Advance Congestion Cost Mitigation Method

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Introduction

The Advance Congestion Cost Mitigation (ACCM) method is a methodology for determining how to allocate the costs of transmission reinforcements associated with the interconnection of new generators to the CAISO grid. The primary objectives of the ACCM method are to:

1. Provide generation developers with the degree of ex ante price certainty that they require in order to finance and develop new generation projects

2. Strengthen the locational price signals that are seen by generation developers when they make siting decisions

3. Retain the fundamental congestion management framework (for inter-zonal and intra-zonal congestion) in the CAISO Tariff.

Background

Although the current ISO Tariff is silent on the issue of generation interconnection, under the existing rules, when a new generator is interconnected with the grid, it would bear only the cost of transmission reinforcements needed to reliably interconnect the generator to the grid. Any congestion costs that the new generator would create would first be "socialized" (i.e., paid by all loads in the generator's zone) as intra-zonal congestion costs; and if, over time, such congestion costs became large enough, a new zone might be created around the new generator and pre-existing generators. Those generators would then have to pay Usage Charges (or buy FTRs) to move their energy out of the new zone.

The consequence is that a new generator might select a site in which there is little or no congestion today; and little or no congestion as a result of the new generator's output as well. But the new generator's energy transportation costs would be very uncertain, because they would depend on whether or not a future generator might locate near the new generator's site and possibly trigger the creation of a new zone. I.e., the new generator's siting decision must be based on *speculation* as to whether and where future generators might locate. Aside from the general problem that locational siting incentives are based on the unknown and unknowable, the very concrete problem of greater consequence is that a proposed new generator's energy transportation costs are speculative, adding significant risk to new projects, dissuading generators from locating in California, and thereby ultimately raising consumer prices as well.

The Proposed Solution: Advanced Congestion Cost Mitigation

Almost all stakeholders to date have agreed that it would be very desirable to offer a greater degree of ex ante pricing certainty to prospective generators. All agree that it would be desirable to do this without undermining inter-zonal locational congestion pricing and without undermining the system under which intra-zonal congestion is to be managed through competing Adjustment Bid offers by local generators. The ACCM method proposes to solve the problem as follows.

1. When a new generator desires to interconnect, a full set of transmission planning studies would be performed. Any unacceptable conditions (overloads, voltage problems, etc.) created by the new generator would be determined through these studies.

2. Inter-zonal congestion impacts of the new generator would be handled through the ISO's inter-zonal congestion management protocols. I.e., the new generator would not pay for facilities required to keep inter-zonal congestion from worsening; rather, the impacts would be managed through the competitive generation market.

3. Intra-zonal congestion impacts of the new generator, if they could be handled through competitive bidding from generators within the zone, would also be handled through the ISO's intra-zonal congestion management protocols. I.e., the new generator would not pay for facilities required to keep intra-zonal congestion from worsening; rather, the impacts would be managed through the competitive generation market.

4. All insignificant local congestion impacts of the new generator would also be handled through the ISO's intra-zonal congestion management protocols.

5. The new generator would be directly responsible for mitigating only the remaining unacceptable conditions – i.e., **only those local reliability problems and those local intra-zonal congestion impacts which are (i) significant, and (ii) incapable of being addressed by competitive bidding**. The new generator would have the option of mitigating this limited set of conditions by paying for transmission reinforcements, agreeing to be curtailed under certain conditions, or paying other similarly-effective generators to be curtailed.

6. To the extent that the new generator paid for transmission reinforcements, and those reinforcements created System Benefits (i.e., the reinforcements provided benefits to other grid users or benefits to the transmission owners by eliminating or delaying the need for the TOs to build other reinforcements), the new generator would be entitled to a credit against the cost of the transmission reinforcements.

Appendices A and B describe in greater detail the criteria and principles for: (i) performing the necessary transmission planning studies, (ii) determining whether there is a competitive market for Adjustment Bids for local congestion alleviation, (iii) what is deemed to be insignificant congestion, and (iv) quantifying and justifying System Benefits.

