Memorandum

To: ISO Board of Governors

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

Date: September 5, 2013

Re: **Decision on interconnection process enhancements for queue management**

This memorandum requires Board action.

EXECUTIVE SUMMARY

The state's renewable energy policy goals have resulted in significant development of new generation, including renewable solar and wind projects. With this development and the resulting increase in the number of projects requesting interconnection, identifying ways to more effectively manage the ISO's interconnection queue and efficiently move these projects through the interconnection process has become increasingly critical. To meet this challenge, the ISO established a new internal department with a specific focus on queue management. Through the interconnection process enhancements initiative, this group has worked with stakeholders on seven specific changes that would improve the ISO's ability to administer the generator interconnection queue. The proposed changes are outlined below:

1. Provide for the ability to charge interconnection customers for the ISO's and participating transmission owners' costs associated with assessing whether a project modification request is a material modification. Customers will be responsible for actual costs incurred and a separate deposit will be required from the customer.

2. Allow changes to the commercial operation date and other project modifications for small generator projects similar to those provisions allowed for large generator projects.

3. Align the timeline for small generator projects to be in the queue to the timeline applicable to large generator projects.

4. Clarify that the participating transmission owner is solely responsible for tendering the generator interconnection agreement.

5. Revise the triggering event for tendering the draft generator interconnection agreements to the phase II results meeting so that changes discussed during the meeting can be incorporated in the initial tendered interconnection agreement.

6. Revise the time period for the ISO to finalize the execution copy of the generator interconnection agreement once the negotiations have been completed.

7. Revise the suspension definition in the serial agreements to ensure consistency between serial and cluster projects. This revision would avoid impact to other queued projects by specifying that the suspension period extends up to three years from when the interconnection request was received only applies to participating transmission owner upgrades that does not impact other projects, and does not provide a day-for-day delay of the project.

Management recommends the following motion:

Moved, that the ISO Board of Governors approves the proposal for queue management changes, as described in the memorandum dated September 5, 2013; 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 has dedicated additional resources to administer the ISO interconnection queue over the last 18 months to help ensure that generation projects reach commercial operation on a timely basis. During this period, 29 projects have achieved commercial operation with a total output of 5,400 MW, 72 projects have withdrawn as a result of the ISO's queue management efforts, and 97 projects have withdrawn during the study and contract negotiation process. As of August 15, 2013, 279 projects remain in the ISO queue. The interconnection process enhancements ("IPE") initiative is the latest in a series of stakeholder processes that the ISO has conducted over the past several years to continuously review and improve its generation interconnection procedures. The scope of the IPE initiative consists of 15 generation interconnection procedures-related topics of concern to both the ISO and stakeholders. From the beginning of this initiative, the ISO anticipated that the pace of development of proposals for each of the 15 topics may differ and that final proposals on the various topics in this initiative may be completed in stages. The seven queue management topics within the scope of the IPE initiative are the first being presented to the Board. The remaining eight IPE topics will be presented to the Board at meetings later in 2013 and in early 2014.

Material modification review: Currently, interconnection procedures and agreements allow interconnection customers to modify their projects, provided it is not a material modification. Material Modification is defined as those modifications that have a material impact on the cost or timing of any Interconnection Request or any other valid interconnection request with a later queue priority date. Changes can consist of: project milestone dates including commercial operation date; equipment including inverters, transformers, conductors, and manufacturer; point of ownership; point of

interconnection; and, project phasing. The ISO has processed 80 modification requests in 2011/2012 and 40 to date in 2013.

The ISO proposes to expand the existing cost recovery mechanisms for interconnection customers to bear the costs associated with work the ISO and the transmission owner must perform in connection with re-study and project modification requests. Specifically, the ISO proposes to require an interconnection customer that is requesting a project modification to provide the ISO with a deposit of $10,000. The interconnection customer would then be responsible for actual costs incurred by the ISO and the participating transmission owner in reviewing the project modification request. Direct reimbursement would allow the ISO and participating transmission owners to dedicate additional resources to this task and thereby aid in expediting the modification request process and should act to discourage non-serious material modification requests.

The ISO will provide to market participants an annual report at an aggregate level of the average costs for the different types and complexities of modifications requested.

Material modification of small generators (20 MW or less): The tariff allows a large generator to propose changes to the commercial operation date and other project parameters by proposing a project modification. However, the small generator interconnection agreement only allows for milestone changes. Although the original basis for this difference was likely based on the assumption that a small generator project would be studied, contracted and achieve commercial operation within a shorter period of time, this has not turned out to be the case. Accordingly, the ISO proposes to extend to small generators the same options that large generators have for project modification proposals. Similar to the discussion above, modification assessments for small generator projects would also be required to compensate the ISO and participating transmission owners for costs incurred for the assessment.

