

# Memorandum

#### To: ISO Board of Governors

From: Keith Casey, Vice President, Market and Infrastructure Development

Date: September 7, 2012

#### Re: Decision on Generator Project Downsizing

#### This memorandum requires Board action.

#### **EXECUTIVE SUMMARY**

The state's renewable policy goals have resulted in significant development of new renewable solar and wind projects. The design of these projects is often scalable and, as a result, the developer may find it desirable or necessary to reduce the size of the project from what was originally proposed. In some cases, interconnection customers in the ISO queue desire to downsize previously-submitted projects in response to changes in economic and financing conditions since the time they submitted their interconnection applications. In other cases, a customer may want to downsize because it does not expect to secure a power purchase agreement to cover the full output of its originally planned megawatt capacity. The proposal described in this memorandum is Management's response to requests from such generation developers for additional opportunities to downsize the megawatt capacity of their projects.

Current interconnection procedures permit an interconnection customer to make a change to the capacity of its generation project during the interconnection study process. However, once the study process is complete and the network upgrades have been sized to match the projects, the primary downsizing opportunity available to the customer is to request whether a project downsize would constitute a "material modification," meaning that it would disrupt the cost or timing of a later project relying on the customer's network upgrades. If there is no impact and the ISO and participating transmission owner agree that the capacity can be downsized, then, because it is not material to other customers, the modification request can be approved.<sup>1</sup>

Under the current process, certain projects that are viable for a portion of their total capacity may be unable to downsize their project due to material impacts on later queued projects. In such cases, the developer may be forced to withdrawal from the interconnection process.

<sup>&</sup>lt;sup>1</sup> Alternatively, if the modification review identifies a material impact on later queued project costs or schedule, then the request is determined to be a material modification and denied.

To address this situation, Management proposes to:

- Provide a new, one-time opportunity for projects in Cluster 4<sup>2</sup> and earlier in the interconnection queue that are in good standing to submit a request to downsize their projects, which would be in addition to the current procedures;
- Establish a one-time window for interconnection customers to submit downsizing requests all at once, to permit transmission planning engineers to evaluate the collective impacts of all requests in an orderly and efficient manner;
- Require a \$200,000 deposit to cover costs incurred by the ISO and the participating transmission owners to process the requests and perform studies;
- Include measures to mitigate the adverse impacts that a downsizing request may have on later queued projects; and
- Develop a solution that works in conjunction with other recently-approved ISO policy initiatives and contributes to the ISO's interconnection queue management efforts.

For the reasons summarized above and described in greater detail below, Management recommends that the Board approve the following motion:

Moved, that the ISO Board of Governors approves the proposal for generator project downsizing as described by Management in the memorandum dated September 7, 2012; and

Moved, that the ISO Board of Governors authorizes Management to file the necessary tariff amendments with the Federal Energy Regulatory Commission to implement this proposal.

## DISCUSSION AND ANALYSIS

The ISO's current generator interconnection process was designed under the expectation that customers will put into commercial operation the full megawatt capacity of their generating facility as specified in the interconnection request at the time the project entered the Phase II study process. To address the large number of interconnection customer requests to downsize and balance this need against the potential for destabilizing the interconnection study process, Management has worked with stakeholders to develop a new downsizing opportunity narrowly tailored to fit generation projects that would be viable but for the inability to complete the full megawatt capacity specified in the interconnection request.

<sup>&</sup>lt;sup>2</sup> Cluster 4 is the ISO's fourth interconnection queue cluster that had the application window open from March 1, 2011 to March 31, 2011. The proposal only applies to projects up through Cluster 4 because the ISO's transmission planning process-generator interconnection procedures integration initiative, which was approved by FERC on July 24, 2012, includes several new provisions to allow customers in Cluster 5 and beyond to downsize their projects.

