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January 20, 2004

Ms. Magalie Roman Salas  
Secretary  
Federal Energy Regulatory Commission  
888 First Street, NE  
Washington, DC 20426

**RE: Large Generator Interconnection Procedures of the California  
Independent System Operator Corporation  
Docket No. ER04-\_\_\_\_-000**

Dear Secretary Salas:

Pursuant to the Federal Energy Regulatory Commission's ("Commission" or "FERC") direction in its order regarding standardization of generator interconnection agreements and procedures, ("Order No. 2003")<sup>1</sup>, and Section 205 of the Federal Power Act, 16 U.S.C. § 824d (2003), and Section 35.13 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 35.13 (2003), the California Independent System Operator Corporation ("ISO") hereby submits six copies of its Standard Large Generator Interconnection Procedures ("LGIP") for Commission approval and inclusion in the ISO Tariff.<sup>2</sup> The ISO is also submitting related *pro forma* interconnection study agreements, which will not be a part of the ISO Tariff, and related ISO Tariff amendments for Commission approval. As discussed in greater detail below, the ISO continues to work with the affected Participating Transmission Owners ("PTOs")<sup>3</sup> on the Standard Large Generator Interconnection Agreement ("LGIA") and commits to file a finalized LGIA for

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<sup>1</sup> Standardization of Generator Interconnection Agreements and Procedures, Order No. 2003, Stats. & Regs. ¶ 31,146, 68, Fed. Reg. 49,846 (August 19, 2003) (2003).

<sup>2</sup> Capitalized terms that are not otherwise defined are defined in the Master Definitions Supplement, Appendix A to the ISO Tariff.

<sup>3</sup> The PTOs that have been active in the LGIP / LGIA process have been the FERC-jurisdictional PTOs, Southern California Edison Company, Pacific Gas and Electric Company, and San Diego Gas & Electric Company.

Commission approval within 20 days of the instant submission. The ISO is also tendering two copies to be time and date stamped and returned to our courier.

## I. BACKGROUND

### A. Procedural History

On October 21, 2001, the Commission began the process of standardizing agreements and procedures for generator interconnection to electrical transmission systems with the issuance of its Advanced Notice of Proposed Rulemaking ("ANOPR").<sup>4</sup> Feedback on the ANOPR resulted in the Notice of Proposed Rulemaking ("NOPR") issued on April 24, 2002.<sup>5</sup> Comments were submitted to the Commission in response to the NOPR from a wide range of generation and transmission companies, including transmission providers such as the ISO. The Commission responded to the Comments received and set out *pro forma* documents for large generator interconnection, in its Final Rule, Order No. 2003, issued on July 24, 2003.

Order No. 2003 both addressed comments received and set out a *pro forma* LGIA and LGIP and related study agreements. Order No. 2003 directed providers of transmission service to make a compliance filing of an LGIA and LGIP within 60 days of the date of publication of Order No. 2003 in the Federal Register.<sup>6</sup> Several entities filed requests for rehearing or clarification of Order No. 2003. The requests for rehearing were granted for further consideration and a final order on rehearing of Order No. 2003 is currently pending.<sup>7</sup>

Several entities also filed for extensions of the Commission's original 60-day timeframe for compliance filings of the LGIA and LGIP, including the ISO. The ISO submitted its joint request for an extension on September 22, 2003. The joint request was granted by the Commission via letter order issued on September 26, 2003, which established January 20, 2004 as the revised compliance date. On January 8, 2004, the Commission issued an order in which it provided further guidance regarding the filing of the LGIA and LGIP by independent and non-independent entities. In its order, the Commission noted, *inter alia*, that where *pro forma* documents were modified, current

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<sup>4</sup> Standardizing Generation Interconnection Agreements and Procedures, Advance Notice of Proposed Rulemaking, 66 Fed. Reg. 55,140 (November 1, 2001), FERC Stats. & Regs. ¶ 35,540 (2001).

<sup>5</sup> Standardization of Generator Interconnection Agreements and Procedures, Notice of Proposed Rulemaking, 67 Fed. Reg. 22,250 (May 2, 2002), FERC Stats. & Regs. ¶ 32,560 (2002).

<sup>6</sup> Order No. 2003 at P 910.

<sup>7</sup> "Order Granting Rehearing for Further Consideration" *Standardization of Generator Interconnection Agreements and Procedures*, Docket No. RM02-1 (September 22, 2003).

agreements for generator interconnection would continue in effect until the modified *pro forma* LGIA and LGIP were approved by the Commission.<sup>8</sup>

## **B. ISO Progress and the Two-Stage Filing**

Order No. 2003 specified that, where the transmission provider is an independent system operator or regional transmission organization that exercises operational control over transmission facilities owned by other entities, both the ISO/RTO and the transmission owner should have responsibilities under the LGIP and should be parties to the LGIA. Order No. 2003 did not, however, prescribe how all functions associated with processing interconnection requests and providing interconnection service should be allocated between the ISO/RTO -- which is the transmission provider -- and the transmission owner. That question was left for resolution based on the needs of each ISO or RTO. The ISO supports and appreciates the Commission's decision to recognize the needs and circumstances of independent entities, as well as regional differences. The ISO points out that the process of allocating the functions associated with interconnection and the responsibilities under the LGIP and the LGIA among itself and the PTOs in accordance with the ISO Tariff, the Transmission Control Agreement, and the ISO's business practices has required a significant amount of time and effort on the part of the ISO and the FERC-jurisdictional PTOs that have participated actively in that process.

The ISO's efforts to develop a final workable LGIP and LGIA with stakeholders have been concerted and are briefly summarized below:

Soon after the issuance of Order No. 2003, the ISO and PTOs consulted on the need to make conforming changes to their respective tariffs and agreements regarding implementation of the order. The ISO and PTOs formed a number of working groups to evaluate the provisions of Order No. 2003 governing major interconnection policy issues in relation to the ISO's particular circumstances and to develop any necessary modifications to the Commission's standard approach that might need to be made to address the ISO's circumstances. After assessing the import of Order No. 2003 and identifying the major policy and technical issues that required further analysis, the ISO then established a stakeholder process to solicit feedback from Market Participants regarding the appropriate resolution of these outstanding policy and technical issues. Since resolution of many of the outstanding policy issues required ISO Governing Board ("Board") approval, and recognizing that the Commission's January 20, 2004, compliance filing date would occur before the previously established Board meeting date in January (January 22, 2004), the ISO was required to complete its stakeholder process prior to the Board's December 4, 2003, meeting date. The stakeholder process is summarized below:

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<sup>8</sup> "Notice Clarifying Compliance Procedures," *Standardization of Generator Interconnection Agreements and Procedures*, Docket No. RM02-1 (January 8, 2004).

