

Attachment A



Memorandum

To: ISO Governing Board
From: Steve Greenleaf, Director of Regulatory Policy
Armie Perez, Director of Grid Planning
cc: ISO Officers
Date: March 22, 2001
Re: *The CAISO's New-Facility Interconnection Policy*

This memo requires Board action on the ISO's New-Facility Interconnection Policy (NFIP).

EXECUTIVE SUMMARY

Under the Federal Energy Regulatory Commission's (FERC or the Commission) rules, all transmission providers must establish rules that govern the interconnection of new or re-powered generators to their transmission systems. FERC regards interconnection service as but one facet of open and non-discriminatory transmission service. Over the past two years the ISO has worked with Market Participants, to develop a policy and procedures for interconnecting to the ISO Controlled Grid.

If California is to attract new generation to the state, it is essential that California develop a clear and consistent policy for interconnecting to the ISO Controlled Grid. Absent such a policy, critical new generating resources will find it difficult to determine the procedures and costs of interconnecting to the ISO Controlled Grid and may decide to locate outside of California. Therefore, development and approval of the New-Facility Interconnection Policy (NFIP) is a critical next-step in ensuring that California has the generating resources necessary to serve its native load.

This memorandum includes a brief summary of the salient features of the NFIP, an update on and brief response to the comments of Market Participants regarding the NFIP, and the proposed ISO Tariff language. Board action at the March 30 meeting is critical, as the ISO and the Participating Transmission Owners (PTOs) have been directed by FERC to file interconnection procedures by April 2, 2001.¹

Management believes the proposed NFIP appropriately addresses the FERC directive and California's need to attract new investment in generation. Therefore, Management proposes the following motion:

Moved,

That the ISO Governing Board authorize management to file at the Federal Energy Regulatory Commission CAISO Tariff language, substantially in the form presented in Attachment A to the memorandum dated March 22, 2001, that implements the CAISO's New Facility Interconnection Policy.

¹ On December 15, 2000, FERC issued an order regarding the functioning of the California electricity markets. In that order, the Commission directed the ISO and the PTOs to file interconnection procedures no later than April 2, 2001. FERC's December 15 Order stated that the Commission expects the ISO's proposed interconnection procedures to "comport with the policy and precedent already established by the Commission for such filings."

BACKGROUND - DEVELOPMENT OF THE NFIP

The proposed NFIP and modifications to the ISO Tariff are the product of a lengthy and intensive process conducted over the last two years. Early in this process, the ISO and the stakeholders coalesced around two approaches regarding the ISO's interconnection procedures. One approach, referred to as the "No Grandfathering of Transmission Rights" approach, dictated that any incremental Intra-Zonal Congestion created as a result of the interconnection of a New Generator should be mitigated in accordance with the existing procedures in the ISO Tariff.² The other approach was referred to as the Advance Congestion Cost Mitigation ("ACCM") approach. Under the ACCM, New Facilities would be responsible for mitigating incremental Intra-Zonal Congestion under certain circumstances.³ It is important to note that certain principles were common to both approaches: (1) each New Facility requesting interconnection would be responsible for the costs of all transmission expansions and reinforcements necessary to maintain the reliability of the ISO Controlled Grid; (2) each New Generator could voluntarily invest in grid upgrades and would be entitled to any system benefits that arise as a consequence of its investment; and (3) all *Inter-Zonal Congestion* impacts of the New Facility would be managed using the ISO's existing *Inter-Zonal Congestion Management* protocols. By a large majority, the ISO Governing Board adopted the ACCM approach. On May 27, 1999, the ISO Board of Governors approved the Tariff language and directed management to file the proposal at FERC. On June 23, 1999, the ISO filed the then named "New Generator Interconnection Policy" at FERC as Amendment No. 19 to the ISO Tariff. FERC ultimately rejected Amendment No. 19, finding that it relied upon inaccurate price signals resulting from the ISO's flawed methodology for managing Intra-Zonal Congestion. FERC directed the ISO to reexamine its proposal.

On April 13, 2000, the ISO reconvened the stakeholder process on development of its interconnection procedures. At that time, the ISO focused on development of a streamlined proposal that did not rely upon the ISO's existing Congestion Management protocols, which were under concurrent reexamination in a different stakeholder process. Ultimately, the ISO decided to address its interconnection procedures proposal as part of the Comprehensive Market Redesign or "CMR" process. As part of the July 28th CMR Recommendations package, the ISO proposed the following guiding principles be adopted in developing its interconnection procedures: 1) The ISO should take a proactive role in ensuring that each new or re-powered generator or resource is able to interconnect to the grid with minimal interconnection costs, thereby ensuring access to the market and reducing potential barriers to entry; and 2) the ISO should provide new entrants with reasonable ex ante price certainty regarding their costs of interconnecting to and utilizing the ISO Controlled Grid. The ISO advocated adoption of these principles in large part because of the Summer 2000 performance of the markets and the critical need for new generating capacity. As the Board is aware, the ISO's efforts to finalize and file its CMR recommendation at FERC was interrupted by FERC's November 1 and December 15 orders regarding the functioning of the California electricity

² Under the ISO's existing procedures, the cost of Intra-Zonal Congestion is spread among all Scheduling Coordinators ("SCs") scheduling within the Zone using the Grid Operation Charge ("GOC").² Thus, under the "No Grandfathering" approach, the incremental Intra-Zonal Congestion costs associated with a New Generator would be spread, via the GOC, to all Load in the Zone experiencing the Intra-Zonal Congestion.