The proposal includes the following key design elements:

**Study Approach:** One large re-study effort will be done, broken down by electrical areas in the grid and the projects (downsizing or not) as they are grouped in those areas, to determine the material impact of each downsizing request on projects that have a later queue priority. Determinations will be made whether a project's transmission upgrades are still needed by the project being downsized and by later queue projects, or whether the network upgrades can be downsized or cancelled without adversely affecting other projects. If the restudies determine that an upgrade is still needed and cannot be reduced in scope or cancelled, the customer originally assigned the cost of the upgrade will have no reduction in network upgrade cost responsibility. In such cases the customer must continue to pay for the upgrades.

**Eligibility:** The downsizing opportunity would be open to any active project in good standing in Cluster 4 or earlier that wants to downsize for any reason. There is no limit on the megawatt amount of downsizing permitted.

**Timing:** There would be a one-time downsizing request window open for 30 days, beginning as soon as practical following receipt of an order from FERC approving the downsizing proposal.

**Costs:** Projects submitting a request to downsize will be required to provide a downsizing deposit in the amount of \$200,000. The downsizing opportunity will trigger new incremental costs of two types: (1) restudy and associated study report costs for both the downsizing project as well as affected projects that did not request to downsize; and (2) costs for amending the generator interconnection agreement of both the downsizing project as well as the generator interconnection agreements of affected projects that did not request to downsize that did not request to downsize. The downsizing deposit would be applied toward these costs.

**Estimated Restudy Cost Information:** Shortly after the close of the request window but prior to initiating the restudy, the ISO will post on its website a preliminary estimate of total restudy costs based on the number of downsizing requests submitted. The total restudy cost will be allocated to all downsizing generators equally and without distinguishing study groups or clusters and without regard to the respective megawatt amount of each individual downsizing request. A downsizing generator's share of the restudy cost will be capped at an amount equal to 150 percent of that generator's share of the preliminary estimate of total cost of the restudy.

**Cost Caps:** For the costs of modifying interconnection agreements, a downsizing generator's cost responsibility will be \$10,000 per affected interconnection agreement. However, this cost responsibility for any individual downsizing generator will be capped at \$100,000. If the sum of the actual restudy costs and generator interconnection agreement modification costs are less than the deposit amount, then the downsizing generator would receive a refund of the unused amount. However, if the actual costs are greater than the deposit, then the interconnection customer would be charged the additional costs up to the two cost caps described above.

**Opportunities to Withdraw:** When an interconnection customer submits a request to downsize, it does so without knowing the actual cost impact of its request. Management proposes two opportunities for a downsizing generator to withdraw its downsizing request to reduce the risk due to uncertainties.

- 1. In the month following the close of the request window, the ISO will post on its website which projects have submitted a downsizing request, the megawatt amount requested, and a preliminary estimate of total restudy cost. This information will be posted to enable downsizing generators to gauge the extent to which their cost responsibility for the restudy and modification of affected generator interconnection agreements may exceed the deposit. A downsizing generator will be given five business days to inform the ISO that it either intends to proceed with downsizing or withdraw its downsizing request and receive a full refund of its downsizing deposit.
- 2. In the rare instance that the restudy identifies a circumstance where a downsizing generator's cost responsibility may significantly exceed its current cost responsibility by more than five percent or \$5 million, whichever is lower, the downsizing generator will be allowed to withdraw its downsizing request and forfeit any unused portion of its downsizing deposit. Only downsizing generators subject to such a significant increase in cost responsibility will be permitted to use this second withdrawal opportunity.

**Reduced Options:** Customers that choose to exercise the downsizing option must accept reduced future options in return for their ability to downsize their project. Downsizing generators will have no further rights to temporarily suspend development of their projects.

**Concept of "No Worse Off":** The proposal establishes the concept of "no worse off" as a general guideline intended to minimize cost shifting due to downsizing requests. A downsizing generator's cost responsibilities for upgrades after downsizing should be no greater than the upgrade costs the customer would already be responsible for as outlined in its Facility Study, Phase II study or its generator interconnection agreement, apart from the potential loss of any participating transmission owner upfront funding. Other parties should also be "no worse off" due to a project's decision to downsize. "No worse off" is stated as a general guideline rather than a requirement because there may be rare instances where there may be a potential increase in transmission upgrade costs, and the generator(s) requesting the downsizing would be required to cover any such increased costs. In such rare instances, downsizing generators will be able to withdraw their downsizing request as earlier discussed.