- October 1, 2003 [passim] ISO published its "White Paper" regarding the Large Generation Interconnection Rule that both summarized the salient aspects of Order No. 2003 and identified the major policy and technical issues in need of further analysis (Attachment N).
- October 15 Market Participants provided written feedback to the ISO on the ISO's White Paper. Market Participant comments are posted on the ISO Home Page
- October 21 ISO hosted first stakeholder meeting to discuss the ISO's White Paper and solicit feedback from Market Participants
- October 28 ISO published preliminary ISO positions on Order No. 2003
- November 3/4 ISO published revised White Paper on Order No. 2003 and proposed Deliverability Assessment, including summary of stakeholder comments
- November 6 Stakeholders provided second round of comments
- November 12 ISO hosted second stakeholder meeting to discuss policy and technical issues and to further describe the ISO's updated position on issues
- November 20 Stakeholders submitted final round of comments
- November 25 ISO published ISO Board briefing memo
- December 4 ISO Board meeting, including stakeholder comment opportunity

Beyond those extensive efforts to work with the ISO's stakeholders in addressing the major interconnection policy issues raised by Order No. 2003, the ISO undertook an exhaustive process to work with the FERC-jurisdictional PTOs to review the *pro forma* LGIP and LGIA line-by-line to reconcile the LGIP and LGIA provisions with the existing structure of the ISO Tariff and the PTOs' historic interconnection procedures and agreements. The ISO and PTO working groups attempted to determine, among other things, (1) the appropriate allocation of roles and responsibilities specified by FERC as being within the province of the "Transmission Provider" in the LGIP and LGIA, (2) the minimum necessary changes to the new interconnection procedures to recognize and accommodate the historic practices in the ISO Control Area,<sup>9</sup> (3) the most reasonable means of integrating the operations provisions in the LGIA – which are applicable to new Generating Facilities – with the existing operating requirements in the ISO Tariff that are applicable to all existing Generating Units, and (4) the most appropriate reconciliation of the general terms and conditions of the LGIP and LGIA with the existing

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<sup>9</sup> The ISO notes that the Commission had previously approved, subject to the outcome of this proceeding, in Amendment No. 39 to the ISO Tariff, an ISO-administered interconnection process that applied to the entire ISO Controlled Grid.

general provisions of the ISO Tariff that are applicable to all existing Generating Units. In particular, the ISO worked with the PTOs and other stakeholders to “customize” an LGIP and LGIA to (1) specify the respective roles of the ISO and PTOs, reaching agreement where possible with the affected PTOs, (2) reflect “regional differences” in the ISO Control Area, and (3) incorporate other appropriate revisions to the *pro forma* LGIP and LGIA that are justifiable under the “independent entity variation” standard, which is discussed below.

To accomplish that task, in conjunction with the ongoing stakeholder process,<sup>10</sup> the ISO and PTOs formed three working groups: the Pricing/Service team that developed the proposed policies on the major policy issues described above; the Process Mapping team; and the Legal/Contracts team. The Process Mapping team was tasked with creating a comprehensive summary of all of the FERC-ordered timelines for the various activities in the interconnection study process and to rationalize them in an integrated fashion both within the parameters of the *pro forma* LGIP and with regard to any necessary adjustments to account for – and more importantly retain - the different but complementary roles of the ISO and the PTOs in the interconnection study process. The results of that effort are set forth in Attachment L, which demonstrates that the proposed modifications to the various timelines result in a nominal increase of 76 days to the overall time specified by FERC for the interconnection study process.<sup>11</sup> Once that effort was complete, the Process Mapping team then turned its focus to a comprehensive review of the LGIP and the study agreements to implement its determinations regarding the study process timelines and the other details of the interconnection study process. Once efforts to evaluate Order No. 2003 and develop a proposed plan for the preparation of the compliance filing were completed, the Process Mapping team’s 10+ members held almost weekly 3-hour conference calls beginning in early September and continuing through the first full week of January 2004 – resulting in approximately 500 person-hours of discussions of the interconnection study process, LGIP, and agreements. ISO shared the early results of this team by posting the draft process maps prior to and discussed their content during its second stakeholder meeting on November 12, 2003. All of those discussions were, of course, supported by many hours analyzing Order No. 2003 and the LGIP and study agreements and even more hours of drafting proposed provisions for those documents. At the end of the first week of January, the Process Mapping team completed its efforts.

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<sup>10</sup> Due to the press of time between finalizing and obtaining Board approval of the major policy recommendations and the Commission’s established Order No. 2003 compliance filing date, the ISO has not had the opportunity to share with Market Participants, and receive comments on, the tariff language proposed herein. As noted earlier and explained further below, the ISO commits to file a *pro forma* LGIA within twenty days of this filing. Understanding that the Commission will likely re-notice the ISO’s compliance filing at that time, the ISO is amenable to an extended comment period on the proposed ISO Tariff and *pro forma* agreement language.

<sup>11</sup> Attachment L illustrates the LGIP process in a timeline format. Attachment M provides maps of the process.

The other primary document review working group was the Legal/Contracts team. That team was charged with developing an agreed-upon form of the LGIA that could be applied uniformly across the ISO Controlled Grid by the ISO and all three of the FERC-jurisdictional PTOs – which PTOs currently have significantly different forms of interconnection agreements. The Legal/Contracts team initiated its conference calls in the second week of September and held them on average once a week for three hours a week through the first full week of January 2004. While the Legal/Contracts team's primary focus was a line-by-line review of the LGIA to attempt to reach agreement on the provisions that would be acceptable to the ISO and the three PTOs, the team also considered the scope of amendments that would be necessary to the ISO Tariff and the PTOs' Transmission Owner ("TO") Tariffs in order to facilitate the implementation of the LGIA and LGIP. While the Legal/Contracts team has made extensive progress in developing an LGIA that is acceptable to the ISO and the three PTOs, there are several issues still outstanding which the parties have been unable to resolve at this time. Because of the difficulty in finalizing the LGIA and the need to meet the pending the January 20 filing deadline, the team re-focused its efforts on finalizing all of the other documents necessary to meet that deadline. The Legal/Contracts team's 15+ members have devoted more than 50 hours of discussions focused primarily on the LGIA, for a total of in the range of 750 person-hours of efforts just in those discussions. In addition, many hours have been spent reviewing the provisions of the LGIA, consulting with subject-matter experts, and drafting alternative provisions.

Given the impending January 20 filing deadline, the Legal/Contracts team, in conjunction with members of the Process Mapping team, held over 24 hours of face-to-face meetings to develop all of the components of the compliance filing other than the LGIA. Those meetings resulted in all of the various elements attached to this filing.

