



Generator Project Downsizing

Draft Final Proposal

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Market and Infrastructure Development

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1 Executive Summary

The impetus for this initiative was the concern expressed by generation developers that they could advance their project through an interconnection agreement and then determine, as the milestone dates for project commencement approached, that they were not in a position to construct the full megawatt (MW) capacity of the proposed generator facility that was set out in their interconnection agreement. A related concern expressed by developers was that failure to fully construct the MW capacity of a project specified in their interconnection agreement can lead to breach of the generator interconnection agreement which, in turn, raises the possibility of triggering a termination of the generator interconnection agreement. Investors and financiers of the developed portion of a project that proceeds to completion are thus concerned about the effect, on the developed portion of the project, of the consequences of failure to perform the terms of the generator interconnection agreement with respect to the undeveloped portion of the facility. Accordingly, developers have continued to request that the ISO provide additional project downsizing opportunities at various times after the completion of the Phase II interconnection studies through the triggering dates for milestone achievement under the interconnection agreement.

The purpose of this initiative is therefore to explore the possible expansion of opportunities for generator interconnection customers in Cluster 4 and earlier to downsize the MW capacity of their proposed generating facilities. More specifically, the goal of the proposal described in this document is to facilitate completion to commercial operation of projects that are viable but for the need to downsize to match their MW generating capacity size to a level that will enable the project to meet its milestones in a timely manner and exit the interconnection queue. This proposal is targeted at such projects that are ready to make the downsizing decision and proceed with project development. This proposal is not intended to provide ongoing, flexible downsizing options and opportunities that will enable all projects, regardless of their viability, to remain indefinitely in the interconnection queue without progressing toward commercial operation in accordance with the milestones specified in their interconnection agreement. In this manner the present proposal complements the ISO's queue management efforts.

In this draft final proposal, the ISO proposes a new, one-time downsizing window for active projects in Cluster 4 and earlier in the interconnection queue. This new downsizing opportunity will be a one-time opportunity that would be offered shortly after the Federal Energy Regulatory Commission (FERC) issues an order approving this proposal. No further downsizing opportunities will be offered.

This draft final proposal is the work product of a stakeholder process launched in April of this year. Since that time the ISO has issued two straw proposal papers, held both a stakeholder meeting and a stakeholder web conference, and received and considered two rounds of written comments from stakeholders. All of this constructive stakeholder interaction has culminated in the draft final proposal presented here. This work product also benefits from input received on the subject of downsizing through two other relevant stakeholder processes: Generator Interconnection Procedures Phase 2 (GIP 2) held in 2011 and Generator Interconnection

Procedures Phase 3 (GIP 3) started in early 2012 but later deferred while this downsizing initiative is pursued.

Following one more round of stakeholder interaction (a stakeholder web conference on July 27 and receipt of stakeholders' written comments on August 3), the ISO plans to present this proposal to the ISO Board of Governors at the September 2012 meeting.

The draft final proposal reflects many changes made to the revised straw proposal in response to stakeholder input. These are summarized in the following section of the present paper.

2 Changes and clarifications to revised straw proposal

In response to input that has been received from stakeholders, the ISO has made the following changes to the revised straw proposal to create this draft final proposal.

1. Instead of distinguishing study groups or clusters, the ISO proposes that restudy costs be allocated to all downsizing generators equally (with no cap on restudy costs). The ISO also provides historical cost data from past cluster studies to help a downsizing customer estimate its restudy costs.
2. A downsizing customer's cost responsibility for the costs to modify generator interconnection agreements will be \$10,000 per affected generator interconnection agreement, with a \$100,000 cap. Cost responsibility will be shared when multiple downsizing requests made in the same study area affect the same generator interconnection agreements.
3. In order to give the downsizing generators some additional ability to estimate costs, the ISO will post on its website, prior to initiating the restudy, which projects (identified by queue number) have submitted a downsizing request and the MW amount requested.
4. In the revised straw proposal, the ISO proposed that generators be committed to downsizing once they had submitted their request. In this draft final proposal, the ISO proposes that after the downsizing requests have been posted (as described in (2) above) but prior to the commencement of restudies, generators be provided with the option of withdrawing their downsizing request and having their full \$200,000 downsizing deposit refunded.
5. In the rare instance that restudies identify a circumstance in which a downsizing generator's network upgrade cost may significantly exceed its network upgrade cost responsibility as identified in its Facility Study, Phase II study, or its generator interconnection agreement, the ISO proposes that such a downsizing generator be provided an opportunity to withdraw its downsizing request, forfeiting any unused portion of its deposit.
6. In the revised straw proposal, the ISO proposed to eliminate further generation interconnection agreement suspension rights and limit any further generating facility commercial operation date extensions to force majeure events for downsizing generators. In this draft final proposal, the ISO proposes to grant no further suspension

rights for downsizing generators, but continue to allow downsizing generators to submit a material modification request for an extension of commercial operation date.

7. In rare cases where a downsizing request may adversely impact WDAT customers, the ISO clarifies that downsizing generators will have to bear the cost consequences of these effects.

In addition to the above changes, the ISO has made the following clarifications to the revised straw proposal to create this draft final proposal.

1. Although the ISO is not categorically prohibiting the future use of the partial termination, the ISO will only consider it in very limited circumstances.
2. The ISO is not offering additional downsizing flexibility beyond the narrowly tailored downsizing opportunity described in the present paper. The proposal is not intended to provide ongoing, flexible downsizing options and opportunities that will enable all projects, regardless of their viability, to remain indefinitely in the interconnection queue without progressing toward commercial operation in accordance with the milestones specified in their interconnection agreement.
3. Despite the theoretical possibility of increased network upgrade costs, neither the ISO nor stakeholders have thus far been able to identify an example where this could occur.
4. This draft final proposal document does not endorse an expectation that the participating transmission owner, and ultimately the ratepayers, should “pick up” costs due to downsizing. Where a downsizing request would result in increased network upgrade costs that make it impossible to maintain the “no worse off” guideline, the intent is for the downsizing generator to cover any additional costs.
5. The ISO will make every effort to minimize impacts to participating transmission owners due to generator project downsizing. Despite this, there could be rare instances for which it may not be feasible for the ISO to absolutely guarantee that every impact to a participating transmission owner will be mitigated.
6. Although it may not be possible to mitigate all impacts to schedule, every effort will be made to minimize such impacts.
7. The ISO does not propose to make an exception for serial group projects but to instead apply the general guideline of “no worse off” to all pre-cluster 5 projects.
8. A downsizing interconnection customer shall be required to submit an updated interconnection request to the ISO which includes all attachment and technical data pertaining to the generating facility as modified at the time the downsizing request is made. The downsizing generator may change the step-up transformer and generation tie-line parameters, but other changes to the generator facilities will not be accepted as part of the downsizing request.
9. All previous withdrawals from the queue will be properly accounted for while conducting the restudies. In the rare case of increased network upgrade costs, the ISO and the applicable participating transmission owner will isolate the network upgrade costs attributable to downsizing generators from the withdrawals.