Most-Significant Benefits of the ACCM Method

1. A Compromise

At the outset, it should be noted that the ACCM method is a compromise which attempts to meet the goals of both the stakeholders who advocated the "No New Local Congestion" method and the stakeholders who advocated the "Real-Time Congestion Cost Mitigation" method. The congestion management method advocated by the latter group (real-time bidding) is used in all instances in which competitive markets can truly be used to address congestion, while the congestion management method advocated by the former group (the new generator pays up-front to eliminate its impacts) is used only as described above – i.e., to address truly local congestion. Only one type of incremental congestion – significant congestion that cannot be cleared through the competitive congestion management process – is attributed to the new generator.

2. Reasonable Ex-Ante Price Certainty for New Generators

The ACCM proposal reduces the possibility that new mini-zones will be created around small pockets containing small numbers of generators because the new generators will pay to eliminate local impacts up-front, before they materialize. Thus, the pricing uncertainty associated with having to purchase rights from a future mini-zone is reduced substantially. On the other hand, the ACCM proposal does not reduce the possibility that new zones will be formed, where such zones contain a sufficient number of generators to constitute competitive markets. Thus, all generators remain subject to the risk that they will have to pay to acquire transmission rights to the greater marketplace as the competitive marketplace evolves.

3. Strong, Up-Front, and Better-Focused Locational Pricing Signals

Locational incentives will be provided where they are needed (i.e., the generator is responsible for local impacts caused by its siting decision) and when they are needed (i.e., at the time of the generator's siting decision). If a generator's siting decision would create high transmission expansion costs for local upgrades, the generator would be responsible for paying for those upgrades. On the other hand, for "regional" intra-zonal upgrades, the locational price signals of the "real-time congestion cost mitigation" method would continue to be used.

4. Retention and Improvement of the ISO's Congestion Management Model

The only significant change to the existing model would be to forego "competitive bidding" to alleviate local congestion problems in those situations for which "competitive bidding" is in fact not possible due to the market power that local generators could exert over the process.

Through this small change, the ACCM proposal provides solutions to a number of unaddressed problems and better-aligns the ISO's congestion management model with

real-world conditions, including: (i) the inability to realistically rely on competitive bidding for congestion management in very small "generation pockets;" (ii) the lack of strong substation-specific price signals; (iii) the existing incentives of existing generators to increase the institutional barriers for new generators which would directly increase the existing generators' transportation costs; and (iv) the very real barriers to entry created by the lack of a reasonable level of ex ante pricing certainty.

5. No Undue Burden on New Generators

Under the ACCM method, new generators are in effect responsible for alleviating only localized impacts on the transmission grid. 500 kV and 230 kV impacts would generally be handled by the Adjustment Bid process. Typically, the new generator would be responsible only for lower-voltage, localized impacts. And the generator would have the option of addressing these impacts through a choice of paying for reinforcements (with appropriate credits for System Benefits), self-curtailment, purchase of curtailment from others, or by a better locational choice.

6. Increased Benefits for the Transmission System

Because up-front, sharply-focused locational pricing signals would be provided, generator siting will be more efficient and fewer new transmission facilities will be required, reducing both costs and environmental impacts. The ACCM method will result in fewer new operational constraints for the ISO to manage. And by reducing the amount of "landlocked" generation capacity, more capacity will be available to support regional reliability needs.

7. Increased Benefits for Consumers

The proposal reduces project development risk by providing greater certainty in proposed generators' energy transportation costs. Such project development risks dissuade generators from locating in California until system marginal costs are higher (in order to compensate for those risks). By reducing these risks, the economic hurdles for new generation will be reduced, reducing longer-term system marginal costs and consumer electricity prices.

Advance Congestion Cost Mitigation Method: Appendix A

Methodology for Identifying Congestion Impacts

Introduction

The Advance Congestion Cost Mitigation Method proposal requires new generation developers to mitigate significant congestion impacts that cannot be effectively mitigated by the actions of competitive markets. This document proposes a methodology which would be applied during the System Impact Study and the Facility Study of the new generation interconnection. The methodology would identify and assign responsibility for intra-zonal congestion impacts caused by the new generation.

Objectives

Transmission owners are quite experienced in performing System Impact Studies and Facility Studies for new generators. Traditionally, these studies have the following objectives:

- Determine the system reinforcements necessary to maintain the reliability of the electric system with the new generator.
- Determine the portion of the cost of the reinforcements which should be paid for by the new generator.

These basic objectives would remain unchanged under the proposed methodology.