In addition to the extensive efforts among the ISO and the PTOs to prepare modified versions of the LGIP, study agreements, and LGIA, and to develop ISO Tariff and TO Tariff provisions to implement Order No. 2003, the ISO also coordinated with the non-FERC jurisdictional New PTOs regarding the progress in developing the compliance filing. The ISO held an initial conference call in August to brief the New PTOs on the scope of Order No. 2003 and to solicit their feedback regarding the manner of addressing their interests in the compliance filing. The ISO thereafter provided nearly weekly e-mail updates into December regarding progress on the compliance filing effort, including an invitation for them to participate on the working teams. While the New PTOs expressed some general interest in the updates, they did not provide any specific input as to how their interests might need to be addressed in the compliance filing. Because those New PTOs currently only hold Entitlements in transmission facilities that they have turned over to ISO Operational Control, they do not have the authority to provide for interconnection to those transmission facilities. Further, because their obligations with regard to new Generating Facility interconnections to such transmission Entitlements are fully addressed in Section 10.3.1 of the Transmission Control Agreement, it is the ISO's view that they are not currently obligated by Order No. 2003 or this compliance filing to undertake any new obligations

with regard to requests to interconnect new Generating Facilities to those transmission facilities.

The ISO and the FERC-jurisdictional PTOs also solicited the participation of representatives of the California Public Utilities Commission ("CPUC") on the working teams. The ISO believes that the CPUC's participation in this effort was both appropriate and necessary. As directly acknowledged in Order No. 2003, the Commission anticipated that RTOs/ISOs would consult with the appropriate Regional State Advisory Committee to develop region-appropriate interconnection procedures.<sup>12</sup> CPUC representatives participated actively in early policy discussions and periodically during the course of the discussions thereafter, and a portion of this filing letter was requested by the CPUC to ensure that its position regarding the definition of "Interconnection Facilities" would not be prejudiced by this filing.

Through the dedicated efforts of staff from the ISO and the active PTOs, the ISO has been able largely to reach general agreement among the stakeholders regarding the major interconnection policy issues (e.g., crediting and service) and with the PTOs with regard to the *pro forma* LGIP and related *pro forma* interconnection study agreements for today's filing. However, as noted above, due the complex issues arising out of the restructuring of the procedures and agreements concerning interconnection to transmission in California, including the changes to the status quo brought about by the transition from a two-party to a three-party interconnection agreement, and the need to determine the respective roles of the ISO and the PTOs under a three-party agreement, the ISO and active PTOs have not yet finalized a suitable LGIA. Substantial progress has been made, however, and the ISO commits to file the final LGIA within 20 days of this filing. The ISO believes that the process of establishing an efficient and acceptable process for the interconnection of large Generating Facilities to the ISO Controlled Grid will be expedited and enhanced if the ISO and the PTOs can continue their efforts to reach a consensus on the terms of the *pro forma* three-party LGIA for a mere additional 20 days. As the existing interconnection process and agreements will remain in effect until the Commission accepts the ISO's compliance filing, there should be little adverse consequence of this small delay. The ISO requests that the Commission grant any necessary waivers so that the ISO can file the LGIA within 20 days and remain in compliance with Order No. 2003 and all pertinent Commission directives.

## II. CONTENTS OF FILING

This filing comprises:

This Transmittal Letter

Attachment A	Matrix of Changes to FERC <i>Pro Forma</i> LGIP With Rationale
Attachment B	Matrix of Changes to FERC <i>Pro Forma</i> Study Agreements With Rationale

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<sup>12</sup> Order No. 2003 at P 698-699.

Attachment C	LGIP Tariff Sheets (including Interconnection Request Appendix) Blacklined
Attachment D	LGIP Tariff Sheets Clean
Attachment E	LGIP <i>Pro Forma</i> Definitions Blacklined
Attachment F	Definition Tariff Sheets Blacklined
Attachment G	Definition Tariff Sheets Clean
Attachment H	Tariff Section 5.7 Changes Blacklined
Attachment I	Tariff Section 5.7 Changes Clean
Attachment J	<i>Pro Forma</i> Study Agreements Blacklined
Attachment K	<i>Pro Forma</i> Study Agreements Clean
Attachment L	LGIP Time Line Graphs
Attachment M	Maps of Interconnection Procedure Process
Attachment N	ISO Policy Documents
Attachment O	Notice Suitable for Publication in the Federal Register
Attachment P	List of Parties Served

### III. COMMUNICATIONS

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

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\* Individual designated for service. As Mr. Waas and Ms. Le Vine work in different buildings some distance apart, the ISO requests that documents be served on each.



#### IV. DESCRIPTION OF THE FILING

##### A. Structure of the Filing

As described above, the instant filing is submitted in compliance with Order No. 2003. Included with the instant filing is the *pro forma* LGIP and Interconnection Request to be incorporated into the ISO Tariff. Changes to the language of the Commission's *pro forma* LGIP are shown in the matrix included as Attachment A to the filing and in the blacklined tariff sheets that are included as Attachment C. Also included with this filing are the *pro forma* study agreements, which, consistent with the ISO's existing practice regarding *pro forma* agreements, will not be included as part of the ISO Tariff, but which will stand alone as ISO (and PTO) *pro forma* agreements and be posted on the ISO Home Page. A change matrix showing the changes from the FERC *pro forma* version of these agreements is included as Attachment B. These agreements are included as blackline and clean sheets as Attachments J and K. Most LGIP definitions have been removed from the LGIP and placed in the ISO's Master Definitions Supplement. A few definitions that apply only to the LGIP have been retained as part of the LGIP and given effect limited to that document. For ease of reference, the filing includes a blackline of the LGIP definitions showing changes from those originally set forth in the *pro forma* LGIP (Attachment E) in addition to blacklined (Attachment F) and clean tariff sheets (Attachment G), which show the incorporation of new definitions into the ISO Tariff. As discussed below, Section 5.7 of the ISO Tariff was modified to eliminate duplication between its terms and the LGIP. Blacklined and clean versions of Section 5.7 are also included as Appendices H and I. The filing also includes timeline graphs which show clearly the timing of steps under the LGIP as (1) originally proposed in the Commission's *pro forma* and (2) as the timing existing under the ISO's modified *pro forma* LGIP. These timeline graphs are included as Attachment L to the filing. As a further illustrative aid, Maps of the interconnection process are included as Attachment M. Finally, ISO policy documents regarding the LGIA/LGIP are included as Attachment N.

As explained above, the ISO commits to file a modified *pro forma* LGIA within twenty days of the date of this filing.

##### B. Regional Differences and Independent Entity Variations

While the LGIP is a *pro forma* document, the Commission recognized in Order No. 2003 that some flexibility was important to accommodate the practices in different regions. The Commission noted that the level of latitude that would be allowed for variations from the FERC *pro forma* would be greater for independent entities which are "less likely to act in an unduly discriminatory manner than is a market participant." Order No. 2003 at P 827. Order No. 2003 did not, however, limit independent entities to meeting either the so-called "regional differences" test or "consistent with or superior to"

standard. Instead, the Commission stated that independent entities could submit alterations to the *pro forma* under a more flexible “independent entity variation.”<sup>13</sup>

Although the ISO has endeavored to retain the language of the *pro forma* LGIP adopted in Order No. 2003 to the extent possible, certain modifications have been made where necessary to (1) specify the respective roles of the ISO and PTOs, reaching agreement where possible with the active PTOs, (2) reflect regional differences, or (3) incorporate appropriate and justifiable variations in accordance with the “independent entity variation” standard. The ISO has reflected these alterations in multiple formats. First, all changes are described in the matrix included as Attachment A to the filing. Attachment A also describes the rationale for each change that was made. Attachment B includes a similar change matrix for the study agreements. In addition, the black lined tariff sheets included with this filing as Attachments C, E, and F provide another guide of all changes made to the original Commission *pro forma* language. While Attachments A and B are intended to be the primary guide for the Commission to the changes made to the *pro forma* LGIP and the study agreements and the rationale supporting those changes, selected issues are also discussed in greater detail below.