3 Introduction

The impetus for this initiative was the concern expressed by generation developers that they could advance their project through an interconnection agreement and then determine, as the milestone dates for project commencement approached, that they were not in a position to construct the full MW capacity of the proposed generator facility that was set out in their interconnection agreement. In some cases, this situation stems from the fact that the developer has not secured a power purchase agreement to cover the full output of its originally planned megawatt capacity. The ISO interconnection process does not permit an interconnection customer to split a project which has been studied in interconnection studies as one project into multiple projects with multiple interconnection agreements, nor does it offer an opportunity for the interconnection to downsize to “shed” the uncommitted megawatts when such downsize is a material modification. As a result, a developer who cannot complete its generator project at the full MW capacity specified in its interconnection agreement must either qualify to reduce the size of its project under the “substantial performance” provisions discussed later in this document, or be found to be in breach of its interconnection agreement.

A further concern expressed by developers was that failure to fully construct the MW capacity of a project specified in their interconnection agreement can lead to breach of the generator interconnection agreement which, in turn, raises the possibility of triggering a termination of the generator interconnection agreement. Investors and financiers of the developed portion of the project that proceeds to completion are thus concerned about effect on this portion of the project of consequences of failure to perform the terms of the agreement with respect to the undeveloped portion of the facility. Accordingly, developers have continued to request that the ISO provide additional project downsizing opportunities at various times after the completion of the Phase II interconnection studies through the triggering dates for milestone achievement under the interconnection agreement.

Stakeholders have commented that the ability to downsize is important to the continued viability of generator projects currently under development. Stakeholders cite many reasons for this, including the inability to secure a power purchase agreement for the full amount of the project, as well as reasons that may be beyond the control of interconnection customers such as the inability to obtain permitting and governmental approvals for the full MW capacity.¹ In either case, interconnection customers may find themselves in a situation where the project size in their original interconnection request may be too large, thereby impeding their ability to comply with the requirements of their interconnection agreement, and the financial liabilities associated with failing to construct the full amount of capacity may potentially jeopardize the entire project.

¹ Failure to achieve full MW build-out for permitting and other reasons beyond the control of a developer is mentioned here only because it may be a reason why a developer chooses to downsize under the path discussed in this proposal instead of demonstrating to the ISO that, for these reasons, the customer can only tender substantial performance (not full performance) under the large generator interconnection agreement (LGIA) provision developed in the generator interconnection procedures phase 2 (GIP 2) process. As the ISO said last year during that process, the substantial performance principle is one of contract law and is ISO practice and the GIP 2 LGIA provision was added to clarify the point in the LGIA.

In response the ISO launched this initiative to specifically explore the possible expansion of opportunities for generator interconnection customers in Cluster 4 and earlier to downsize the MW capacity of proposed generating facilities.

Leading up to the generator interconnection procedures phase 3 initiative (GIP 3), stakeholders had requested that there be an exploration of the possibility of creating a new avenue enabling interconnection customers to request a downsize of generating facility MW capacity even when such requests would have a material impact on later queued projects. There are times when this need may arise due to circumstances beyond the interconnection customer's control²; however, the current generator interconnection procedures prohibit the ability to downsize if a later queued project is adversely affected and the interconnection customer requesting the downsizing is not willing to fund the network upgrades in their generator interconnection agreement³, or because of the downsizing an upfront financed cost is no longer upfront financed by the participating transmission owner. The ISO generator interconnection procedures do not allow an interconnection customer to pay a penalty, or compensate the materially affected later queued project. The interconnection customer's only recourse is to withdraw from the queue and re-enter in a later cluster with a downsized MW capacity.

In the GIP 3 initiative the ISO solicited stakeholder comments on the relative priority of issues that should be considered, on downsizing as well as on a couple other dozen topics. The ISO explained that a limited number of topics would be included in the initial stakeholder effort to ensure timely resolution and implementation. Stakeholders expressed broad support for only one topic, the extent to which an interconnection customer could downsize the MW capacity of its proposed generating facility. As a result of this stakeholder feedback, the ISO decided to defer work on the other topics that did not receive such broad support and to focus the ISO's efforts on project downsizing through this separate stakeholder initiative. The GIP 3 initiative has been deferred while this initiative is pursued.

4 Stakeholder process and next steps

The ISO intends to take this initiative to its Board of Governors for approval at their September 2012 meeting. Accordingly, the ISO's proposed schedule in this initiative is as follows:

May 7 ISO posts straw proposal *[Completed]*

May 14 Stakeholder meeting *[Completed]*

² Having said this, the downsizing sometimes arises from an interconnection customer's decision to consolidate what it considers separate projects into a single interconnection request, so as to pay only one study deposit. This point has been discussed in earlier GIP stakeholder efforts, where some customers have indicated that they follow this practice because they consider the capital outlay for multiple interconnection requests to be cost prohibitive.

³ Generator interconnection agreement is a generic term. In fact, a generator signs either a Large Generator Interconnection Agreement (LGIA) or a Small Generator Interconnection Agreement (SGIA), depending on the size of the project. However, for the most part, the term 'generator interconnection agreement' is used in this paper for the sake of simplicity.

May 22	Stakeholder comments due <i>[Completed]</i>
June 8	ISO posts revised straw proposal <i>[Completed]</i>
June 25	Stakeholder web conference <i>[Completed]</i>
July 3	Stakeholder comments due <i>[Completed]</i>
July 19	ISO posts draft final proposal <i>[Completed]</i>
July 27	Stakeholder web conference (1:00 p.m. – 4:00 p.m.)
August 3	Final stakeholder comments due
Sept 13-14	ISO Board of Governors meeting
October	File tariff amendment at FERC

Stakeholders should submit their written comments on the draft final proposal to GPD@caiso.com by August 3, 2012. A stakeholder comment template will be posted by the July 27 stakeholder web conference.

Additional information in this initiative can be found at:

<http://www.caiso.com/informed/Pages/StakeholderProcesses/GeneratorProjectDownsizing.aspx>

5 Objectives of this initiative

The goal of this proposal is to facilitate projects in queue cluster 4 and earlier that would be viable except for the inability to complete the full MW of generating capacity that was specified in the interconnection request. In such cases the opportunity to downsize the project will help ensure that the project can reach commercial operation on a timely basis, and thereby facilitate the development of viable projects while contributing to the ISO's queue management efforts. To support these goals, the ISO has developed a specific list of objectives to guide this initiative:

1. Improve flexibility for active generator projects in interconnection queue cluster 4 and earlier to downsize MW capacity.
2. Mitigate material impacts to later queued generator projects, including those that do not request downsizing, due to generator downsizing.
3. Minimize risk to ratepayers of stranded transmission investment due to generator downsizing.
4. Minimize impacts to participating transmission owners due to generator downsizing.
5. Contribute to the ISO's queue management efforts by enabling viable projects to reach commercial operation on a timely basis.

In their written comments stakeholders broadly support the five objectives. The Large-scale Solar Association (LSA) and several generation developers suggested the addition of a sixth objective that reads as follows: "Facilitate downsizing of otherwise viable generation projects in

the CAISO interconnection queue, to help meet state policy and reliability objectives in the most efficient manner.” The ISO believes that the intent of LSA’s suggested objective is already met by objective 5 and the goals of this proposal as described above.

The participating transmission owners expressed concern about use of the term “minimize” in objective 4. As is discussed later in the proposal, the ISO will make every effort to ensure that all impacts to the participating transmission owners due to generator project downsizing are covered by the projects triggering those costs through their requests to downsize. However, it may not be possible in each and every instance to guarantee that this is achieved (e.g. the costs to modify generator interconnection agreements affected by a downsizing request may not be completely covered by interconnection customers due to the ISO’s proposal of a cap on those costs, as discussed later in the proposal); hence, the use of the term “minimize.”

