiative

California Independent System Operator Corporation

June 19, 2014

Generator Interconnection and Deliverability Allocation Procedures Reassessment Initiative

Straw Proposal

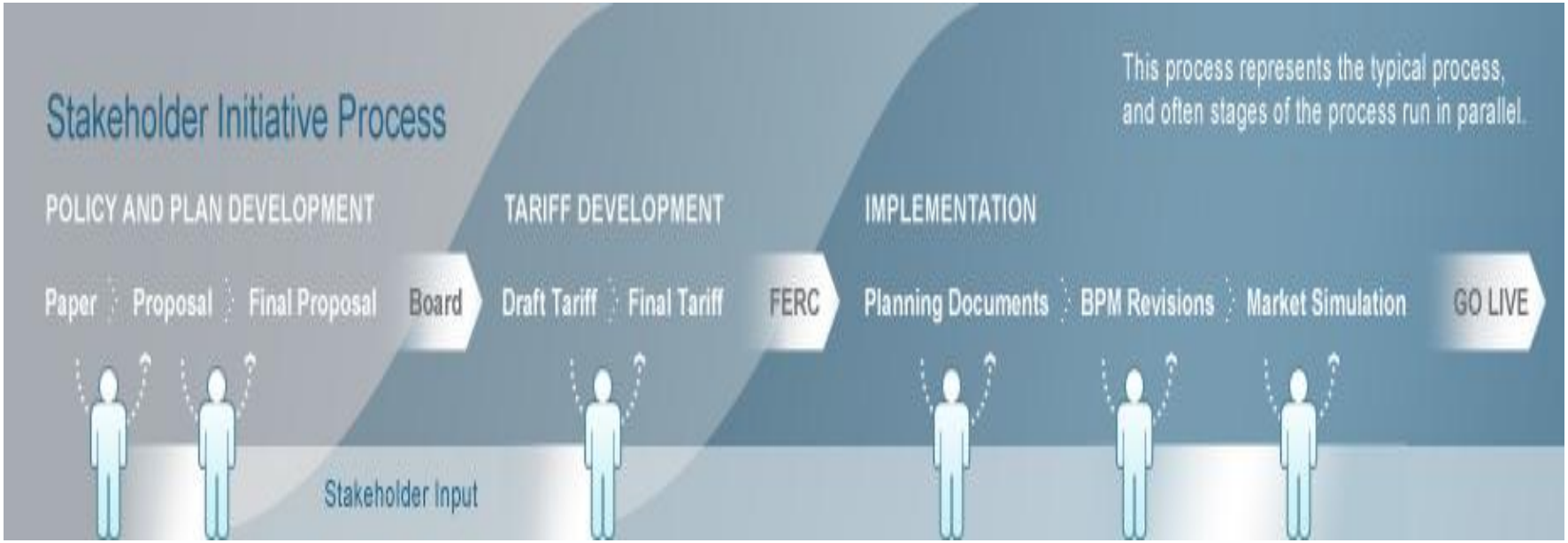
Stakeholder Meeting

February 19, 2014

Agenda

Time	Topic	Speaker
9:00-9:15	Introduction, Stakeholder Process	Kristina Osborne
9:15-9:45	Adjustments to cost caps	Tom Flynn
9:45-10:15	Adjustments to posting requirements	Tom Flynn
10:15-10:45	Use for forfeited funds	Lorenzo Kristov
10:45-11:00	Next Steps	Kristina Osborne

ISO Stakeholder Initiative Process



We Are Here

Stakeholder process schedule

Date	Event
December 16, 2013	Posted issue paper
January 8, 2014	Stakeholder web conference
January 15	Stakeholder comments due
February 12	Posted straw proposal
February 19	Stakeholder web conference
March 5	Stakeholder comments due
April 2	Post draft final proposal
April 9	Stakeholder web conference
April 23	Stakeholder comments due
May 28-29	ISO Board meeting
June	FERC filing

Adjustments to cost caps – stakeholder feedback

- LSA and IEP support making some adjustment to cost caps based on reassessment
  - Both suggest moderating risk of cost shifting to PTOs by limiting the amount of downward adjustments
  - LSA suggests making adjustments only where cost difference is large rather than in every instance
- Those opposed to any adjustment (CPUC staff, Six Cities, ORA, PG&E, SCE, and SDG&E) believe that the current approach provides the right balance

Adjustments to cost caps – considerations

- ISO continues to believe that current approach provides the right balance: *i.e.,* providing IC with cost certainty as early as possible in process vs. PTO financing exposure
- Majority of stakeholders support continued adherence to this approach
- ISO is not inclined to support across-the-board adjustments to cost caps, even if magnitude of adjustments is moderated
- However, there may be situations where the difference between cost cap and revised cost allocation resulting from reassessment may be significant

Adjustments to cost caps – straw proposal

- Make cost cap adjustments only in instances where existing cost cap is significantly higher that the revised cost allocation resulting from reassessment
- Proposed threshold:

  If reassessment results indicate a difference between an IC's existing cost cap and its revised cost allocation of more than 20% or $1 million, whichever is greater, then a cost cap adjustment would be made (i.e., both conditions must be met)

- ISO estimates that 26% of projects affected by 2013 reassessment would qualify (not 3% as stated in paper)
- For ICs that qualify under this threshold, a method is needed to calculate a revised cost cap amount

Examples illustrating application of the threshold

Example No.	Existing Cap ($ million)	Revised Cost Responsibility ($ million)	%	$ million	Qualifies?
1	50	39.5	21	10.5	Yes
2	30	24.0	20	1.5	No
3	15	10.5	30	4.5	Yes
4	5	3.95	21	1.05	Yes
5	2	1.58	21	0.42	No

Adjustments to cost caps – straw proposal (cont.)