### **C. Definitions**

#### **i. Changes to Definitions Generally**

To better incorporate the LGIP as a part of the ISO Tariff, the majority of the applicable definitions included in the Commission’s *pro forma* LGIP have been incorporated into the definitions section of the ISO Tariff. Definitions are listed in Appendix A to the ISO Tariff, Master Definitions Supplement. Placing the LGIP definitions in the Master Definitions Supplement will allow users of the ISO Tariff to locate defined terms quickly without the need to search through the ISO Tariff and ensures consistency between the definitions in the ISO Tariff and those in the LGIP, which has been modified to incorporate applicable Master Definitions Supplement definitions by reference. Inclusion in the Master Definitions Supplement also facilitates use of terms that originated in the LGIP in other contexts. Thus, while most of the definitions are shown as deleted from the LGIP in the blacklined LGIP in Attachment C, the ISO has actually preserved the substance of many of those definitions in the Master Definitions Supplement, as shown in Attachments A and F. However, where FERC *pro forma* LGIP defined terms are not used in the LGIP or are duplicative of existing ISO

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<sup>13</sup> See Order No. 2003 at P 26, which states, in pertinent part: “Most importantly, we note that the Final Rule applies to independent and non-independent Transmission Providers alike, but non-independent Transmission Providers are required to adopt the Final Rule LGIP and Final Rule LGIA into their OATTs, with deviations from the Final Rule justified using either the ‘regional differences’ or ‘consistent with or superior to’ standard. We also allow Regional Transmission Organizations (RTOs) and ISOs more flexibility to meet their regional needs. While RTOs and ISOs are required to submit compliance filings, they may submit LGIP and LGIA terms and conditions that are meet an ‘independent entity variation’ standard that is more flexible than the ‘consistent with or superior to’ standard and the regional differences standard.”

Tariff defined terms that are sufficiently clear and consistent to be used in the LGIP, those *pro forma* LGIP defined terms have been deleted entirely, as shown in Attachment F and explained in Attachment A.

In addition to those general modifications to the pro form LGIP definitions, the ISO has made various changes to the specific provision of the LGIP definitions. While most of those changes are explained clearly in the change matrix in Attachment A, certain aspects of the definitions merit some additional explanation.

## ii. Discussion of Selected Definitions

### Interconnection Facilities

The ISO's use of the Commission's definition of Interconnection Facilities is not intended to prevent any party that is litigating, in pending FERC proceedings, the question of whether specific facilities are Interconnection Facilities or network transmission facilities, from arguing that such definition is unjust, unreasonable or otherwise inappropriate.

In several cases currently pending before the Commission, the CPUC is challenging the inclusion in ISO network transmission rates the costs of lines that are primarily used by Generators but which are used or usable by other parties. The parties in such proceedings disagree as to whether such facilities are properly classified as Interconnection Facilities (generation ties) or network transmission facilities. The ISO and the FERC-jurisdictional Participating TOs, as well as the CPUC, understand and agree that in Order No. 2003, FERC characterized Interconnection Facilities as "sole use" facilities even though Paragraphs 749 and 750 of Order No. 2003, as well as Articles 9.9.2 and 11.6 of the LGIA, indicate that there are circumstances in which even "sole use" Interconnection Facilities may be utilized by the transmission provider or other third parties. Thus, Order No. 2003 contemplates that the ISO, a PTO or any other third party may from time to time use an Interconnection Facility, and that the Generator is entitled to compensation based upon the pro rata use between the Generator and any such third party utilizing the Interconnection Facility.

It is not the purpose of this compliance filing to address the question of whether any specific facility should be characterized as an Interconnection Facility or a network transmission facility that may be made part of the ISO Controlled Grid. The ISO does understand, however, that this is a live issue in a number of proceedings before the Commission, and, as such, the ISO wishes to alert the Commission to the fact that the appropriate characterization of any specific facility is not addressed in this compliance filing.

### Large Generating Facility

In the definitions to be added to the ISO Tariff Master Definitions Supplement, the ISO has modified the FERC *pro forma* LGIP definition of "Large Generating Facility"

on a strictly temporary basis to remove the 20 MW minimum size limit. The ISO and the PTOs have serious concerns with continuing to apply their existing interconnection procedures to Generating Facilities 20 MW or less pending FERC's issuance of a final rule in the Small Generator Interconnection proceeding. Rather than leaving "Small Generating Facilities" stuck in the outdated old interconnection process – and particularly in order to manage the interconnection queuing process uniformly and consistently, the ISO is proposing to use this temporary modification of the definition to allow the LGIP interconnection process to cover all new interconnections until new rules are finalized for "Small Generating Facilities." When FERC issues its final rule in the Small Generator Interconnection proceeding, the ISO will make simultaneous conforming amendments both to add the new interconnection procedures to the ISO Tariff and to restore the intended definition of "Large Generating Facility" to then make the LGIP applicable only to Generating Facilities above 20 MW from that time forward.

### **Eliminated Definitions**

As discussed below, much of Section 5.7 of the ISO Tariff, which was added by ISO Tariff Amendment No. 39 and currently addresses Generator interconnections has been deleted and replaced by the LGIP. A review of the ISO Tariff has revealed that several definitions in the ISO's Master Definitions Supplement were used only in the deleted portions of that section. The ISO is proposing to delete those definitions from the ISO Tariff which are no longer used due to the deletion of portions of Section 5.7. The deleted terms are:

- Completed Application Date
- Completed Interconnection Application
- Data Adequacy Requirement
- Delivery Upgrade
- Designated Contact Person
- Direct Assignment Facility
- Expedited Interconnection Agreement
- Good Faith Deposit
- Interconnection Application
- Interconnecting PTO
- New Facility
- New Facility License
- New Facility Operator
- Planning Procedures
- Reliability Upgrades
- Request for Expedited Interconnection Procedures
- System Impact Study.

#### **D. Interconnection Process Improvements**

In June 2002, the Commission approved Amendment 39 to the ISO Tariff, which established the current ISO process for interconnecting new Generating Units to the ISO Controlled Grid, subject to the outcome of Order No. 2003.<sup>14</sup> In general, the process and timelines for receiving and reviewing interconnection applications proposed in Order No. 2003 are consistent with the ISO's current practices under Amendment 39. Management of the interconnection request process (queue management) will remain the same, with the ISO managing one study queue for the entire ISO Controlled Grid.

