Technical Bulletin

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

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TABLE OF CONTENTS

Purpose

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

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

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

Background

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

7.4 Reassessment Process

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

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

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

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

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

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

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

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

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

Some Interconnection Customers (ICs) received a reassessment study report indicating a change in their plans of service resulting in a lower overall network upgrade costs and requested revisions to their second Interconnection Financial Security (IFS) posting amounts. Although the ISO intended to communicate changes to the plan of service of projects in clusters prior to the current cluster, where costs typically decrease, but also have the potential to increase, the ISO did not intend that the reassessment study process would result in revisions to customers' existing security postings. However, in light of recent concerns raised by stakeholders in the ongoing Interconnection Process Enhancements (IPE) initiative, the ISO has reviewed this issue more closely. In addition, the ISO has reviewed a related issue, which concerns the amount of IFS that should be at risk of forfeiture if a customer withdraws its project following a revision to its plan of service as a result of the reassessment.

Reassessment Study Process Clarifications

Revisions to Cost Share Responsibility for NUs

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

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

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

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

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

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

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

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

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

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

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

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

Example of Cost Reallocation for NUs in the Reassessment Process

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

Table 1

Initial Cost Allocations

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

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

Figure 1

Total Phase II Cost Responsibilities

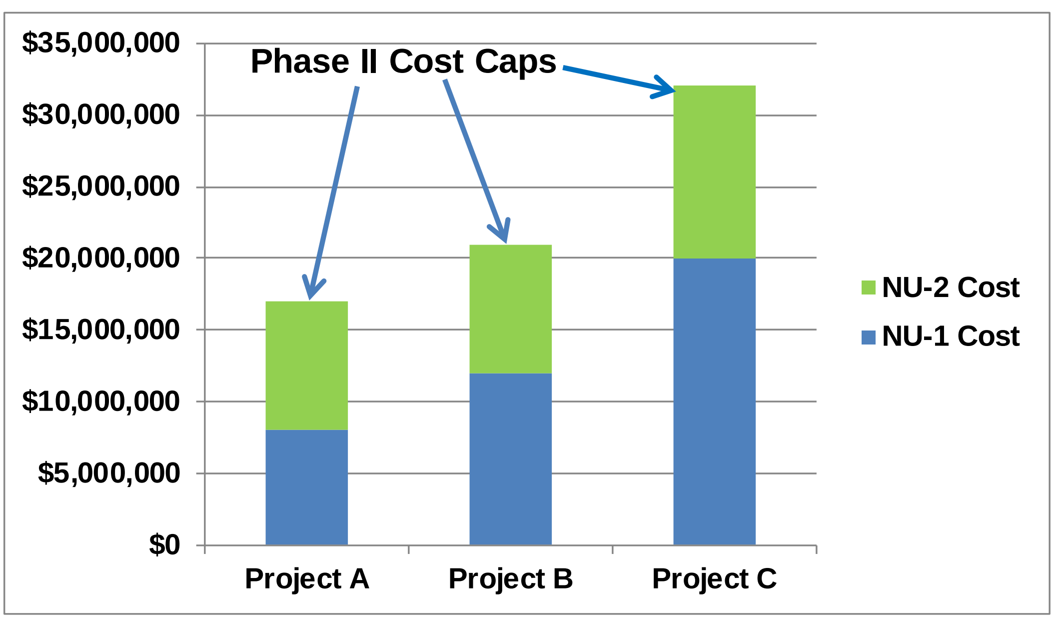


Table 2 below illustrates the example where Project C withdraws, resulting in NU-2 no longer being needed for the remaining active Projects A and B.