6 Scope of initiative

In exploring the possible expansion of opportunities for generator interconnection customers to downsize the MW capacity of proposed generating facilities, the scope of this initiative is limited to active⁴ projects in Cluster 4 and earlier.⁵ This means active generator projects in the following study processes: pre-Amendment 39, Amendment 39 (Appendix W), Serial LGIP (Appendix U), Transition Cluster (Appendix Y), SGIP (Appendix S), SGIP – Transition Cluster (Appendix Y), Clusters 1 – 4 (Appendix Y).

Although the ISO received stakeholder comments suggesting that a limited number of topics from the deferred GIP 3 stakeholder initiative be added to the scope of the present initiative, the ISO has declined to expand the scope of the present initiative, though with one exception as discussed in the following paragraph. As was previously announced to stakeholders, the ISO intends to resume the GIP 3 initiative and its issue topics at some point in the future.

Through the now completed generator interconnection procedures phase 2 (GIP 2) initiative, substantial performance provisions were adopted regarding a “safe harbor” for generator capacity reductions by up to 5 percent and the ability to request size reductions greater than 5 percent upon demonstration of circumstances driving the megawatt reduction that are beyond the interconnection customer’s control (discussed further in section 7.3 of this paper). These provisions were incorporated into Appendix Y and therefore only apply to cluster projects.

Stakeholders’ written comments on previous versions of the proposal in this initiative requested that the ISO extend these provisions to Serial Group and small projects.

⁴ For purposes of this proposal, the term “active” is used to refer to projects in good standing and does not include those projects in breach of their generator interconnection agreement. Projects must cure the breach prior to submitting a downsizing request. In addition, projects may not be in suspension and must come out of suspension to process the downsizing request.

⁵ The ISO’s TPP-GIP Integration initiative, which was approved by the ISO Board on March 23 and filed at FERC in May, includes several new provisions to allow interconnection customers in Cluster 5 and beyond to downsize their projects. The present initiative is therefore limited to Cluster 4 and earlier.

The ISO does not have an objection to this suggestion and proposes to make the appropriate tariff changes to extend these tariff provisions to Serial Group projects and small projects, as a part of the present initiative. Specifically, this involves making the appropriate tariff changes to Appendix U and Appendix S, respectively.

In the most recent set of written comments from stakeholders, broad support was expressed for the scope of this initiative. LSA suggests adding to the scope the topic of revising rules about use of forfeited study deposits and IFS amounts so these funds can be used to help cover the costs of downsizing studies and modification of generation interconnection agreements. The ISO is not inclined to add that topic to this initiative as that is a topic that will be addressed in GIP 3. Wellhead believes the proposal presented in this initiative discriminates against cluster 5 and later projects which may also need to downsize. The ISO disagrees (see footnote 5).

7 Current downsizing opportunities

This section describes current downsizing opportunities available to interconnection customers under certain circumstances. This is the pre-existing “baseline” onto which the ISO is proposing the new downsizing opportunity described in section 8 of the present paper.

The ISO generator interconnection procedures anticipate that interconnection customers will put into commercial operation the full MW capacity of its generating facility as specified in its interconnection request at the time it entered the Phase II study process. The ISO pro forma generator interconnection agreement includes a description of the generating facility, including MW capacity. Under the generator interconnection agreement, an interconnection customer's obligations include, besides paying for the upgrades specified in the generator interconnection agreement, the completion of the generating facility as described.⁶ Despite this expectation, interconnection customers may encounter circumstances during the course of the interconnection process that trigger the need to modify the size of their project.

7.1 Material modification review

Today, any interconnection customer requesting to make a change to a project's MW capacity can do so between the Phase I and Phase II interconnection studies. However, once the results of the Phase II study are complete, the only downsizing opportunity available to an interconnection customer requesting to make a change to a project's MW capacity is to undergo a “material modification” review. When an interconnection customer submits such a request to modify the MW capacity size of the project, the ISO evaluates its impact on projects with later queue priorities. If there is no impact, and the ISO and participating transmission owner agree that the capacity can be downsized, then the material modification request can be approved.

⁶ An important point to remember here is that the ISO is an outlier within the organized markets, in that pre-Cluster 5 projects receive full cash repayment for funding of network upgrades, unlike other organized markets where the customer generally receives compensation in transmission credits (including financial transmission rights). So ratepayers ultimately pay cash for all such network upgrades. Accordingly, there may be adverse consequences to the ratepayer if the originally intended MW amount of generation does not subscribe to the lines.

This existing ability to submit a material modification request will continue to be available to interconnection customers along with the new downsizing opportunity presented in this proposal. If the modification review identifies a material impact on later queued project costs or schedule (which may often be the case), then the request is determined to be a material modification and denied. This leaves some projects with withdrawal from the interconnection process as their only option if they cannot proceed with the project as originally studied.

7.2 Partial termination

In the case of a generating facility being constructed in phases, such that each phase may achieve commercial operation at a different time, the failure of the interconnection customer to construct one or more later phases of the project can lead to breach of the generator interconnection agreement. This, in turn, has the potential for triggering termination of the interconnection and even the potential for disconnection of earlier phases of the generating facility that have achieved commercial operation.

In 2010, the ISO developed “partial termination” provisions for a small number of non-conforming interconnection agreements in an effort to address the concerns of certain phased generating facilities in the context of a specific set of circumstances. In certain customer generator interconnection agreement negotiations during 2010, the situation arose where the time to complete the final segments of required network upgrades was particularly long (some 84 months in the future). Those customers indicated that the long lead time for these upgrades created a business uncertainty at the time of generator interconnection agreement execution as to whether the interconnection customer could build the later phases of the generating facility if it had to tell prospective power purchasers that it could not deliver power from those later phases until these long lead-time transmission upgrades were completed. Because of this uncertainty, the interconnection customer was reluctant to commit to full build-out of the generating facility at the time of generation interconnection agreement execution.

In these situations, the customers asked that the ISO and PTO consider a contractual path to deal with the contingency that the later phases could not be built, so as to avoid the contractual uncertainty that would result if the parties simply took a “wait and see” approach to see if the contingency arose. The ISO worked with specific interconnection customers and PTOs to develop non-conforming “partial termination” provisions (which were incorporated in the projects’ generation interconnection agreements; not in the ISO tariff) whereby the interconnection customer could elect to structure the project as a phased project with specific phase sizes and different commercial operation dates for each phase, and include in the generator interconnection agreement an option to terminate later phases of the generating facility without breaching the interconnection agreement. Upon exercise of the partial termination option the interconnection customer would pay a pre-specified “partial termination charge,” which would be secured through a posting of security at the time of the execution of the generation interconnection agreement or by a date certain specified in the generator interconnection agreement. In this way, the interconnection customer could exercise partial termination of the generator interconnection agreement with regard to later phases without

breaching the generator interconnection agreement and without adverse impacts on the earlier phases of the project.

The scope of interconnection requests for which partial termination was previously included in generator interconnection agreements was limited to those transition cluster projects where the deliverability network upgrades were to be built over a period of approximately 84 months, where the PTO had agreed to upfront fund the network upgrades, and where there would be no adverse impacts on later queued projects and little likelihood of stranded investment or under-utilized transmission capacity if the partial termination option were exercised.