The key changes to the interconnection process resulting from Order No. 2003 include:

- The addition of a Scoping Meeting early in the application process to get the parties together to share information and reach agreement on the points of interconnection to be included in the system studies.
- A formal process for conducting feasibility studies, where previously an interconnection request went directly to a system impact study. The new Interconnection Feasibility Study gauges early on whether it is practical to interconnect at a particular proposed point of interconnection.
- Interconnection study agreements and the interconnection agreement itself are now standardized *pro forma* across the ISO Control Area, where previously the agreements were PTO-specific. In addition, the *pro forma* LGIA, when finalized, will follow the requirement of Order No. 2003 that in regions where an ISO is the transmission provider, the interconnection agreement should be a three-party agreement among the generator, transmission owner and the ISO.

The ISO generally supports these changes, and the attached version of the LGIP and the soon-to-be-filed LGIA will implement them. However, in conjunction with the stakeholder process described above, the ISO has identified a number of modifications to the Commission's proposed form of Interconnection Service and related funding provisions that need to be modified to adapt them to the ISO's circumstances. Those modifications are described below.

#### **E. Interconnection Service**

Order No. 2003 proposes two forms of Interconnection Service, "Network Resource Interconnection Service" and "Energy Resource Interconnection Service." Under this construct, a new Interconnection Customer that requests Interconnection Service can be studied and subsequently treated in the market as either (1) an "Energy Resource" where it is interconnected to the grid and uses existing space on the

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<sup>14</sup> *San Diego Gas & Electric Co. v. Sellers of Energy and Ancillary Services*, 99 FERC ¶ 61,275 at 62,165 (2002), *order on reh'g*, 100 FERC ¶ 61,235 (2002).

transmission system on an “as-available” basis; or (2) a “Network Resource” where the new Generating Facility of the Interconnection Customer must be treated the same as established Network Resources and likewise fully integrated into the system. In Order No. 2003, an Interconnection Customer that requests to be treated as a Network Resource is required to fund what the ISO has defined as “Delivery Network Upgrades” in the proposed ISO Tariff amendments attached.

At this time, and as explained below, the distinction between these two types of Interconnection Service is not meaningful in the California market. Accordingly the ISO proposes to offer only a single, generic form of Interconnection Service. First, the Commission’s proposed Interconnection Services, and the general construct, under Order No. 2003 presume that an Order No. 888 Open Access Transmission Tariff construct, or form of transmission service, is in place in each region. As explained below, that is not the case in California. Second, and perhaps most importantly, the distinction between Energy and Network Resources is meaningful in regions with established capacity resource obligations or where the Transmission Provider remains a vertically integrated utility that continues to serve its native load with its own generation or with networked resources. Once again, that is not the present circumstance in the “California” market. In any event, however, the Interconnection Service proposed herein by the ISO will a level and quality of service *comparable* to the service currently provided to existing resources on the system. Such Interconnection Services will be provided equally to all new requests for Interconnection Service.

Because transmission service under the ISO Tariff differs from transmission service provided under the Order No. 888 *pro forma* tariff, the distinction between an Energy Resource and a Network Resource is not meaningful at the present time. In that regard, all Energy transmitted under the ISO Tariff is treated as a “new firm use” on a day-to-day basis. That is, *all* users of the ISO Controlled Grid must schedule their use each day and cannot *reserve* available transmission capacity beyond the day-ahead timeframe. In contrast, the Commission’s Order No. 888 *pro forma* tariff permits the reservation of available transmission capacity on a first-come, first-served basis, on a long-term (up to and longer than a year) basis. Furthermore, the Commission’s Order No. 888 *pro forma* tariff allows transmission users to schedule both point-to-point and network transmission service. Point-to-point service enables users to schedule between specific points of receipt and delivery on the transmission provider’s system on both a short or long-term basis and on both a firm and non-firm basis. In contrast, network transmission service enables users to acquire the transmission capacity necessary to fully integrate their load and generating resource requirements, thus enabling such users to procure transmission service *comparable* to the transmission service the transmission provider provides itself to serve its “native load.”

In addition, since 1998, and as discussed extensively over the past six years, California has functioned under a different paradigm where the concept of native load – and the obligation to serve such load - has been removed. More importantly, and more specifically, the California market has functioned without a clear capacity market or capacity obligation rules. As the Commission is aware, California is only now in the process of developing such rules, which are the subject of the pending CPUC

procurement proceeding. Once these rules are established, the ISO acknowledges and understands that it may want to revisit the form and nature of the Interconnection Service provided under the ISO Tariff. Consistent with the ISO's commitment to revisit, and make necessary and conforming changes to its Market Design 2002 proposal once the state establishes formal resource adequacy rules, the ISO likewise commits to undertaking a similar exercise in order to conform its Interconnection Service process and rules to the rules in place for the broader market.

Therefore, as noted above, the ISO is proposing to define and establish a *generic* Interconnection Service under which Interconnection Customers can elect varying levels or quality of service, depending on the level and amount of transmission Network Upgrades they are willing to sponsor. Under the ISO's proposed generic Interconnection Service, one base level of Interconnection Service would be offered that would assure reliable interconnection, and Interconnection Customers could then elect a higher quality of service by paying for certain transmission Network Upgrades. Deliverability of the plant's output to the ISO Controlled Grid could be assured for a specific set of system conditions by sponsoring additional transmission Network Upgrades. As noted above, The ISO will offer this generic Interconnection Service until broader rules pertaining to resource adequacy (e.g., capacity obligations) have been defined and implemented. At that time, the ISO will revisit this issue and will submit any necessary changes to the LGIP and the ISO Tariff.

#### **F. Interconnection Studies and Deliverability Test**

Under the ISO's proposal, interconnection studies will be conducted as they currently are, with the addition of the new Scoping Meeting and Interconnection Feasibility Study discussed above. However, there are some important differences, discussed below.

The ISO has added additional time in the study process in LGIP Sections 7.4 and 8.3 beyond what FERC provided in Order No. 2003 in order to allow time for ISO review and comment on the studies that will be primarily conducted by the PTOs. As the Commission is aware, and as currently effective under Amendment No. 39 to the ISO Tariff, the ISO does not have the requisite staff resources independently (i.e., without the use of PTO resources) to conduct the requisite Interconnection Studies for the entire ISO Controlled Grid. Moreover, because of their historical and technical knowledge of their individual systems, it is appropriate to have the PTOs conduct, in the first instance, the studies necessary to evaluate Interconnection Requests to their systems. Therefore, the ISO proposes, under the proposal outlined herein, to retain that feature of the current interconnection process. However, acknowledging the need to allow for the ISO's independent review and oversight over the interconnection process, the ISO proposes to modify slightly the Commission's prescribed study timeline under Order No. 2003 in order to provide for such ISO oversight. The additional 76 days are thus necessary to achieve a core objective of Order No. 2003 – open and non-discriminatory Interconnection Service. This total increase in time results from 1 additional day to

process each request, 15 days for ISO review of the Feasibility Study, 30 days for ISO review of the System Impact Study, and 30 days for ISO review of the Facilities Study.