Small generator time in queue: In conjunction with the change to allow small generator projects to propose modifications, the ISO also proposes to incorporate a maximum time in queue similar to large generator projects. The tariff allows 10 years in the queue from the interconnection request date to the in service date for large serial projects, and seven years in queue from the interconnection request date to the commercial operation date for larger cluster projects. The ISO proposes to apply these same time frames to small generators.

Tendering of generator interconnection agreement: Currently the tariff states that the participating transmission owner and the ISO tender the generation interconnection agreement to the customer. The practical reality is that only the participating transmission owner has the necessary cost and schedule information. Accordingly, the ISO proposes that the responsibility to tender the agreement be placed solely with the participating transmission owner.

Event to trigger tender obligation: The ISO proposes to modify the trigger for tendering the generator interconnection agreement, which initiates the negotiation process to

better align with customer study results discussions. Specifically, the ISO proposes to amend the tariff to implement the trigger to tender the draft generator interconnection agreement 30 calendar days from the interconnection customer's results meeting as that term is defined in the generator interconnection procedures rather than the current trigger, which is 30 calendar days from the publishing of the interconnection facilities study report or phase II study report. Making this change will allow the participating transmission owner and ISO to incorporate in the initial agreement draft changes that the customer discusses in the meeting.

Finalizing the execution copy of the generator interconnection agreement: Once all three parties have agreed that the generator interconnection agreement is final and ready for execution, the ISO is responsible for providing the final generator interconnection agreement to the interconnection customer and participating transmission owner for signature. Currently section 11.2 of the generator interconnection procedures provides "The applicable Participating TO(s) and CAISO shall provide to the Interconnection Customer a final generator interconnection agreement within fifteen (15) Business Days after the completion of the negotiation process." This only impacts the ISO, and, as a way to expedite the process, the ISO proposes to decrease this period from 15 business days down to 10 business days from completion of the negotiation process, provided the interconnection customers agree to provide information request sheets in advance of concluding the negotiation. In addition, the ISO proposes to delete the reference to the "Participating TO(s)" in the cited sentence above from section 11.2.

Revise the suspension definition: The ISO proposes updating the definition of suspension in the ISO's pro forma large generator interconnection agreement applicable to serial projects to be consistent with the ISO's cluster and generator interconnection and deliverability allocation procedure large generator interconnection agreement versions by specifying that suspension extends up to three years from when the interconnection request was received, and only applies to participating transmission owner upgrades that do not impact other projects, and does not provide a day-for-day delay of the project. The ISO believes this change is necessary because without this change serial projects that have been in the queue prior to 2010 could have the ability to suspend their project indefinitely thereby potentially affecting other projects that rely on upgrades the suspended project is required to build. Thus the ISO desires to clarify that suspension does not stay the obligation of paying invoices and to clarify that suspension does not apply to network upgrades that impact other queued projects.

POSITIONS OF THE PARTIES

The ISO conducted several rounds of stakeholder interaction on these topics consisting of a scoping proposal, issue paper proposal and draft final proposal where stakeholders were able to provide comments. The ISO modified its proposal for several of the topics in response to comments received from stakeholders. A stakeholder matrix that summarizes the process is provided as Attachment A.

The bulk of the queue management proposals discussed in this memo received broad stakeholder support. The only opposition is with respect to clarifying the suspension language for serial projects. The Independent Energy Producers view this proposal as retroactive ratemaking and is concerned that the proposal changes the contractual construct that those projects were originally afforded. While the ISO understands the concern, the intention was never to have projects in the queue for an extended and indefinite period of time without progress. Moreover, allowing serial projects to suspend or delay upgrades when such suspension could have an impact on other projects in the queue undermines the ISO's ability to administer the queue. Consequently the ISO is only proposing to add the limitation to projects that have not executed their generator interconnection agreement, and projects that require an amendment to their agreement.

With respect to charging for reviewing project modification requests, Southern California Edison would prefer a fixed fee versus actual costs approach because of the ease of administration. While the ISO is not against this concept, the ISO does not have the cost information to support a fixed fee based approach. It may be possible in the future to develop a fixed fee based structure based on cost information generated by accounting for and billing actual costs. It should also be noted that all other study costs are based on actual costs.

In addition, comments received during the stakeholder process indicated that interconnection customers want the opportunity to self-prioritize to receive their draft interconnection agreement, negotiate and execute on an accelerated timeline. The ISO believes it can implement this request without a tariff change provided all three parties agree to accelerate the schedule. The ISO will work with stakeholders as part of the ongoing interconnection process enhancement initiative to outline a plan that could be implemented through the generator interconnection and deliverability allocation procedure business practice manual.

CONCLUSION

Management recommends that the Board approve the queue management changes proposed in this memorandum. These changes are broadly supported by stakeholders and were refined to address many of their comments and concerns. Management believes that these proposed queue management modifications will greatly improve the ISO's ability to administer the queue more efficiently.