Although the ISO is not categorically prohibiting the future use of the partial termination mechanism, the ISO will only consider it in very limited circumstances (such as the historical circumstances described above) and on a project-by-project basis. Going forward, these limited circumstances could include, for example, phased generating facilities seeking full capacity deliverability status for which there is a significant time lag between the estimated in service date for the entirety of the network upgrades and the commercial operation date for the second phase of the generating facility (in the non-conforming interconnection agreements that have been filed this time lag was three years or more), where there would be no adverse impacts on later queued projects, and where there is little likelihood of stranded investment or under-utilized transmission capacity.

7.3 Substantial performance provisions

Although not to be considered downsizing opportunities, the substantial performance provisions adopted in the GIP 2 initiative provide a means for addressing discrepancies between a generator's final build-out MW capacity and the interconnection request MW capacity.

The ISO clarifies here that the new downsizing opportunity described in this draft final proposal does not impact the provisions adopted in the GIP 2 initiative, including the provisions submitted to FERC in the February 29, 2012 compliance filing, which (1) allow a project, for any reason, to be completed with a final MW capacity that is below the MW size specified in its generator interconnection agreement by 5 percent or less⁷, and (2) allow a project, under certain limited circumstances summarized below, to be completed with a final MW capacity that is below the MW size specified in its generator interconnection agreement by more than 5 percent, subject to ISO verification of the specific circumstances of the project. In the latter instance, the generator interconnection agreement would be amended to the lower MW capacity value once it is known.

The substantial performance provisions interrelate to the new downsizing approach described in this proposal in this way: the reference point for applying a substantial performance 5 percent or greater than 5 percent reduction shall be, the *downsized* MW capacity of the project (i.e., its MW capacity after any downsize through this proposal) which would be the project size as reflected in a revised generator interconnection agreement that implements this proposal.

⁷ The reference point for the 5 percent reduction is the MW capacity of the proposed generating facility as it was studied in its Phase II interconnection study.

The eligibility requirements for a size reduction greater than 5 percent were specified in the ISO's February 29, 2012, compliance filing in FERC Docket ER12-502.⁸ The interconnection customer must reasonably demonstrate that the reduction is warranted due to reasons beyond the control of the interconnection customer consisting of one or more of the following:

1. Failure to secure required permits and other governmental approvals to construct the generating facility at its total MW generating capacity specified in interconnection request after making diligent efforts.
2. Written statement from the permitting or approval authority indicating that construction of the facility at the total MW size specified in interconnection request will likely result in disapproval due to significant environmental or other impact that cannot be mitigated.
3. Failure to obtain legal right to use of the full site acreage necessary to construct/operate the total MW generating capacity size for the entire generating facility after making diligent efforts (only applies where an interconnection customer previously demonstrated and maintained its demonstration of site exclusivity).

If relying on item (1) or (2) above, the interconnection customer must also demonstrate to the ISO that the requested downsizing will likely overcome the objections of the permitting/approving authority. If relying on item (3), the interconnection customer must also reasonably demonstrate to the ISO that the downsized generating facility can be constructed on the site over which legal right to use has been obtained.

8 Downsizing proposal

The proposal presented here is narrowly tailored to fit projects in queue cluster 4 and earlier that would be viable except for the inability to complete the full MW generating capacity that was specified in the interconnection request. This proposal is targeted at such projects that are ready to make the downsizing decision and proceed with project development. This proposal is not intended to provide ongoing, flexible downsizing options and opportunities that will enable all projects, regardless of their viability, to remain indefinitely in the interconnection queue without progressing toward commercial operation in accordance with the milestones specified in their interconnection agreement. The goals of this proposal are to facilitate viable projects, help enable them to reach commercial operation on a timely basis, and thereby contribute to the ISO's queue management efforts.

The proposed new downsizing opportunity presented here has several key elements: (a) eligibility requirements to downsize, (b) number of downsizing requests permitted, (c) MW amount of downsizing allowed, (d) downsizing request window, (e) cost responsibility and downsizing deposit, (f) withdrawal of a downsizing request, (g) reduced future optionality for downsizing generators, (h) general guideline of "no worse off," (i) WDAT projects, and (j) the

⁸ In the ISO's compliance filing, the ISO modified Article 5.19.4 of the LGIA. See the ISO's February 29, 2012 GIP 2 compliance filing, accessible on the ISO's website at http://www.caiso.com/Documents/2012-02-29_ER12-502_GIP11compliance.pdf.

need for restudies. These elements of the proposal are discussed in more detail in the following sections.

8.1 Eligibility requirements

In the previous two straw proposals the ISO did not propose stringent eligibility requirements that interconnection customers must meet in order to submit a request to downsize (other than to be an active project as described earlier). The ISO does not depart from that approach in this draft final proposal. Accordingly, the proposed new downsizing opportunity presented here would be open to any active project in Cluster 4 or earlier that wants to downsize for any reason.

This element of the proposal continues to receive broad stakeholder support in written comments. Many stakeholders, including those from the generation development community, believe that it is reasonable to not place stringent conditions on eligibility. PG&E supports this element as proposed as long as the new downsizing opportunity remains a one-time opportunity. SCE states that to avoid gaming, downsizing requests should be limited to reasons that could not have been anticipated.

The ISO proposes not to adopt additional eligibility requirements, but to retain this element as it was stated in the revised straw proposal.

8.2 Number of downsizing requests

In the prior paper the ISO proposed a one-time downsizing opportunity. In stakeholders' written comments, this element of the proposal attracted many stakeholder comments with multiple perspectives expressed.

Generation developers hold a variety of viewpoints. Some do not want to be limited to a one-time opportunity and would instead prefer both a near-term downsizing opportunity as well as a later opportunity to downsize. Others do not object to a one-time opportunity but would prefer to choose the timing of when they exercise the one-time opportunity.

SDG&E believes the ISO should offer an additional downsizing opportunity six months after the initial opportunity.

Many other stakeholders (including PG&E, SCE, CPUC, IEP, CalWEA, Six Cities) support a one-time downsizing opportunity with some of these stakeholders arguing that a one-time window will avoid continual cycles of restudies, will limit uncertainty, and provide needed discipline regarding the timing and volume of downsizing.

The ISO believes that it is best to provide a narrow, one-time opportunity to downsize for projects that are ready to make a downsizing decision and, having made that decision, are viable and ready to meet GIA milestones. Accordingly, the ISO proposes to retain a limit of one downsizing request as an element of a one-time downsizing opportunity.

The ISO believes that the simpler approach of offering only a one-time downsizing window may prove to be the most pragmatic, rather than try to develop a pre-cluster 5 continuing downsizing

design feature that must converge with processes for cluster 5 and subsequent clusters. The ISO believes that this scope will simplify the completion of the proposal and its timely filing at FERC to maximize the likelihood of receiving FERC approval and opening the window for downsizing requests before the end of 2012.

8.3 MW amount of downsizing

In the revised straw proposal the ISO proposed that there be no limit on the MW amount of downsizing permitted. In written comments stakeholders expressed broad support for this element of the proposal. However one stakeholder, SCE, expressed concern that very large reductions in project size may diminish the validity of the original studies performed and require a significant numbers of restudies. The ISO believes, however that the restudy element of this proposal (discussed later in this paper) will properly account for the MW amount of downsizing, regardless of the magnitude, and will produce revised study results identifying the resultant upgrades needed including any additional costs.