To add needed clarity to the roles of the ISO and PTOs in the LGIA and LGIP, the ISO created the attached LGIP timelines (Attachment L) to first identify the necessary tasks and durations required to complete all of the necessary Interconnection Studies and reach the point of entering into an LGIA in an efficient manner. In the timelines shown in Attachment L, the ISO has defined how the LGIP tasks would be accomplished under the direction of the ISO and in relation to issuance of the draft Interconnection Facilities Study report.<sup>15</sup> For example, by clarifying the tasks and their appropriate preceding and following activities, the ISO was able to *increase* the amount of time for negotiations without an overall increase in the time necessary to execute an LGIA. This occurs in the final phases of the project, after the PTO issues the draft Facilities Study report.

In addition, more comprehensive information on each Interconnection Request will be posted on the ISO Home Page, including any studies related to the Interconnection Request, explanation as to why an interconnection was not completed, and reasons for deviations from the study timelines.

The ISO proposes that a new Deliverability Assessment be included in the system studies process to help identify the transmission facilities (Delivery Network Upgrades) that are needed to ensure that the full output of a new Generating Facility may be transmitted to load under peak system conditions. By identifying needed delivery-related facilities, which is something that is not done now, Interconnection Customers will be provided with useful information to assess the deliverability of new Generating Facilities to the grid. Specifically, the Deliverability Assessment will define a generic deliverability benchmark to assess the deliverability risk for a given proposed new Generating Facility. It will be modeled after the methodology already approved by the Commission and currently used by PJM (aggregate of generation can be delivered to the aggregate load) and is similar to that prescribed for Network Resources under Order No. 2003. To initiate this new assessment, the ISO will conduct a baseline study to establish the deliverability of existing generating facilities. The baseline assessment is expected to take six months to complete. Afterwards, the appropriate PTO will conduct the Deliverability Assessment, as defined in the LGIP, for each new Generating Facility. It will be performed under a peak load and resource adequacy perspective to determine if, with the Interconnection Customer's Generating Facility operating at full output, the aggregate of Generation can be delivered to the aggregate of the ISO Control Area load. It would objectively identify the incremental impacts on the grid of a new Interconnection Customer's proposed Generating Facility.

While some parties may assert that establishing such a feature is premature until more formal resource adequacy requirements are established at the state level

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<sup>15</sup> Attachment M contains additional illustrative aids in the form of maps of the interconnection process.



including a formal deliverability *requirement*, the ISO asserts that such a feature is appropriate as it will provide invaluable information to Market Participants (including the PTOs) as to potential transmission congestion on the system resulting from the interconnection of new Generating Facilities. The ISO believes that ensuring the deliverability of resources is an essential element – on a long-term basis – of any resource adequacy proposal or mechanism and that moving forward now to provide information consistent with such a feature is appropriate and necessary so that Interconnection Customers, the ISO and the PTOs can make informed decisions regarding the efficient expansion of the transmission system.

### **G. Crediting Policy**

Under the ISO's proposal, Interconnection Customers would be required to fund the Interconnection Facilities needed to physically interconnect the facility to the Point of Interconnection with the grid. This represents no change from current practice and is consistent with Order No. 2003 requirements. The cost of these "exclusive use" facilities would continue to be the sole responsibility of the Interconnection Customer and would not be reimbursed.

With respect to Network Upgrades (i.e., those transmission upgrades beyond the Point of Interconnection to the grid, be they Reliability Network Upgrades or Delivery Network Upgrades, as defined in the ISO's proposal), the ISO proposes that Interconnection Customers initially fund these Network Upgrades, and then elect to receive either (1) refunds over a five-year period (i.e., reimbursement for the costs of the upgrades plus interest); or (2) applicable rights (Firm Transmission Rights ("FTRs") at present, or "Congestion Revenue Rights" ("CRRs"), if they are adopted in the future) as compensation for funding and paying for the Network Upgrades. If the Interconnection Customer does not elect to fund Delivery Network Upgrades, the PTO could build such facilities. In fact, the ISO proposes to provide specifically that in instances where an Interconnection Customer elects not to fund Delivery Network Upgrades, the ISO may direct the applicable PTO to do so under its existing authority in Section 3 of the ISO Tariff. Such a provision will ensure that "needed" transmission facilities are built and that new Generation is not stranded in isolated pockets on the system. In particular, and discussed further below, the ISO wants to ensure that "economic" transmission projects, i.e., those that will benefit the system as a whole, are built in a timely manner. Because the ISO is not proposing to mandate or require that Interconnection Customers build such facilities under the proposal outlined herein, the ISO believes that having the PTOs backstop such projects is appropriate. On a long-term basis, the ISO envisions transitioning to a policy wherein Interconnection Customers receive *only* FTRs or CRRs as compensation for funding/paying for Network Upgrades. (However, the ISO may still provide refunds for funding Network Upgrades with which no FTRs or CRRs are associated.) By linking the crediting for Network Upgrades solely with the value of the rights (i.e., FTRs or CRRs) that are created, Interconnection Customers will be more sensitive to the costs of the Network Upgrades, the impact on the grid, and the benefits of the associated rights. As noted earlier, this construct is completely consistent with that already in place in PJM and other eastern

ISO markets and more appropriately aligns interconnection policies with the Commission's preferred location-based transmission planning and pricing policies, e.g., Locational Marginal Pricing or "LMP". In fact, as further discussed below and throughout this rulemaking process, the ISO as well as others have repeatedly raised concerns that the Commission's crediting policy could result in uneconomic expansion of the grid. In that regard, if Interconnection Customers are guaranteed reimbursement of all their upgrade costs regardless of where they locate their facility, such Interconnection Customers could be indifferent to where they locate their facilities. As discussed in greater detail below in the discussion of the Economic Test, this could result in Interconnection Customers building facilities in locations where the costs of the necessary transmission upgrades may be significant. This is a sub-optimal result if the Interconnection Customer could have located in a different location that would not have required extensive network upgrades. The ISO believes that, on a long-term basis, the provision of financial rights (i.e., FTRs/CRRs) as compensation for Interconnection Customers that fund Network Upgrades provides a much better price signal to those Interconnection Customers as to where to locate their Generating Facilities on the system and the potential impact on the system and ratepayers from their interconnection.

