



California ISO
Shaping a Renewed Future

Generator Interconnection and Deliverability Allocation Procedures (GIDAP) Reassessment

Draft Final Proposal

April 2, 2014

Table of Contents

1	Introduction	3
2	Background	3
2.1	Reassessment overview	3
2.2	2013 reassessment.....	4
2.3	Stakeholder process.....	5
2.3.1	Actions leading up to this initiative	5
2.3.2	GIDAP reassessment initiative	8
3	Topics	9
3.1	Adjustments to cost caps	9
3.1.1	Current ISO tariff language establishing cost caps	10
3.1.2	Purpose of cost caps	10
3.1.3	Consideration of cost cap adjustments	12
3.1.4	Stakeholder comments on the February 12 straw proposal	13
3.1.5	Draft final proposal	15
3.2	Adjustments to posting requirements	17
3.2.1	Posting requirements and the 2013 reassessment	17
3.2.2	Consideration of adjustments to posting requirements	18
3.2.3	Stakeholder comments on the February 12 straw proposal	19
3.2.4	Draft final proposal	22
3.3	Use of forfeited funds	24
3.3.1	Background	24
3.3.2	Draft final proposal	25
3.3.3	Stakeholder comments.....	28

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.

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.

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

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

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

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

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.

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

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

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.