To assure the reliability of the system, an interconnection plan would be developed which mitigates all potential planning criteria violations, either through system reinforcements or formal operating procedures. The studies would identify all significant transmission problems that would be caused by the new generator and determine which of the following categories each problem is in:

- Congestion to be mitigated with real-time congestion management
- Intra-zonal congestion to be mitigated by the owner of the new generator.[1]

Minor intra-zonal congestion problems, where the extent and cost of the congestion is so small that reinforcements are not justified, would be mitigated by the CAISO using existing intra-zonal congestion management procedures. Such congestion should be

[1] Note: In general, inter-zonal congestion problems would be mitigated by the CAISO using its existing congestion management procedures (i.e., primarily using adjustment bids). However, one could conceive of rare cases in which a local congestion problem created by a new generator occurred on the other side of an existing inter-zonal boundary **and** that problem could not be alleviated competitively using the CAISO's inter-zonal congestion management procedures. In such an instance, the localized inter-zonal congestion problem would be addressed using the mitigation procedures proposed in this document. For purposes of this document, such problems will be considered to be intra-zonal congestion problems.

infrequent so that managing the constraint is not a significant burden for the CAISO. The cost of the congestion should also be low, so the matter of who pays for it, the Scheduling Coordinator or the new generator, should not be a major issue—and there should be no need for administratively determined limits on adjustment bids.

Significant intra-zonal congestion would be mitigated by the new generator according to this document's principles for the Advance Congestion Cost Mitigation Method. The new generator could mitigate the congestion by:

- Paying for a system reinforcement,
- Paying the CAISO's costs for intra-zonal congestion management,
- Curtailing its own output to prevent the congestion from occurring, or
- Choosing another site.

If a new generator is to pay for system reinforcements, the Facilities Study will also assess the tangible system benefits provided by such reinforcements and determine the portion of the reinforcement cost the transmission owner (or the CAISO) should pay.

Methodology

Pursuant to the ISO Tariff, the Participating Transmission Owner (PTO) to whose transmission system the new generator proposes to interconnect will perform the Interconnection, System Impact and Facilities Studies to determine potential reliability impacts and congestion impacts. Therefore, the PTO would perform the following study with ISO review.

1. Create a power flow model for the new generator's initial year of operation, with generation and load designed to stress transmission facilities in the area of the new generator.

    - The generation and load patterns should represent adverse conditions, as is done in conducting the annual planning assessments (i.e., for the next 5 or 10 year period).

    - Subject to any appropriate modifications, use the same base case for that year as was used for the area in preparing the most recent annual planning assessment.

    - In any event, the degree of stress should be the same for that area as is considered in the cases used to prepare the annual planning assessment.

    - If there are unacceptable conditions (e.g., overloads or low voltages) in the base cases without the new generator, adjust the cases to eliminate those conditions, if possible.

    - Adjustments can include redispatching generation or adding transmission reinforcements that are planned to be operational by that time.

    - Document any remaining unacceptable conditions.

2. Add the new generator to the power flow model and balance loads and resources by reducing existing generation located in a zone (Displacement Zone) different from the zone of the new generator. The Displacement Zone should be selected to result in the least amount of intra-zonal congestion impacts.

3. Identify all of the transmission problems that result from the addition of the new generator. To the extent possible, mitigate the problems by curtailing existing generators that recover all their fixed cost from RMR Contracts (e.g., type "C" contracts).[2] Document any such curtailments assumed in the study.

4. Assess each overload or other unacceptable condition to determine whether it can be dealt with competitively using adjustment bids. The following criteria will be used to identify whether there is a competitive market for adjustment bids:

    a) The expected overload can be alleviated by reasonable redispatch (i.e., no more MW than necessary assuming that all generators' adjustment bids are the same).[3]

    b) No Single Company's generators or Scheduling Coordinator's generators would provide more than 20% of the total decremental adjustments or 20% of the total incremental adjustments. For the purposes of this principle, Single Company is defined as a company and all other companies affiliated with that company.

        4.1 If a) and b) above are both satisfied, then there is a competitive market for adjustment bids, and existing inter-zonal and intra-zonal congestion management procedures should be used to mitigate the problem. The new generator would not be responsible for mitigating the congestion.

        4.2 If either a) or b) above is not satisfied, there is not a competitive market for adjustment bids.

            4.2.1 If the increase in the flow on the overloaded element caused by the new generator would be more than 5% of the element rating, then the intra-zonal congestion is significant and the Advance Congestion Cost Mitigation Method should be used for these problems (i.e., the new generator should mitigate the congestion).