- LSA suggests two possible methods for determining a revised cost cap amount
- Computational simplicity offered by LSA's second option could represent an approach preferable to the first option
- Under this option, the revised cost cap amount would be equivalent to a 100% cost allocation to each project for all remaining network upgrades
- New cost cap would be the lesser of the existing cost cap and the revised cost cap amount
- ISO estimates that 11% of projects affected by 2013 reassessment would get a lower cost cap
- If there is a subsequent significant change in system configuration, then the original cost cap would apply

Adjustments to posting requirements – stakeholder feedback

- Broad stakeholder support for making adjustments to posting requirements
- Six Cities only supports adjustments in the limited circumstance where total IFS exceeds 100% of IC's cost share based on reassessment
- Some stakeholders support raising the 5% threshold to 20%

Adjustments to posting requirements – straw proposal

1. If difference between IC's current 2nd posting and 2nd posting amount based on reassessment is more than 20% or $1 million, whichever is greater, an adjustment could be made (i.e., both conditions must be met).
2. Even if threshold under item 1 is not met, postings in excess of 100% will be reduced to eliminate this excess
3. Adjustments made pursuant to item 1 may result in an increase or decrease, as applicable.
   a. Downward adjustments would be voluntary rather than mandatory (under items 1 or 2).
   b. Upward adjustments under item 1 would be mandatory.
   c. For voluntary adjustments, customer would need to request adjustment within 30 days of reassessment report.

Adjustments to posting requirements – straw proposal (cont.)

4. Adjustments pursuant to item 1 will not be made if a project's 3rd posting is (1) due within 6 months and (2) would be greater than the current 2nd posting
5. October 29 technical bulletin will apply relative to the amount of IFS at risk of forfeiture upon a project's withdrawal
6. Cost reallocation will only apply to remaining costs and not to costs already paid by a project that has withdrawn

Examples illustrating application of the threshold

Example No.	2nd Posting ($ million)	Revised 2nd Posting ($ million)	%	$ million	Qualifies?
1	50	39.5	21	10.5	Yes
2	30	24.0	20	1.5	No
3	15	10.5	30	4.5	Yes
4	5	3.95	21	1.05	Yes
5	2	1.58	21	0.42	No
6	39.5	50	21	10.5	Yes
7	24.0	30	20	1.5	No
8	1.58	2	21	0.42	No

Use of forfeited funds – straw proposal

1. Funds forfeited by the withdrawn IC would be applied to both the:
   - system-wide high voltage transmission revenue requirements (HVTRR) and
   - PTO-specific low voltage transmission revenue requirements (LVTRR)

   in proportion to the IC's last pre-withdrawal cost responsibilities for NUs in each of these categories.

Use of forfeited funds – straw proposal (cont.)

2. An IC's cost responsibilities adjusted after phase II study pursuant to reassessment but prior to withdrawal would be used to determine the allocation of the forfeited funds
3. If IC's cost responsibilities include low voltage NUs on a second PTO's system, the forfeited funds would be split three ways on a pro rata basis:
   a. ISO system-wide HVTRR
   b. LVTRR of PTO to which the IC had requested to interconnect
   c. Second PTO's LVTRR

Next steps

Date	Milestone
March 5	Stakeholder comments due on 2/12/14 Straw Proposal

- Please use the comments template provided
- Submit to GIP@CAISO.COM no later than 5pm on Wednesday, March 5

Attachment G – List of Key Dates in the Stakeholder Process

GIDAP Reassessment Initiative

California Independent System Operator Corporation

June 19, 2014

List of Key Dates in the Stakeholder Process for this Tariff Amendment

Date	Event/Due Date
October 29, 2013	CAISO issues paper entitled "Technical Bulletin – GIDAP Reassessment Process – Reallocation of Cost Shares for Network Upgrades and Posting"
November 6, 2013	CAISO hosts web conference that includes discussion of paper issued on October 29
November 13, 2013	CAISO issues paper entitled "Issue Paper – Technical Bulletin: GIDAP Reassessment Process – Reallocation of Cost Shares for Network Upgrades and Posting (dated 10/29/13)"
November 14, 2014	CAISO hosts web conference that includes discussion of paper issued on November 13
December 16, 2013	CAISO issues paper entitled "Issue Paper – Generation Interconnection and Deliverability Allocation Procedures (GIDAP) Reassessment"
January 8, 2014	CAISO hosts web conference that includes discussion of paper issued on December 16
January 15, 2014	Due date for written stakeholder comments on paper issued on December 16
February 12, 2014	CAISO issues paper entitled "Straw Proposal – Generation Interconnection and Deliverability Allocation Procedures (GIDAP) Reassessment"
February 19, 2014	CAISO hosts web conference that includes discussion of paper issued on February 12
March 5, 2014	Due date for written stakeholder comments on paper issued on February 12
April 2, 2014	CAISO issues paper entitled "Draft Final Proposal – Generation Interconnection and Deliverability Allocation Procedures (GIDAP) Reassessment"
April 9, 2014	CAISO hosts web conference that includes discussion of paper issued on April 2
April 23, 2014	Due date for written stakeholder comments on paper issued on April 2
May 23, 2014	CAISO draft tariff revisions to implement tariff amendment
June 3, 2014	Due date for written stakeholder comments on draft tariff revisions issued on May 23
June 10, 2014	CAISO hosts stakeholder conference call that includes discussion of draft tariff revisions issued on May 23