

## ISO Responses to Questions about the Memorandum of Understanding between Valley Electric Association and the ISO

The following Q & A is based on questions raised by stakeholders on an ISO conference call on Friday August 12, 2011 regarding the Memorandum of Understanding between Valley Electric Association (VEA) and the ISO.

1. Will the projects in both ISO and VEA interconnection queues be studied as though they will interconnect with Valley or at Eldorado?

Response – All projects in the VEA queue will be studied as part of a VEA cluster study during 2011. The VEA cluster study will assume that the projects connect to VEA's system. For purposes of the ISO's Cluster 4, Phase 1 study, the projects that are in both queues have designated Eldorado as the interconnection point.

2. What will VEA interconnection customers have to post in terms of financial security deposits?

Response – VEA's interconnection customers that have not also submitted an application in the ISO's Cluster 4, Phase 1 study will have to post an amount consistent with the Phase 1 study deposit in order to participate in the Cluster 4, Phase 2 study. Additionally, the interconnection customers will need to post an amount equivalent to the posting requirement that applies to customers in the Cluster 4, Phase 1 process that elect to continue to Phase 2. For this purpose the ISO proposes to determine a "proxy" cost based on the results of the Cluster 4 Phase 1 study that will be applied to those interconnection customers seeking full deliverability that did not participate in Cluster 4, Phase 1 and elect to participate in the Cluster 4, Phase 2 study. In accordance with the ISO tariff, such customers will then be required to post the minimum of 15 percent of the proxy or \$20,000 per MW of capacity or \$7.5 million, but no less than \$500,000.

3. How will Cluster 4 projects be protected from potential cost increases that result from including VEA customers in Cluster 4, Phase 2 that were not in Cluster 4, Phase 1? If the costs determined in Phase 2 exceed the cost caps established in Phase 1, how will the excess costs be allocated?

Response – One of the outcomes of the Cluster 4, Phase 1 study is to establish a maximum interconnection cost responsibility for the interconnection customers participating in the study. If the costs determined in Phase 2 exceed the cost caps established in Phase 1, the cost shares of customers in Cluster 4, Phase 1 will be limited to their cost caps as established in Phase 1. For VEA customers that did not participate in Cluster 4, Phase 1, however, the proxy cost used to establish their Phase 2 posting requirement will not serve as a cost cap, and these customers will be responsible for the full amount of their cost shares as determined through the Phase 2 study. Any excess cost of the network upgrades that remains as a result of limiting the exposure of Phase 1 customers to their cost caps will be borne by the ISO participating transmission owner that constructs the network upgrades, to be recovered from ISO ratepayers.

4. Won't there be reliability upgrades downstream of the Eldorado interconnection point?

Response – Typically, reliability upgrades tend to be closer to the point of interconnection. However, should there be any downstream reliability upgrades, the costs will be identified during the ISO cluster study process.

5. Will there be an increase or decrease in RA import allocation to the other LSEs?

Response – Initially, there will be no increase or decrease in intertie capacity available to allocate to other LSEs to meet their RA obligations, because the initial incorporation of VEA as an ISO participating transmission owner based on VEA's import rights at Mead will not support additional imports into the rest of the ISO system. Once the proposed interconnection of VEA's system to the ISO at Eldorado is in-service, the ISO anticipates there will be increased RA import capacity available for all LSEs.

6. How will the Transmission Revenue Requirement (TRR) be handled?

VEA will need to file their annual transmission revenue requirement with FERC. Once VEA's TRR has been approved by FERC, it will be incorporated into the ISO system-wide TRR to be recovered through the Transmission Access Charge (TAC).

7. Is it possible that the interconnection will be an upgrade at Mead?

Response – The interconnection at Eldorado involves looping VEA's existing 230 kV line that interconnects at Mead into the Eldorado Substation. This does not require any upgrade at the Mead substation. The VEA 230kV line runs approximately one mile from the Eldorado Substation.

8. Is the end portion of VEA's system at Mead?

Response – Yes, the southeast furthest portion of VEA's system terminates at the Mead Substation.

9. If it is determined that one or more gen-ties are needed to interconnect the generators in VEA's queue, who will be responsible for building them?

Response – The construction of gen-ties is the responsibility of the generation interconnection customers.

10. Are the network upgrades for VEA queue customers in Valley or ISO?

Response – The ISO's Cluster 4, Phase 1 study is underway. VEA is planning to complete a cluster study this fall. Upgrades to either system will be identified in these studies.

11. Why has VEA filed an application with the BLM to build a 500 kV 60-mile line connecting to Eldorado?

Response – VEA's application was made in anticipation of a potential need to support the interconnection of generation projects in VEA's interconnection queue. The determination of whether such a 500 kV line or some other facilities are required will be one of the outcomes of VEA's cluster study later this year.