Table 2

Project C Withdraws & NU-2 is No Longer Needed

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

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

Figure 2

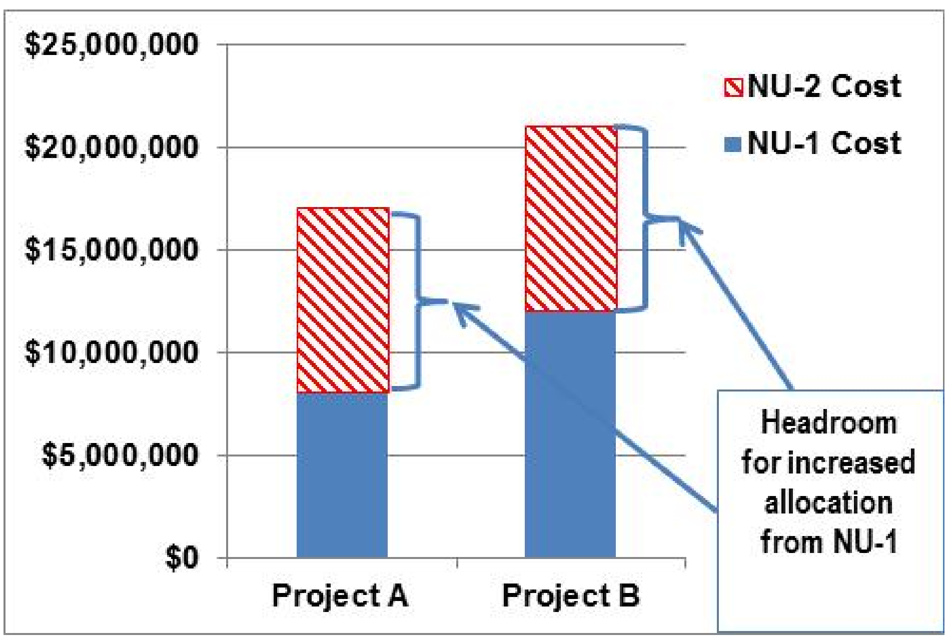


Table 3 shows the revised cost share responsibilities for Projects A and B following the reallocation process within the reassessment study process.

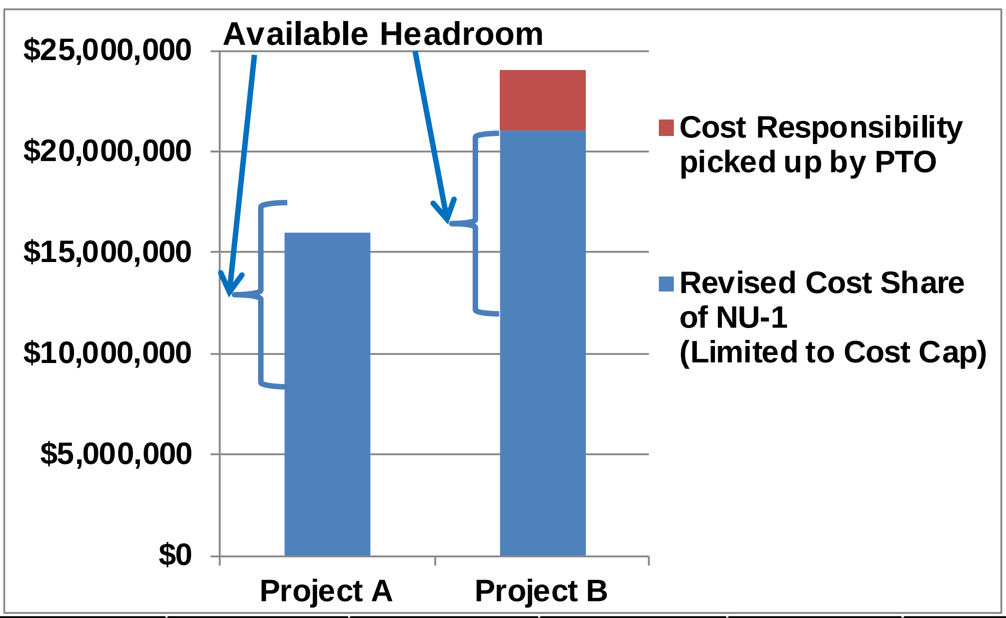
Table 3

Revised Cost Share Allocations After Reassessment

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

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

Figure 3



Adjustments to Interconnection Financial Security Posting Requirements

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

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

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

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

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

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

Calculating the amount of financial security at risk of forfeiture

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

Amendments to Generator Interconnection Agreements

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

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

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

Implementation

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

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