            4.2.2 If the increase in the flow on the overloaded element caused by the new generator would not be greater than 5% of the element rating, then the intra-zonal congestion impact is minor. In this case, the

[2] It is not the intent of this method to reserve transmission capacity for generators that are uncompetitive in the market. We have defined uncompetitive generator as a generator that is dependent on an RMR Contract for recovery of all its fixed costs. A competitive new generation project should be able to displace an uncompetitive generator as long as the new generator would satisfy all of the reliability requirements of the uncompetitive generator without an RMR Contract for recovery of all its fixed costs.

[3] This needs to be considered because some generators may be much more effective, per MW, at mitigating an overload than others, which could give them market power.

new generator would not be responsible for mitigating the congestion. The CAISO will use existing intra-zonal congestion management procedures to clear this minor congestion.

If in the future, this criterion for defining "minor congestion" is changed (e.g., to a number less than the 5% used above), a generator that has signed an interconnection agreement and has been relieved of its responsibility for mitigating an overload under this principle will not be liable for any costs to mitigate the overload later. (See "Discussion" below.)

5. Develop mitigation plans for each unacceptable condition. Mitigation plans may include system reinforcements (e.g., facility additions) or operating procedures.

6. For those mitigation plans for which the new generator is deemed responsible under Principle 4.2.1 above, determine what system benefits, if any, the system reinforcements (or other elements of the mitigation plan) would provide and how much of the cost of the reinforcements the PTO should pay as compensation for these system benefits. (Refer to the System Benefits paper.)

7. A review of the Interconnection, System Impact and Facilities Studies would be conducted by the ISO and other interested participants in accordance with the ISO Tariff and CEC AFC proceedings. The owner of the new generator and the affected PTO, in consultation with the ISO, would work towards a consensus on the facility additions that the new generation owner should be responsible for constructing in accordance with this methodology, including the appropriate compensation for system benefits. If consensus is not achieved, the parties would proceed to the ISO ADR process and, if necessary, litigate the issues at the FERC.

Discussion

In Principle 4.2.2 above, minor congestion (defined as a situation in which the new generator increases the flow on the overloaded element by less than 5%) is treated differently than more-significant congestion. Two of the primary reasons for the principle of exempting new generation from minor congestion are:

- Under the Advance Congestion Cost Mitigation Method, the new generator may choose to mitigate local congestion by paying the CAISO's costs of congestion management. However, it would be difficult and administratively burdensome for the CAISO to account for which generators, if any, were responsible for these small amounts of congestion and then charge those generators.

- It would be unnecessarily burdensome for PTOs to make system benefits determinations for a lot of small reinforcements.

At this time, it is not clear whether 5% is the most-appropriate threshold. Thus, it is possible that this threshold criterion could be changed in the future. However, applying such changes retroactively would be neither equitable nor acceptable. Some IPPs have

already stated that they would prefer to pay to mitigate even minor congestion problems in advance of their commitment to a new project—when they can do something about it. However, they are not willing to bear such costs after the fact, especially if the resulting congestion turns out to be excessive. Nor do they believe it to be fair to have Adjustment Bid limits imposed, which in effect would be the same as imposing Reliability-Must-Not-Run contracts.

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Advance Congestion Cost Mitigation Method: Appendix B

System Benefits

Background

If a Participating Transmission Owner (PTO) determines through its planning studies made pursuant to the ISO Tariff and/or TO Tariff that a transmission reinforcement is necessary to meet applicable planning reliability criteria, the cost of such a reliability reinforcement will generally be included in the PTO's transmission revenue requirement and charged to customers located in its service area.

Although one of the basic functions of transmission is to transport electricity from generators to distribution loads, generators do not pay for transmission facilities that are required to reliably serve load in California, except for:

- Transmission to wheel power out of the CAISO grid,
- Interconnection facilities, and
- Transmission reinforcements beyond the first point of interconnection to reliably integrate a new generator into the electric system.

Requiring California electricity customers to pay for all transmission system reinforcements, including all reinforcements required by new generators, would not be inconsistent with regulatory requirements (as long as the investment was prudent from a societal standpoint), and it would promote the development of new generation. However, in California, new generators have historically been required to pay for all transmission reinforcements that would not be needed (i.e., used and useful) "but for" the new generators.[4] FERC policy allows generators who pay for transmission reinforcements to receive credit for the quantifiable "System Benefits" of those reinforcements. The challenge lies in determining the appropriate tests and principles for quantifying and justifying such System Benefits.