In the interim, however, the ISO believes the proposed crediting policy is clear, fair and may reduce barriers to building new Generating Facilities. In the first instance, the proposal is entirely consistent with the Commission's established crediting policy under Order No. 2003. Second, the crediting provision establishes a clear means for compensating Generating Facility owners that fund Network Upgrades. Absent crediting, the ability to provide FTRs/CRRs, or a clear entitlement to reserve or use the transmission capacity associated with new Network Upgrades, the ISO would be unable to offer those that expand the transmission system any measurable or obtainable benefit from doing so. Such a policy would be unfair and would create an unnecessary barrier to entry for new Generating Facilities. In the face of such policies, new Generating Facility developers would either be faced with having to pay for Network Upgrades the use and benefit of which they would be unable to capture or would choose not to expand the system, thus perhaps exacerbating currently problematic – both from an economic as well as reliability perspective - Intra-Zonal Congestion on the system (See November 2003 Board memorandum and related attachments regarding congestion at the Miguel substation)<sup>16</sup> Until the implementation of the redesign of the ISO's markets (referred to as "MD02"), the ISO is not able to offer FTRs with measurable value within Congestion Zones (i.e., for Network Upgrades that alleviate only Intra-Zonal Congestion), so the ISO agrees with many stakeholders that the crediting policy is the best way – for now – to compensate developers for Network Upgrades that have broad benefits. Moreover, while not completely eliminating cost-responsibility based barriers to entry, the crediting policy should ameliorate a developer's perceived risk of having to pay for necessary but expensive Network Upgrades, since they will know, up front, that they will have their monies paid back, with

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<sup>16</sup> <http://www.caiso.com/docs/09003a6080/2a/1d/09003a60802a1dce.pdf>

interest, in five years. However, the ISO will revisit this policy once MD02 is implemented and viable financial rights (CRRs) are available.

#### **H. Purpose for an Economic Test**

The ISO proposes to perform an economic test on Network Upgrades costing more than \$20 million or \$200,000 per MW to determine the extent of the benefits resulting from the Network Upgrade, and to use the amount of those benefits as a de facto cap on the level of credits that could be offered to the Interconnection Customer for those Network Upgrades necessary to interconnect its Generating Facility to the grid. In instances where the costs of the Network Upgrade exceed this benefits cap, if the Interconnection Customer were to fund the full amount of the Network Upgrades, the Interconnection Customer would receive, if applicable, the associated FTRs or CRRs, if available.

The reason for this cost-benefit test is to guard against egregiously expensive projects, especially since the Interconnection Customer otherwise will recover the full cost of Network Upgrades within five years, regardless of the location of the Generating Facility or the availability of other sites that might require less expensive Network Upgrades. Without some locational price signal, a reasonable backstop is needed to assure that all ratepayers are not paying for uneconomic projects. However, such an economic analysis is not intended to delay or create obstacles to new Generating Facilities, and its application would be limited to large projects beyond the \$20 million or \$200,000 per MW threshold level. The ISO chose the first threshold because it is consistent with the ISO's existing policy that projects, which cost in excess of \$20 million must be approved by the ISO Board. Moreover, while not based on any specific analysis or established threshold, the ISO believes that the \$20 million or \$200,000 per MW threshold generally represents an amount likely to have a measurable impact on ratepayer costs, from a system-wide perspective.

The ISO has long stated that the Commission's crediting policy, absent any changes, could result in uneconomic expansion of the transmission system.<sup>17</sup> Specifically, the ISO is concerned that the Commission's crediting or refund policy will make new Generating Facility developers indifferent as to where they locate on the transmission system. That is, under such a policy the ISO is concerned that Generating Facility developers will give greater weight to other Generating Facility siting factors, e.g., proximity and access to fuel and water supplies, land cost, other factors, and will discount the overall cost impact on transmission rates. For example, if a Generating Facility developer knows that it will be paid back, with interest, all monies invested in transmission upgrades, such developer may not care that its Interconnection Request could require \$100 million in Network Upgrades to the system. In contrast, if at least a portion of its investment was "at risk," the developer might decide it is more prudent to

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<sup>17</sup> See, e.g., Comments of the California Independent System Operator Corporation on the Commission's Notice of Proposed Rulemaking on Standardization of Generation Interconnection Agreements and Procedures filed in Docket No. RM02-1-000 on June 19, 2002 at page 3..

locate the project, for example, ten miles further away where the Network Upgrade costs are only \$20 million.

In their comments on the Commission's Standard Market Design Proposal ("SMD"), Messrs. Chandley and Hogan raise concerns that the Commission's proposed rolled-in treatment for Network Upgrades is also inconsistent with the Commission's preferred LMP-based transmission pricing policy.<sup>18</sup> As stated in those comments:

...Under "rolled-in" pricing for network upgrades, all users would pay a share of the upgrade costs, even for upgrades required for new generator interconnections to allow the generator to access the regional market. NOPR ¶¶191-194.

In general, we view these approaches in both the SMD and the proposed Generator Interconnection rules as both unnecessary and inconsistent with the core elements of the SMD. Under SMD, efficient spot market process and associated usage charges reflect the locational effects of congestion and losses. LMP-based charges provide incentives for both generator interconnections and network upgrades. While siting issues and local concerns are present in any event and must be addressed, the core problem in non-LMP regions until now has been the absence of appropriate price incentives, a flaw that the SMD with locational marginal pricing will largely correct.

Complementing the incentive properties of LMP, the SMD would require ITPs/RTOs to award to those who invest in transmission upgrades incremental CRRs made possible by the upgrades. The LMP incentives and the award of the property rights that reflect the value of the investments should provide the necessary support for market-driven investment in transmission upgrades that reduce congestion for the benefit of those sponsoring the upgrades...

In addition, as further described in the ISO Market Surveillance Committee's ("MSC") formal opinion on the ISO's proposal, filed concurrently with the Commission, the MSC too has serious reservations regarding the Commission's crediting/refund policy. While the MSC does not necessarily agree with the ISO regarding the practical application of the ISO's proposed economic test, the MSC agrees with the ISO that the Commission's crediting policy could result in uneconomic or inefficient expansion of the transmission system.<sup>19</sup> In fact, the MSC's primary reservation with the ISO's proposed

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<sup>18</sup> See "Initial Comments of John D. Chandley and William W. Hogan on the Standard Market Design NOPR" dated November 11, 2002, at page 55-56.

<sup>19</sup> California ISO Market Surveillance Committee: "Opinion on Large Generator Interconnection Rule" (January 7, 2004), at p. 8. This document is also being filed today for informational purposes in the above captioned docket.

economic test is that it will be unsuccessful in eliminating or mitigating the potentially egregious impact on efficient grid expansion from the Commission's crediting policy. In the end, the MSC and the ISO agree that the best long-term solution is a proactive transmission planning process that obviates the need to rely exclusively on Interconnection Requests to expand the transmission system and to move to a paradigm where Generating Facility developers receive financial congestion rights as compensation for funding Network Upgrades.