The ISO proposes to retain, as an element of this proposal, that there be no limit on the MW amount of downsizing permitted.

8.4 Downsizing request window

In the previous proposal the ISO proposed a one-time downsizing request window that would be offered shortly after FERC issues an order approving this proposal. The ISO proposes to retain this element in the draft final proposal. Under the proposed approach, interconnection customers would submit their downsizing request into the one-time downsizing window, specify the downsizing MW amount, and include a “downsizing deposit” (the downsizing deposit is discussed further in the following section). The downsizing request window would be open for 30 days and would occur as soon as practical following receipt of an order from FERC approving this proposal. Assuming a FERC order is received in November of this year, the window would be open during the month of December.

The ISO intends to provide interconnection customers with a market notice 10 business days in advance of opening the downsizing request window.

Limiting the submission of downsizing requests to a window of limited time duration has the benefit of permitting the transmission planning engineers to evaluate the collective impacts of all downsizing requests in the most efficient manner possible, since so many of the network upgrades are common to multiple generating facilities or affect the base case for determining the upgrades for later queued projects. Additional efficiencies are gained to the extent the timing of this downsizing request window aligns with the restudies already anticipated to occur in the first quarter of 2013 as part of the implementation of GIDAP. This timing is important because it will enable the results of downsizing to be incorporated into the base model for the Cluster 5 Phase II studies.

In their written comments, stakeholders recognize the efficiencies gained by funneling all downsizing requests through one downsizing request window and are generally supportive of

this feature. However, some generation developers would prefer to exercise a one-time downsizing opportunity at a time of their choosing.

The ISO does not believe continuous submission of downsizing requests and the study requirements associated with such requests would allow this downsizing opportunity to align with and be accurately reflected in the other studies the ISO must conduct in the context of its annual generator interconnection and transmission planning cycles.

The ISO is not offering additional downsizing flexibility beyond this narrowly tailored, one-time downsizing opportunity. Accordingly, the ISO will retain the one-time downsizing request window as a necessary element of this proposal.

8.5 Cost responsibility and downsizing deposit

Allowing generator project downsizing beyond that already provided in the ISO tariff triggers new incremental costs that would not otherwise exist, apart from any potential cost impacts due to changes in the network upgrades that are ultimately determined to be needed. In the revised straw proposal, the ISO identified four categories of new incremental costs that would be triggered solely by downsizing requests allowed under this proposal, and the ISO proposed that downsizing generators be responsible for the costs that they impose. The four categories of triggered costs were as follows:

- Interconnection restudy and associated study report costs for the downsizing project;
- Interconnection restudy and reporting costs associated with projects that did not request to downsize, but are affected by the downsizing of the project submitting the downsizing request;
- Costs for amending the generator interconnection agreement of the project submitting a downsizing request, if applicable; and
- Costs for amending the generator interconnection agreements of projects that did not request to downsize, but require amended generator interconnection agreements as a result of the downsizing request.

These involve costs that would be incurred by both the ISO and the participating transmission owners.

In the revised straw proposal, the ISO proposed that projects submitting a request to downsize be required to provide as part of the downsizing application a “downsizing deposit” in the amount of \$200,000. The interconnection customer making the downsizing request would be responsible for the actual costs, however, so that if the sum of the actual costs in the four categories listed above and attributable to a downsizing generator were ultimately less than the deposit amount, then the downsizing generator would receive a refund of the unused amount. However, if the actual costs were greater, then the interconnection customer would be charged the additional costs.

In written comments, there was broad stakeholder support for the concept of a downsizing deposit. Many stakeholders, including generation developers, believed that both the concept and amount were reasonable. However, various issues were raised in the comments. Many

generation developers do not believe it reasonable that they be held responsible for any costs exceeding \$200,000. Generation developers also expressed concern that the actual costs could exceed the amount of the deposit, that there would be no advanced certainty as to how high the actual costs could go and that their cost exposure would, in effect, be open-ended. Developers argue that they would not know at the time of their downsizing request whether they would be required to fund the entire restudy cost (because they were the only downsizing request submitted) or would share that cost with other downsizing requests.

To address the cost uncertainty, some developers suggested that the costs be capped at \$200,000 or some other amount deemed reasonable. Further, many developers find it unreasonable that downsizing projects be required to cover the cost to amend the generation interconnection agreements, arguing that this is not the case presently under ISO generator interconnection procedures.⁹

Other stakeholders, including the participating transmission owners and Six Cities, hold the opposing view that a project that submits a downsizing request should be responsible for paying all study costs and other administrative costs, even if the costs exceed \$200,000.

The ISO acknowledges the inherent tension presented by these comments. First, the ISO, as well as many stakeholders, firmly believe that a downsizing generator should be held responsible for the costs triggered by their downsizing request. Second, the ISO recognizes that the intent to facilitate viable projects may not successfully be met if the cost uncertainties of downsizing process are too onerous. Therefore, in an effort to strike the right balance, the ISO proposes to modify this cost responsibility element of the proposal as follows.

The downsizing deposit will remain at \$200,000.

Restudy costs will be allocated to all downsizing generators equally without distinguishing study groups or clusters (in other words, the actual cost of the restudy divided by the number of downsizing projects without regard to the respective MW amount of each individual downsizing request). There is no cap on restudy costs.

The ISO's review of historical cost data from past cluster studies indicates that, on average, the typical cluster study costs for either Phase I or Phase II have not exceeded \$50,000 per interconnection customer. This includes costs, on a per interconnection customer basis, to perform the studies, hold results meetings, and produce the study report. But since a downsizing request will likely trigger the need to revise the study reports for affected projects not requesting downsizing, the ISO estimates that cost responsibility will likely exceed the typical \$50,000 historical average. For estimating purposes then, the ISO would suggest doubling that historical average amount so that downsizing projects should assume that their cost share for

⁹ LSA suggests that funds could be provided from forfeited study deposits and IFS amounts to offset some of these costs. The ISO does not believe this would be appropriate as this one-time downsizing proposal is a one-time opportunity and not a normal feature of the ISO generation interconnection procedures and that the downsizing generators would be the only beneficiaries of these funds. This subject is an issue topic in the deferred generator interconnection procedures 3 stakeholder initiative that will be taken up at a later time and is outside the scope of the present initiative.

restudies could be closer to \$100,000. This should provide customers contemplating downsizing with increased cost certainty with regard to restudy costs. However, it needs to be understood that there is no cap on restudy costs.

The ISO proposes that a downsizing customer's cost responsibility for the costs to modify generator interconnection agreements affected by downsizing be \$10,000 per affected generator interconnection agreement; however, this cost responsibility will be capped at \$100,000 (e.g., if a downsizing generator affects nine generator interconnection agreements, including its own agreement, then the generator's cost responsibility will be \$90,000; however, if the same downsizing generator instead affects eleven generator interconnection agreements then the generator's cost responsibility will be capped at \$100,000). The \$10,000 per affected generator interconnection agreement will be used to defray the associated costs incurred by both the ISO and the participating transmission owners.¹⁰ In the case of multiple downsizing requests made in the same study area affecting the same generator interconnection agreements the cost responsibility will be shared (e.g., if four downsizing projects in a study area similarly affect the same four generator interconnection agreements, then in this case each downsizing project's cost responsibility will be reduced from \$40,000 to \$10,000 or if there were two downsizing projects that impact six generator interconnection agreements, then each of the two downsizing projects would pay \$30,000).