12. If VEA does proceed to construct the 500 kV line to Eldorado, how will the costs be recovered?

\*\*Response – VEA’s cluster study will determine what facilities on VEA’s system are needed for its interconnection customers. If such a 500 kV line is needed for VEA interconnection customer deliverability on the ISO controlled grid and it is designed as a network facility, the costs refunded to interconnection customers may be eligible for inclusion in VEA’s TRR for recovery through the ISO TAC when VEA becomes a PTO. Alternatively, if a 500 kV line is needed for VEA interconnection customer deliverability on the ISO controlled grid and it is designed as a gen-tie, the costs will be borne by the interconnection customers and will not be eligible for recovery through the TAC.

13. Do you know how the TRR will change over time?

Response – VEA estimates that its annual TRR will be \$8 - \$8.5 million, including the proposed 230 kV interconnection at Eldorado. VEA will need to file its TRR with the FERC for approval, so that any changes to VEA’s TRR over time will be subject to FERC approval.

14. Assuming VEA becomes an ISO PTO, will there be a new import point to the ISO through the Northwest substation?

Response – Yes, this is one of the benefits of the merger. However, this import point will only be able to provide imports to the rest of the ISO grid once the interconnection of VEA to the Eldorado substation is in service.

15. Can you provide low voltage as well as high voltage system map?

Response – Consistent with ISO policy, maps with detailed information about the location of distribution and transmission facilities are not made public.

16. How does the proposal to merge generator interconnection queues and to collaborate on transmission planning prior to VEA’s transition to a PTO fit into the transmission planning process?

Response – The ISO’s transmission planning process includes the opportunity to work with transmission providers outside of its balancing authority area to jointly plan transmission development, which is referenced in the MOU. Prior to VEA becoming a PTO, it is anticipated that VEA and the ISO will utilize this process to engage in joint transmission planning activities.

17. Will the generation projects pay for upgrades or will it be socialized over the ISO grid?

\*\*Response – In accordance with the ISO’s existing generation interconnection cost allocation rules, costs associated with a gen-tie or specific to the facilities required to interconnect a generator are the responsibility of the generator and are not recovered through the TAC. In contrast, reliability and delivery network upgrades may be up-front funded by the generator developer to be reimbursed through TAC once the generating facility achieves commercial operation.

18. Would VEA build under Right of First Refusal?

Response – Once VEA becomes an ISO PTO, all rights and responsibilities for building transmission additions and upgrades will be governed by the ISO tariff.

19. Who would finance construction required to interconnect the generation projects?

Response – Generally speaking – and specifically under the ISO tariff – the interconnection customer is responsible for financing any needed gen-tie and the interconnection facilities at its point of interconnection to the ISO system,

20. How will the deliverability assessment be handled?

Response – Deliverability on the VEA system will be determined by a VEA cluster study. The ISO deliverability assessment will be determined as part of the Cluster 4 studies.

21. Are there any generators directly interconnected to VEA's system?

Response – There are no generators directly interconnected to VEA today.

22. Can a generation developer elect to not receive TAC recovery for the network upgrades that they funded?

\*\*Response – Developers opting out of TAC recovery for the costs of network upgrades that are turned over to ISO operational control when VEA becomes a PTO would be treated as merchant transmission owners under the ISO tariff and would be eligible to receive option CRRs.

23. Will existing transmission rights (ETC) be honored?

Response – VEA does not have any ETCs. All of VEA's transmission facilities and rights will be turned over to the operational control of the ISO.

24. Would all of the MW in the VEA interconnection queue come through Eldorado?

Response – This will be addressed through the interconnection study with Southern California Edison and will evolve as the projects are built out.

25. Has VEA's proposed 230 kV interconnection at Eldorado been vetted through any regional or inter-regional planning process?

ISO Response –The ISO does not see that a regional or inter-regional review is necessary, as the proposed 230 kV interconnection currently being studied by SCE is a local reconfiguration change that is not expected to have a material impact on transfer paths.

\*\* The question of cost recovery for network upgrades funded by interconnection customers is the subject of an on-going ISO stakeholder initiative. The ISO has proposed that to the extent the interconnection request of an interconnection customer's project cannot be met through transmission additions and upgrades approved in the ISO's annual comprehensive transmission plan, and requires additional network upgrades, the interconnection customer will be required to

fund a share – or potentially all – of the additional network upgrade costs and will not be reimbursed by ratepayers. As part of this initiative the ISO is considering a proposal to apply the new cost allocation provisions, if approved by FERC, to interconnection customers participating in Cluster 4. Please refer to the Integration of Transmission Planning and Generation Interconnection Procedures stakeholder process:  
[http://www.caiso.com/informed/Pages/StakeholderProcesses/TransmissionPlanning\\_GenerationInterconnectionIntegration.aspx](http://www.caiso.com/informed/Pages/StakeholderProcesses/TransmissionPlanning_GenerationInterconnectionIntegration.aspx)