³ If the Intra-Zonal Congestion could be handled using the ISO's Intra-Zonal Congestion protocols (*i.e.*, if there were sufficient competition in the Adjustment Bid and Supplemental Energy bid markets to resolve the Congestion), the New Generator would not be required to mitigate the increase in Intra-Zonal Congestion resulting from the interconnection. Second, if there were an insignificant increase local Congestion (*i.e.*, local Congestion below a certain level), mitigation would not be required of the New Generator. Beyond these circumstances, a New Generator would be responsible for increases in Intra-Zonal Congestion. In other words, under the ACCM approach, a New Generator would be required to mitigate increased Intra-Zonal Congestion that is significant and that is unable to be addressed using competitive bidding.

markets. Recognizing the need for critical new generation, the ISO decided to move forward on the development of the ISO's interconnection procedures. On November 20, 2000, the ISO circulated revised draft tariff language on the NFIP and requested Market Participants to submit comments by December 6, 2000. As noted above, the December 15, 2000, FERC order, among other things, directed the ISO and the PTOs to file interconnection procedures no later than April 2, 2001.

Based on FERC's directive and the critical need to finalize the ISO's interconnection procedures, early this year Management once again began to focus on the ISO's interconnection procedures. On March 6, 2001, Management circulated to Market Participants a "White Paper" and draft tariff language on the NFIP (**Attachment D**). Management developed the White Paper in order to update Market Participants on the ISO's latest thinking regarding the NFIP. The White Paper also summarized and reviewed certain recent FERC decisions regarding interconnection procedures. Finally, the White Paper summarized the feedback the ISO received on the draft NFIP tariff language previously circulated to Market Participants and outlined the ISO's latest position on various issues related to the policy. The ISO asked for comments on the White Paper and the draft tariff language by March 14, 2001. On March 19, 2001, the ISO held a stakeholder meeting to discuss the NFIP and asked for final comments on the draft policy by March 21st.

DISCUSSION

We have attempted below to summarize what we believe are the salient features of the NFIP. **Attachment A** contains the proposed ISO Tariff language. **Attachment B** contains an ISO Response to Comments on the NFIP, which provides additional insight into Management's updated position on the issues regarding the NFIP and responds to comments received from Market Participants. **Attachment C** contains a copy of the March 21st comments received from Market Participants.⁴

The New-Facility Interconnection Policy

1) Applicability

- To new and re-powered generators interconnecting to the ISO Controlled Grid.
- Procedures will not apply to those facilities interconnecting at the wholesale distribution level (i.e., where service would be provided under the PTO's Wholesale Distribution Access Tariff (WDAT) or to resources interconnecting to the distribution system pursuant to rules established by the California Public Utilities Commission (CPUC).

2) Processing of Applications

- The ISO will receive and process all applications for interconnections.
- The ISO will post on its OASIS site an updated list of applicants. Upon request by the applicant, the ISO will not disclose the applicant's identity. The ISO will post the nearest substation, the capacity (MW) and the year of proposed operation.
- Per FERC's ruling in Southwest Power Pool, Inc., 92 FERC ¶ 61,109 (2000), the ISO will develop procedures for expediting the interconnection requests of generating projects, including those needed for reliable grid operation (e.g., Summer 2001 Peakers).

⁴ Additional detailed material regarding the NFIP can be found on the ISO Home Page at <http://www.caiso.com/stakeholders>.

- Subject to ISO oversight, the PTOs will complete all necessary System Impact and Facility Studies. The timeline for completing the studies will be specified in the ISO Tariff. The TO Tariffs will be modified to be consistent with the ISO Tariff.
- Study procedures and timelines will be consistent with the *pro forma* OATT (60 days, longer with written explanation) and will be subject to the ISO's Alternative Dispute Resolution (ADR) Procedures. Applicants or third parties will be permitted to perform their own studies, subject to ISO and PTO review.

3) Good Faith Deposit and Queuing

- The ISO will require a Good Faith Deposit from all applicants in order to prevent spurious requests. Deposit will be refunded with interest when an interconnection is complete or an application is withdrawn.
- The ISO will maintain and oversee the queuing of Interconnection Applications.
- The ISO proposes queuing milestones in part tied to the California Energy Commission's requirements for generators requesting an Application For Certification (AFC). Those milestones include obtaining Data Adequacy and obtaining a New Facility License.
- An applicant may request that a PTO file an unexecuted Interconnection Agreement at FERC.
- ISO and PTOs will commit to develop a *pro forma* Interconnection Agreement by next year.

4) Cost Responsibility for New Facilities

- **The ISO proposes that New Facilities be responsible for:**
 - 1) Local Direct Assignment Costs – these costs include the costs of connecting the new facility to the ISO Controlled Grid;
 - 2) Reliability Upgrade Costs – these include the cost of facilities remote from the interconnection point, such as breakers, needed just to interconnect a new facility (the costs necessary to reliably connect a facility at zero output).

The ISO does not propose to charge New Facilities for Delivery Upgrade costs. These costs include the costs of facilities necessary to deliver energy from the point of interconnection of the new facility to load and would include such costs as the cost of upgrading a line to eliminate congestion. Delivery Upgrades are addressed in Section 3 of the ISO Tariff.

CONCLUSION

The ISO must file its interconnection procedure at FERC on April 2, 2001. Management believes that it is imperative that the Board vote on the NFIP so that Management can make the required FERC filing and so that the ISO can establish a clear and consistent policy for interconnecting to the ISO Controlled Grid. Management recommends that the Board approve the proposed motion.