Following receipt by the ISO of all downsizing requests and accompanying \$200,000 downsizing deposits submitted through the downsizing request window, but prior to initiating the restudy, the ISO will post on its website information regarding which projects (identified by queue number) have submitted a downsizing request and the MW amount requested. The purpose in the ISO providing this information on its website is to give the downsizing generators some ability to estimate the restudy and generator interconnection agreement modification costs that they may be responsible for. In this draft final proposal the ISO also adds a new feature, which is to provide downsizing generators at this step in the process with the option of withdrawing their downsizing request (not modify, but withdraw) and have their full \$200,000 downsizing deposit refunded. Assuming the downsizing request window is open during the month of December 2012, the ISO anticipates that it would post the information describing the downsizing requests received by mid-January 2013. The ISO would then give downsizing generators until late January to withdraw their downsizing request.

Lastly, the ISO proposes that in the rare instance (as described further in sections 8.8 and 8.9) that restudies identify a circumstance in which a downsizing generator's cost responsibility may significantly exceed (i.e., by more than 10 percent) its network upgrade cost responsibility as identified in its Facility Study, Phase II study or its generator interconnection agreement, and because it is part of the ISO's proposal that downsizing generators would be required to cover any such increased costs (as described further in sections 8.8 and 8.9), the downsizing generator will be provided an opportunity to withdraw its downsizing request.¹¹ However, the

¹⁰ The applicable PTO will receive from the ISO 50% of the modification of generator interconnection agreement amounts paid by the downsizing generator.

¹¹ Only downsizing generators in this rare circumstance will be given the opportunity to withdraw their downsizing request. A downsizing generator that has withdrawn its downsizing request will remain in the

downsizing generator withdrawing its downsizing request will forfeit any unused portion of its \$200,000 downsizing deposit to help defray the costs of further restudies that may be required as a result of its downsizing request withdrawal.

The timing of this second withdrawal opportunity is as follows. The ISO anticipates that the restudies would commence in early February 2013 immediately following the completion of the Cluster 5 Phase I studies in late January 2013 (these latter study results would become an input into the downsizing restudy base case assumptions). The downsizing restudies would be complete, including study reports, by late June 2013. However, the ISO believes the mid-summer completion of the restudies comes too late to offer this second withdrawal opportunity. To address this, the ISO intends to provide, in April 2013, a preview of the downsizing restudy results to only those downsizing generators whose cost responsibility is likely to significantly exceed its network upgrade cost cap (as identified in its Facility Study, Phase II study, or its generator interconnection agreement). On the basis of this preliminary information, such projects would be offered the opportunity to withdraw their downsizing request and forfeit their downsizing deposit.

Taken together, the ISO believes that these measures are responsive to stakeholders' concerns and will help reduce the uncertainty associated with the cost of downsizing.

8.6 Withdrawal of a downsizing request

In the revised straw proposal the ISO proposed that, once an interconnection customer submits a request to downsize under this approach, the ISO will consider the customer to be committed to downsizing, even though the interconnection customer will not learn the actual cost impact of the downsizing decision until after restudies have been performed and result reports published. The fact that the downsizing request could be irrevocable once submitted is a point of contention for generation developers. The ISO understands this concern and responds in the following paragraphs.

The concern that the ISO addressed in the revised straw proposal was that allowing downsizing generators to withdraw their downsizing request once restudies are conducted could result in the need to conduct another round of restudies. A resulting second round of restudy could potentially have markedly different results that may trigger another round of downsizing generators wanting to withdraw their downsizing request. The ISO believes that stakeholders' concerns about the inability to know the cost of downsizing in advance are legitimate; but, so is the need to avoid never ending iterations of restudies. However, in general, it is reasonable to assume that (i) the customer's cost responsibilities for network upgrades after downsizing will be no greater than the network upgrade costs the customer would already be responsible for as specified in its governing study report¹² or the generator interconnection agreement -- apart from

ISO interconnection queue in its current cluster or serial group with the network upgrade cost from either the Facility Study, Phase II Study or generator interconnection agreement.

¹² An important exception relates to the situation where an interconnection customer's current project and generator interconnection agreement includes provisions for participating transmission owner upfront funding of network upgrades. SCE is the only participating transmission owner that has extended upfront funding, and only relating to certain interconnection requests related to certain transmission projects.

the potential loss of any participating transmission owner up-front funding -- and (ii) the downsizing customer's cost responsibilities may even be reduced. The ISO therefore believes that instances where there may be an increase in cost responsibility (that the downsizing generator would be required to cover) will be rare.

As a result, the ISO proposes to modify this element in this draft final proposal as described in the previous section and summarized below:

- Downsizing request withdrawal opportunity number one – In the month following the close of the downsizing request window, the ISO will post on its website which projects (identified by queue number) have submitted a downsizing request and the MW amount requested. In response to this information a downsizing generator will be permitted to withdraw its downsizing request and receive a full refund of its downsizing deposit. All downsizing generators are eligible to use this first downsizing request withdrawal opportunity.
- Downsizing request withdrawal opportunity number two – The ISO proposes that in the rare instance (as described further in sections 8.8 and 8.9) that restudies identify a circumstance in which a downsizing generator's cost responsibility may significantly exceed (i.e., by more than 10 percent) its network upgrade cost responsibility as identified in its Facility Study, Phase II study or its generator interconnection agreement, and because it is part of the ISO's proposal that downsizing generators would be required to cover any such increased costs (as described further in sections 8.8 and 8.9), the downsizing generator will be provided an opportunity to withdraw its downsizing request. However, in such an instance the downsizing generator withdrawing its downsizing request will forfeit any unused portion of its \$200,000 downsizing deposit to help defray the costs of further restudies that may be required as a result of its downsizing request withdrawal. Only those downsizing generators matching the narrow conditions described here are eligible to use this second downsizing request withdrawal opportunity.

Taken together, the ISO considers these downsizing request withdrawal opportunities as satisfying the intent of the "go/no-go" concept suggested by IEP in their written comments.

8.7 Reduced future optionality for downsizing generators

In the revised straw proposal the ISO stated its position that it is appropriate for interconnection customers to be asked to accept some reduced optionality in return for their exercising the new downsizing opportunity. Specifically, the ISO proposed that for downsizing interconnection customers, there shall be no further generation interconnection agreement suspension rights,

SCE's upfront funding includes various milestone conditions which the interconnection customer must fulfill with respect to the generating facility. Under these provisions, an election by the interconnection customer to downsize the generating facility may entitle SCE to revisit and possibly withdraw its up front funding commitment. If participating transmission owner upfront funding commitments were withdrawn or reduced because of customer project downsizing, then it is possible that the interconnection customer's interconnection financial posting requirements could increase from the cost responsibility set out in the original generator interconnection agreement.

and that any further generating facility commercial operation date extensions will be limited only to force majeure events.

This element of the ISO's proposal was strongly opposed by generators in their written comments. The generation developers argued that suspension and commercial operation date extension rights are unrelated to downsizing and should not be removed for downsizing generators.

The ISO notes that while some stakeholders (e.g., generation developers) are strongly opposed to this element, other stakeholders (e.g., the participating transmission owners) are in strong support.