**Limitations:** The scope of this proposal can extend only to the ISO generator interconnection process. The downsizing opportunity presented here is available only to projects interconnecting through the ISO generator interconnection procedures and not to projects interconnecting under a participating transmission owner's wholesale distribution access tariff. Although likely to be rare, there is a possibility that downsizing projects could have adverse impacts on projects interconnecting under a participating transmission owner's wholesale distribution access tariff. In such rare instances, downsizing generators will have to bear the cost consequences to mitigate any adverse

impacts on projects interconnecting under a participating transmission owner's wholesale distribution access tariff to ensure that they are "no worse off." Because these situations are anticipated to be rare, a downsizing generator in this situation will be able to withdraw its downsizing request and forfeit any unused portion of its downsizing deposit if the downsizing generator's cost responsibility significantly exceeds (that is, by more than five percent or \$5 million, whichever is lower) its current cost responsibility.

## **POSITIONS OF THE PARTIES**

This proposal is the product of a comprehensive stakeholder process that began in April 2012. There were four rounds of ISO proposals followed by stakeholder meetings, web conferences and written comments. Overall, stakeholders are very supportive of both the objectives of this initiative and the proposal. Stakeholders widely acknowledge that the proposal offers significant benefits to facilitate the development of viable generation projects while contributing to the ISO's queue management efforts. Despite this broad support, some stakeholders still have concerns.

First, while stakeholders are supportive that this is a one-time downsizing opportunity and only one request may be submitted, some stakeholders do not believe that they are ready to make a downsizing decision now and have requested that the ISO offer a second downsizing request window a year or so after the proposed request window. Customers with projects in Clusters 3 and 4 and those with commercial operation dates far into the future (for example, 2015 or later) argue that it is unreasonable to expect them to be at the same point in the project development process as projects in earlier clusters.

Management recognizes these concerns, but believes it would be imprudent to commit to a second downsizing request window at this time. The new processes for the transmission planning process-generation interconnection procedures integration initiative will commence for the first time in early 2013. The resource adequacy for distributed generation initiative, if approved by FERC later this year, will commence its first cycle in late 2012. The proposed one-time downsizing request window in this proposal will coincide with the initial cycles of both of these two other critical initiatives.

To avoid compromising the successful implementation of any of these three initiatives, Management believes it would not be prudent to commit now to introduce a second downsizing request window without first reviewing the lessons learned from implementing the initial cycles of these initiatives. Once that point is reached, and if there is a demand and need for a second downsizing window, Management may consider a second window.

Second, some stakeholders are concerned that they would have to give up their right to suspend work on their project if they exercise the downsizing option. In an earlier version of the proposal the ISO proposed that a downsizing generator would give up both its ability to suspend work and request an extension of its commercial operation

date. This element of the previous proposal was strongly opposed by developers. However, it had strong support from the participating transmission owners. After further consideration, Management has become concerned that limiting commercial operation date extensions may be in conflict with the goal of the proposal in that a viable project that downsizes may be meeting its milestones and making good progress toward commercial operation only to later encounter an issue during construction that requires an extension of its commercial operation date.

Therefore, Management proposes 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. However, to provide a balance among stakeholder positions, the proposal does not allow suspension rights if a project downsizes. The premise is that the project is ready to go into active development but for the need to downsize and suspension is at odds with that goal.

Stakeholder comments and Management's response to the concerns raised therein are described in the attached stakeholder matrix.

### CONCLUSION

It is important for the Board to act on this proposal expeditiously. To do so would enable tariff changes to be filed with FERC on a schedule that would maximize the likelihood of receiving FERC approval in time to open the window for downsizing requests before the end of 2012.