Principles

The following principles are proposed for determining the extent to which a generator should receive System Benefits credits for the transmission reinforcements, beyond the first point of interconnection, necessary to integrate a new generator into the electric grid.

[Note: These principles are subject to further review for consistency with current FERC policies related to System Benefits.]

1. If a PTO chooses to rely upon a new generator to reliably serve the load in a particular area, the following principles will apply.

[4] Among the reasons for this policy: cost recovery for such generation-related investments can be risky, as the PTO has no control over the long-term viability of new generators and no assurance that such investments would be accepted into its transmission revenue requirement.

1.1 The PTO will contribute to the cost of the transmission reinforcements beyond the first point of interconnection necessary to integrate the generator. The PTO's contribution shall equal either the lesser of:

- The cost of all such reinforcements, or
- The cost of the transmission alternative that the PTO would have to implement to meet applicable reliability criteria absent the new generator.

Since the choice is the PTO's, the PTO will bear the risk of regulatory approval.

1.1.1 The PTO has the option to build transmission to serve its load without relying on the new generator. But if the PTO instead chooses to rely upon the new generator to meet applicable reliability criteria, then the generator and associated transmission reinforcements are providing System Benefits and the PTO will pay for some or all of the transmission reinforcements necessary to integrate the new generator.

1.1.2 If there are competing proposals for new generation which can replace the PTO's transmission alternative, not all of them may be needed for that purpose. In that case, the PTO will determine through a competitive solicitation process, and the CAISO will approve:

i) Which of those new generators constitute the best replacement for the PTO's transmission alternative and should receive compensation from the PTO for transmission reinforcements beyond the first point of interconnection; and

ii) The amount each new generation project should receive pursuant to Principle 1.1.1 above.

1.2 If the new generator is developed in response to a competitive solicitation for a specific location, then the new generator should receive the price specified by the solicitation. I.e., Principle 1.1 is <u>not</u> meant to override the terms of the solicitation, unless so-stated in the solicitation.

1.3 If operation of the generator under certain conditions or during certain periods is necessary to mitigate a transmission problem, then the generator may be obligated to execute a binding contractual agreement (for example, an RMR contract or similar agreement) to secure its performance, if the generator is to receive compensation for mitigating the transmission problem pursuant to Principle 1.1.

2. If a transmission reinforcement is required[5] to interconnect a generator and, in the future, such reinforcements can be relied upon by the PTOs to serve others (including

[5] As part of the Interconnection, System Impact and Facilities Study the PTO would determine the system reinforcements necessary to interconnect the new generator, and the timing of system reinforcements needed to reliably serve area load absent the new generator. Such reinforcements would be based on the

other generators, LDCs, marketers or loads, among others) or maintain system security, the following principles will apply.

2.1 If a PTO's transmission planning assessment (i.e., for the next 5 or 10 year period) demonstrates that a transmission reinforcement paid for by a generator is required for the PTO to meet applicable reliability criteria, then:

(i) If the generator is paying for the transmission reinforcement through periodic payments, the PTO will stop charging the generator for the transmission reinforcement as soon as the PTO is authorized to recover the remaining cost of the transmission reinforcement in its transmission revenue requirement.

(ii) If the generator paid for the entire cost of the transmission reinforcement in advance, the PTO will repay the generator an amount equal to the lesser of (i) the historical cost of the reinforcement less depreciation, or (ii) the cost of the PTO's avoided transmission alternative.

The PTO will make a good faith effort to have the costs of the transmission reinforcement included in its transmission revenue requirement.

2.2 The System Benefits to be credited to a new generator pursuant to Principle 2.1 will be determined using a methodology, to be filed in the ISO Tariff, that is consistent with the PTO's transmission planning assessment process. The generator is responsible for initiating the investigation of PTO's use of transmission reinforcements by presenting its reasons for the investigation to the CAISO and the PTO as part of the System Impact or Facilities Study, or subsequently, as part of the PTO's annual planning process. If the CAISO determines that the new generator's reasons for the investigation are sufficient, the PTO will conduct the investigation. Any dispute of the PTO's or CAISO's findings may be pursued using ISO ADR Procedures or at FERC.