The ISO has given this further consideration and is concerned that limiting any further generating facility commercial operation date extensions to only force majeure events may be in conflict with the goal of the proposal described in this document.¹³ For example, a viable project that downsizes as a result of the opportunity made available by this proposal may be meeting its milestones and making good progress toward commercial operation only to later encounter an issue in the construction of the project that requires the need for an extension of its commercial operation date. Eliminating the ability to seek a commercial operation date extension for such a viable project would inadvertently be in conflict with the positive benefits presented by downsizing.

Given this valid concern, the ISO proposes, for downsizing interconnection customers, to retain only the element that there shall be no further generator interconnection agreement suspension rights. The ISO further clarifies that downsizing generators in good standing will not lose the ability to submit a material modification request for an extension of commercial operation date or any other agreement terms and conditions.

8.8 General guideline of “no worse off”

Previous drafts of the proposal included the general guideline that an interconnection customer's cost responsibilities for network upgrades after downsizing should be no greater than the network upgrade costs the customer would already be responsible for as outlined in the governing study report or the generation interconnection agreement, apart from the potential loss of any participating transmission owner up-front funding. This general guideline has consistently received broad stakeholder support throughout this initiative and is retained in the present draft proposal document.

In cases where a network upgrade is still needed and cannot be downsized or cancelled, the interconnection customer originally assigned the cost of the network upgrade will have no reduction in network upgrade cost responsibility (i.e., the interconnection customer is “no worse off,” except for potential loss of participating transmission owner upfront funding—if as a result of the requested downsize the upfront funding of the network upgrades is revoked by the

¹³ As stated earlier, the goal of this proposal are to facilitate completion to commercial operation of projects that are viable but for the need to downsize to match their MW generating capacity size to a level that will enable the project to meet its milestones in a timely manner and exit the interconnection queue.

participating transmission owner the project would be responsible for those costs). In such cases the interconnection customer must continue to pay for the network upgrade(s) per the schedule and terms of its Facility Study, Phase II study or its generator interconnection agreement. If restudies determine that the network upgrade(s) can be downsized, the interconnection customer's cost responsibility may be reduced. If restudies determine that the network upgrade(s) can be cancelled, the interconnection customer's cost responsibility for the cancelled network upgrade(s) will be removed.

However, it is important to emphasize that, for purposes of this proposal, the concept of "no worse off" is stated as a general guideline and a general expectation, rather than a requirement that will be guaranteed in all cases. It is simply not feasible for the ISO and the participating transmission owners to make an absolute contractual commitment to guarantee that an interconnection customer's cost responsibility would never, in every case, and under every scenario, increase. That said, the basis for this guideline is derived from the experience of the ISO and the participating transmission owners that in most, if not the vast majority of cases, the collective downsizing of a large number of generator projects in a particular electrical area of the grid will tend to result in a general de-scoping of the overall network upgrades with a corresponding reduction of cost. Although this may generally be the case, there may be specific instances where this outcome is not achieved. In such rare instances, there may be a potential increase in network upgrade costs, and the generator(s) requesting the downsizing would be required to cover any such increased costs.¹⁴ As earlier discussed, the ISO proposes that downsizing generators in such rare instances be given the opportunity to withdraw their downsizing request. If the downsizing generator in this circumstance nevertheless chooses to proceed with downsizing, the ISO proposes that any such additional network upgrade costs would be reimbursable back to the interconnection customer. Despite the theoretical possibility of increased costs, neither the ISO nor stakeholders have thus far been able to identify an example where this could occur.

In the previous versions of this proposal the ISO presented an example to solicit stakeholder comments on the applicability of the "no worse off" guideline in the case of serial group projects. That example is repeated here. Assume three projects in the serial study process -- project A (500 MW), project B (250 MW), and project C (250 MW), where A is the earliest queued project and B is next and then C. Assume all three serial projects are in a study area that could support 500 MW of deliverability without triggering network upgrades; hence, project A has no network upgrade cost responsibility. Assume project B has a \$200 million network upgrade cost responsibility because its interconnection request triggered the need for a 500 MW network upgrade (assume that due to the "lumpiness" of transmission, a precisely-sized 250 MW network upgrade was not feasible). Project C benefits as this network upgrade creates the transmission capacity it needs. Now assume that project A takes advantage of the new downsizing opportunity presented here and submits a request to downsize to 250 MW. Further assume that restudies determine that this would free up 250 MW of network transmission

¹⁴ The ability to distinguish any increased costs related to downsizing requests from those due to other factors, such as withdrawals since original interconnection studies were performed, is a related issue raised by stakeholders and is discussed in section 8.10.

capacity (previously reserved for project A) that could now be used by project B and project B would no longer trigger the 500 MW (\$200 million) network upgrade (in other words, project B could benefit from project A's downsizing). The 500 MW network upgrade is now, in effect, triggered by project C.

As a part of the example, the ISO suggested three possible ways to address this situation and asked stakeholders to comment on these. The three possible approaches are repeated here:

1. Project A would pay the \$200 million as the cost to downsize project A; but, only if project C is ever built (i.e., project A's funding obligation goes up by \$200 million);
2. Project B's cost responsibility would not be reduced and project C's would not increase; therefore, project B would still have to pay for the major upgrade, but only if project C is ever built (i.e., all projects' funding obligations remain unchanged);
3. Allow the cost to be passed on to project C and project B could receive the benefit by no longer having to pay the \$200 million (i.e., project B's obligation goes down by \$200 million and project C's obligation goes up by \$200 million).

Although this solicited many varied points of view from stakeholders, the majority of stakeholders selected outcome (2) as the most equitable outcome and the one most consistent with the guideline of "no worse off." In other words, requiring project B to continue to be responsible for funding the network upgrade needed by project C after project A downsizes is the only outcome that leaves none of the projects worse off.¹⁵ Accordingly, the ISO proposes that under the new downsizing opportunity presented in this paper, the ISO would apply the "no worse off" guideline to try to keep all affected projects no worse off, including projects that did not request to downsize.

The guideline of "no worse off" is also relevant to participating transmission owners. The election to downsize is an affirmative decision by the interconnection customer in the interest of its project. The example discussed above recognizes the general point that other parties should not be expected to pick up the cost consequences of the election by the downsizing project. Accordingly, this draft final proposal document does not endorse an expectation that the participating transmission owner, and ultimately the ratepayers, should "pick up" the cost difference. In instances where a downsizing request would result in increased costs that make it impossible to maintain the "no worse off" guideline, the intent is for the generator(s) requesting the downsizing to cover any additional costs due to downsizing rather than requiring the participating transmission owner to cover such costs (i.e., assuming the downsizing generator in such a rare circumstance does not opt to withdraw its downsizing request).

The ISO will make every effort to mitigate impacts to participating transmission owners due to generator project downsizing. Despite this, there could be rare instances for which it may not

¹⁵ In the most recent written comments from stakeholders, SDG&E suggests a cost sharing approach between project A and B in which project B's responsibility could be reduced proportionally by the percent downsizing and project A's cost responsibility would increase to cover the remaining upgrade cost. The ISO is not persuaded that such an approach is superior to application of the general guideline of "no worse off."

be feasible for the ISO to absolutely guarantee that every impact to a participating transmission owner will be mitigated.¹⁶ For example, the need to amend numerous generator interconnection agreements due to downsizing will cause the participating transmission owners to incur new costs that would otherwise not be incurred. As previously discussed in section 8.5, the ISO is proposing a charge of \$10,000 per amended generation interconnection agreement with \$5,000 of that going to cover the participating transmission owner's costs, or 50% of the total amount paid by the downsizing generator for modification of the generator interconnection agreement. But because the ISO is proposing to cap these costs for any given downsizing generator at \$100,000, the costs incurred above that amount would be picked up by the participating transmission owner (and likewise by the ISO).