Finally, the ISO notes that the proposed ISO Tariff language regarding the proposed economic test is purposefully general. While the ISO understands concerns that the methodological basis of the proposed economic test is not specified or detailed in either the proposed ISO Tariff language or elsewhere in the instant filing, the ISO believes that it is unnecessary to specify such details now and that it would inappropriately bind the ISO going forward if it were to specify such details at this time. First, the ISO understands that if it applies such test and the outcome of such test results in the ISO proposing to limit the refunds due a Generating Facility owner, the ISO would have to demonstrate that such limits are reasonable and justified. Second, as the Commission is aware, the issue of how to justify or determine the benefits of economic transmission projects is highly contentious and potentially subject to a large amount of discretion. Because this is an evolving area, the ISO requests that the Commission remain flexible to its application and not require that the details of such a test be specified in the ISO Tariff. Moreover, as the Commission may recall, the ISO has been in the process of developing a "economic methodology" for transmission projects over the last several years. At this point, working in cooperation with and through the CPUC, the ISO is hopeful that it will finalize the implementation details and methods for such a methodology over the next six months. At that point, it is the ISO's understanding that the CPUC intends to rule on the merits of the ISO's proposal and adopt a generic methodology with the intent that such methodology assist in the approval of such economic transmission projects before the CPUC and perhaps more broadly. The ISO requests that the Commission acknowledge this process and effort and permit the ISO to apply its proposed economic test on a case-by-case basis consistent with the evolving approach for justifying such projects.

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### **I. The Need to Distinguish Reliability and Delivery Network Upgrades**

Amendment No. 39 established the concept of Reliability Upgrades and Delivery Upgrades to distinguish between the upgrades that are necessary to (1) interconnect a new facility safely and reliably to the ISO Controlled Grid that would not have been necessary but for the new facility (i.e., Reliability Upgrades); and (2) relieve constraints on the ISO Controlled Grid to ensure the delivery of energy from a new facility to load (i.e., Delivery Upgrades). Reliability Upgrades must be made to the ISO Controlled Grid where needed before a new interconnection to the ISO Controlled Grid can take place,

In Order No. 2003, FERC proposes that a new "Network Resource Interconnection Service" be offered. Although, as discussed above, the ISO cannot currently implement "Network Resource Interconnection Service" in the form envisioned by FERC, the ISO is proposing to retain the current Amendment No. 39 distinction in ISO markets between Reliability and Delivery Network Upgrades in order to address FERC's intent in that regard, at least in part. Interconnection studies that distinguish between the facilities required to interconnect a new Generating Facility to the grid reliably and those additional facilities required to ensure delivery of the full output of the resource to loads will provide Interconnection Customers with useful information for making their decisions as to the probable effect on the marketability of the power from their Generating Facilities of funding the construction of Delivery Network Upgrades. The ISO proposes in the LGIP that the terms "Reliability Network Upgrades" and "Delivery Network Upgrades" be used to clearly distinguish between these two types of Network Upgrades. Thus, while the ISO's proposed crediting policy will apply equally to both Reliability Network Upgrades and Delivery Network Upgrades, the ISO believes that there is a meaningful difference between the two and that distinguishing between the types of Network Upgrades will provide useful information to all Market Participants and is consistent with the ISO's long-term goal of aligning interconnection policy with the deliverability requirement under a resource adequacy framework.

### **K. Compliance with PTOs' Interconnection Handbooks**

A new Section 11.5 has been added to the LGIP to incorporate a requirement that the Interconnection Customer's Interconnection Facilities be designed, constructed, operated and maintained in accordance with the Participating TO's Interconnection Handbook (which has also been added as a new defined term). This requirement is necessary to define the technical requirements for that portion of the ISO Controlled grid that is receiving the interconnection.<sup>20</sup> Such requirements will ensure the safety and reliability of all interconnections and is a practice and requirement in place today. The facilities, equipment, and system operating practices of each of the PTOs differ significantly and are described in their respective Interconnection Handbooks. It is

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<sup>20</sup> ISO notes that this matter is currently pending before the Commission on rehearing in this proceeding.

essential that an Interconnection Customer be aware of the specific characteristics and practices regarding the PTO system to which it is interconnecting that it incorporate those system differences into its interconnection planning and construction

#### **L. Changes to ISO Tariff Section 5.7**

Because much of the substance of Section 5.7 is now covered in the submitted LGIP, the ISO is proposing to delete much of the existing Section 5.7 language. The only provisions that the ISO is proposing to retain in amended form are the general provisions of Sections 5.7.1 and 5.7.2, which describe the general interconnection procedures applicable to interconnections directly to the ISO Controlled Grid and to Distribution Systems within the ISO Control Area, respectively. The ISO proposes to amend Section 5.7.1 to substitute the new LGIP terminology for the outdated terms in the existing version, to conform the applicability of its terms to the provisions of the LGIP, and to reference the LGIP as the ISO Protocol governing interconnections. The ISO proposes to amend Section 5.7.2 to avoid the use of the new LGIP terminology in this section and otherwise ensure that it continues to distinguish clearly between interconnections to the ISO Controlled Grid and to the Distribution System and to add a reference to the possibility that interconnections to the Distribution Systems of PTOs may be governed by any type of Local Regulatory Authority requirements, now that the ISO has added the non-CPUC jurisdictional New PTOs.

#### **V. EFFECTIVE DATE AND INTERIM INTERCONNECTION AGREEMENT**

The Commission stated in its January 8 Order that where the *pro forma* LGIP and/or LGIA were modified, interconnection agreements currently in use would remain in effect until the modified interconnection documents were approved by the Commission. The ISO has relied on this statement in seeking Commission approval to delay the filing of the modified version of the LGIA for twenty days, recognizing that its delayed filing will not have any immediate adverse affect on new interconnections. The ISO intends that the agreements currently used in California will remain in effect until the modified *pro forma* LGIP and LGIA are approved by the Commission. The ISO urges the Commission to set the effective date of the modified versions of the LGIP and LGIA prospectively, as substantial disruption to interconnection efforts that would then be underway could result if the Commission were to establish a retroactive effective date. This same issue arose in the Commission's acceptance of ISO Tariff Amendment No. 39, and the Commission ultimately found it necessary to reverse its original order giving Amendment No. 39 retroactive effect.<sup>21</sup>


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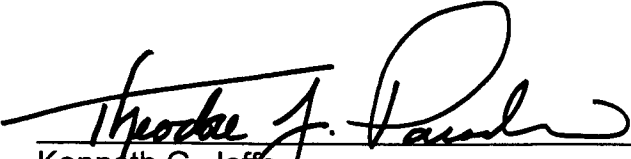
<sup>21</sup> *San Diego Gas & Electric Co. v. Sellers of Energy and Ancillary Services*, 100 FERC ¶ 61,235 (2002).

## VI. CONCLUSION

For the reasons set forth above, the California Independent System Operator Corporation respectfully request that the Commission accept its *pro forma* LGIP for incorporation into the ISO Tariff, accept the other requested amendments to the ISO Tariff, and accept the *pro forma* study agreements as *pro forma* ISO agreements.

Respectfully submitted,

  
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