3. By mutual agreement, a PTO and a new generator may agree to a full or partial advance payment for System Benefits, in lieu of after-the-fact compensation or credit for the benefits described under Principles 1 and 2, subject to appropriate regulatory approval.

4. If the transmission reinforcements paid for by the new generator increase the rating or the transfer limit on an inter-zonal transfer path, the new generator will receive the proceeds of the auction of any resulting incremental Firm Transmission Rights (FTR).[6] (This is similar to the compensation the PTO receives from the FTR

PTO's present long-term (e.g., 5 or 10 year) plan. As required by the PTO, the new generator would pay either (i) the up-front installation cost of the reinforcements needed to interconnect plus the recurring maintenance and ownership costs each year (or month) thereafter, or (ii) periodic annual (or monthly) payments covering the installation cost and recurring maintenance and ownership costs.

[6] The operation of the new generator (e.g., commitment to participate in Remedial Action Schemes) might also increase the rating or transfer limit on an inter-zonal path, possibly entitling the generator to FTR auction proceeds. Neither this issue, nor the issue of RMR-related benefits, are addressed in this System

auction.) As described in Principles 1 and 2, the PTO has the option of paying for the transmission reinforcements to capture this benefit.

5. If a generator pays for a transmission reinforcement, the generator will receive the benefits identified in Section 3.2.7.3 [7] of the CAISO Tariff. Those benefits include a share of the wheeling revenues attributable to the transmission reinforcement and a share of any usage charges associated with an inter-zonal interface of which the transmission reinforcement is a part.

6. If transmission reinforcements paid for by the generator decrease intra-zonal congestion, then the beneficiaries of the decreased congestion, the PTO or both will bear a share of the costs of those reinforcements pursuant to Sections 3.2.7.2 [8] and 3.2.7.3 of the CAISO Tariff, and the generator's costs for such reinforcements shall be reduced accordingly.

7. Reductions of inter-zonal congestion due to the operation of a new generator are not System Benefits; nor is the generator responsible for mitigating the cost of increased inter-zonal congestion. (The new generator would benefit/pay directly in the market from the reduced/increased inter-zonal congestion.)

8. Reductions in transmission system losses due to the operation of a new generator are not System Benefits; nor is the generator responsible for mitigating the cost of increased transmission system losses. (The new generator would benefit/pay directly in the market from the reduced/increased losses through its GMM.)

Implementation

- A review of the PTO's transmission studies or its Interconnection, System Impact and Facilities Studies, performed by the PTO in accordance with its TO Tariff, will be conducted by the ISO and other interested participants in accordance with the ISO Tariff and CEC AFC Proceedings.

Benefits paper. They are intended to be addressed elsewhere (as described in the ISO Tariff and the ISO RMR contracts and policies).

[7] CAISO Tariff Section 3.2.7.3: If specific beneficiaries cannot be reasonably identified then the cost of the transmission addition or upgrade borne by the Participating TO that is the owner of the transmission addition or upgrade shall be reflected in its Access Charge. Each of the Project Sponsors and specifically identified beneficiaries shall be entitled to receive: (a) its share of the Wheeling revenues attributable to the transmission addition or upgrade which shall be allocated to each of the Project Sponsors and specifically identified beneficiaries in the proportion that the cost of the transmission addition or upgrade borne by it bears to the total cost of the transmission addition or upgrade; and (b) a share of any Congestion Charges for the use of a Congested Inter-Zonal Interface of which the transmission addition or upgrade forms part in the proportion that the incremental transmission capacity of the Inter-Zonal Interface the cost of which has been allocated to it bears to its total transmission capacity.

[8] CAISO Tariff Section 3.2.7.2: Where the need for a transmission addition or upgrade is determined by the ISO or as a result of the ISO ADR Procedure as set forth in Section 3.2.1.1.3, the costs shall be borne by the beneficiaries, in the approximate relative proportions by which they benefit, if those beneficiaries and such proportions can reasonably be determined.

- The owner of the new generator and the affected TO, in consultation with the ISO, will work towards a consensus on the transmission reinforcements for which the new generation owner should be responsible, in accordance with this methodology, including the appropriate compensation for System Benefits.

- If agreement is not reached, the parties will proceed to the CAISO ADR process and, if necessary, litigate the issues at the FERC.

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