In previous draft documents for this proposal the ISO proposed that, as a result of a downsizing request, a later queued project¹⁷ should not be adversely affected. Stakeholders continue to broadly support this approach. In previous comments, some stakeholders requested that the ISO clarify that the potential adverse effects include not only cost effects but also effects on schedule, and that generators not requesting downsizing should also not be affected. In assessing the impacts of a downsizing request on later queued projects, impacts on cost will be considered, and generators not requesting downsizing should likewise not be affected. However, with regard to adverse effects on schedule, it may not be possible to mitigate such effects in all cases unless a downsizing request causing such impacts is rejected. In the most recent written comments two stakeholders (IEP and LS Power) expressed that avoidance of impacts to schedule is a vital consideration. The ISO clarifies here that although it may not be possible to mitigate all impacts to schedule, every effort will be made to minimize such impacts.

In the most recent written comments from stakeholders the general guideline of "no worse off" continued to receive broad stakeholder support. Some stakeholders (enXco, KRoad Power) believe that the general guideline of "no worse off" does not preclude assignment of cost of upgrades no longer needed for downsized projects to later-queued serial group projects because such projects do not have a network upgrade cost cap and always bear the risk of financing upgrades if higher-queued projects drop out. Although this latter point is true, the ISO does not propose to make such an exception for serial group projects but to instead apply the general guideline of "no worse off" to all pre-cluster 5 projects across the board.

Two other stakeholders (PG&E, SCE) raise the concern that the general guideline of "no worse off" may violate FERC cost causation principals and suggest that their support for the guideline is contingent on how the guideline is viewed by FERC. The ISO understands these statements to mean that FERC cost causation principles may be violated if a customer who elects to make a change in its interconnection request does not pick up all the cost consequences of its election. While the point must be well considered, the ISO submits that the dynamics are different if the universe of potentially affected customers and the universe of customers who have an opportunity to avail themselves of the downsizing opportunity are one in the same.

¹⁶ This is why objective 4 in this initiative is stated as "minimize impacts to participating transmission owners due to generator downsizing."

¹⁷ Later queued projects in possession of a Phase II study report at the time of the restudy will be assessed for impacts.

8.9 WDAT projects

In the previous proposal the ISO raised the possibility of adverse impacts due to downsizing on projects interconnecting under a participating transmission owner's wholesale distribution access tariff. Using the serial queue project A-B-C example discussed in the previous section, assume instead that project A and project C are seeking interconnection under the ISO's GIP and project B is requesting interconnection under a participating transmission owner wholesale distribution access tariff. Recall that in the prior example, project A's downsizing frees up network transmission capacity that can be used by project B and, as a result, project B no longer triggers a network upgrade. The ISO's proposal is that if all three projects are requesting interconnection under the GIP, then the general guideline of "no worse off" would dictate that project B's cost responsibility would not be reduced thereby ensuring that project C's responsibility does not increase. However, if project B is interconnecting under a wholesale distribution access tariff, the ISO cannot apply the guideline to require project B to fund a network upgrade its interconnection request no longer triggers. As a consequence, the costs would be passed on to project C and project C would be "worse off." This presents a conundrum because project C did not request to downsize but is being adversely affected by the downsizing of project A. Absent this problem being addressed through amendments to the wholesale distribution access tariffs, the only way to avoid project C being adversely impacted is to require project A (the downsizing project) to cover these costs. This is the only example of the increased cost scenario that the ISO has been able to identify.

In written stakeholder comments, many generation developers believe that the PTOs' wholesale distribution access tariffs should be amended to allow wholesale distribution access tariff projects to equally participate in and be impacted by the ISO's proposed new downsizing opportunity. Some developers went further and expressed that the participating transmission owners should be given the choice of either making conforming changes to their wholesale distribution access tariffs or picking up the costs themselves. One participating transmission owner, PG&E, supports making a wholesale distribution access tariff compliance filing with the "no worse off" guideline.

Because the scope of an ISO tariff amendment proposal can only extend to the ISO's interconnection process, this draft final proposal provides that downsizing generators will have to bear the cost consequences of effects on WDAT customers. However, the ISO anticipates that these situations will be rare and will permit a downsizing generator in such a situation to withdraw its downsizing request if the downsizing generator's cost responsibility significantly exceeds (i.e., by more than 10 percent) its network upgrade cost responsibility as identified in its Facility study, Phase II study or its generator interconnection agreement.

8.10 Restudies

The proposal contemplates that necessary restudies would take place after the ISO has received the requests to downsize from interconnection customers in the one-time downsizing window. In order to begin the restudies, certain information from the downsizing projects would be required. A downsizing interconnection customer shall be required to submit an updated

interconnection request to the ISO which includes all attachment and technical data pertaining to the generating facility as modified at the time the downsizing request is made. The downsizing generator may change the step-up transformer and generation tie-line parameters due to smaller generator size. Other changes to the generator facilities, such as inverter type or technology, will not be accepted and studied as part of the downsizing request and must go through the material modification review process.

The ISO in consultation with the applicable participating transmission owner(s) would commence the restudies in early February 2013 and the downsizing restudies would be complete, including study reports, by late June 2013. However, such a schedule assumes that a FERC order on this proposal is received in November 2012 and the one-time downsizing window is held in December 2012.

The restudy will consist of a technical reassessment (consisting of reliability and deliverability assessments) followed by an engineering review. Both the reliability assessment¹⁸ and the deliverability assessment will be performed for the projects in the queue up to and including later queued projects in possession of Phase II study report, in a manner which reflects the downsizing requests. The technical reassessment will also review the interconnection plan of service. By mid-April, the technical assessment will identify any required network upgrades, as a whole for all projects up to and including later queued projects in possession of Phase II study report (i.e., up to and including those projects in cluster 4). Then the estimated cost of and time to construct the network upgrades and participating transmission owner's interconnection facilities will be updated based on their engineering review.

The purpose of the restudies is to make a determination of the material impact of each downsizing request on projects of later queue priority. Determination will be made whether a project's network upgrades, as specified in its Phase II study for cluster projects or Facility Study for serial projects, or its generator interconnection agreement, are still needed by the downsized project and by later queued projects or whether the network upgrades can be downsized or cancelled without adversely affecting other projects.

As was previously discussed in this draft final proposal, restudy costs will be allocated to all downsizing generators equally without distinguishing study groups or clusters (in other words, the actual cost of the restudy divided by the number of downsizing projects without regard to the respective MW amount of each individual downsizing request).

In their written comments on the prior draft, stakeholders were concerned about the ability to distinguish any increased network upgrade costs related to downsizing requests from those due to other factors, such as withdrawals since original interconnection studies were performed.

The ISO clarifies that all previous withdrawals from the queue will be properly accounted for while conducting the restudies. In the rare case of increasing costs, the ISO and the applicable participation owner will isolate network upgrade costs attributable to downsizing generators from the withdrawals.

¹⁸ The reliability assessment includes power flow studies, post-transient voltage stability analysis, transient stability analysis and short circuit duty evaluation.