

Energy Regulatory Alert

FERC Conditionally Accepts CAISO Generator Interconnection and Deliverability Allocation Procedures Proposal

August 1, 2012

On July 24, 2012, the Federal Energy Regulatory Commission (FERC) accepted for filing revisions to the California Independent System Operator Corporation's (CAISO) open access transmission tariff to integrate the CAISO transmission planning process (TPP) and generation interconnection procedures (GIP) effective July 25, 2012, subject to minor modification in a compliance filing to be filed by August 23, 2012.¹ The revised procedures, known as the Generator Interconnection and Deliverability Allocation Procedures (GIDAP), will apply prospectively only, beginning with generation projects in the CAISO's interconnection Queue Cluster 5, the application window for which closed on March 31, 2012.

While intended to facilitate development and interconnection of new generation resources necessary to meet California's ambitious 33 percent renewable portfolio standard and to better align generation developer responsibilities with the CAISO's regional transmission planning process, the GIDAP may cause generation developers to have a more difficult time obtaining reimbursement for transmission network upgrades and, as such, could cause some generation projects that otherwise would be viable to become uneconomic.

Perhaps most importantly, the GIDAP limit the eligibility for cash reimbursement for certain transmission network upgrades associated with the interconnection of new generating resources. Generation project developers seeking either full or partial capacity deliverability status will now have to choose one of two options, Option A or Option B, which will affect both initial interconnection financial security posting requirements (as discussed below) and ultimate cost responsibility for transmission network upgrades. Developers also may need to participate actively in the TPP and be able to demonstrate the viability of their projects to improve the likelihood of receiving cash reimbursement for network upgrades. Finally, developers should anticipate a slightly longer overall interconnection study process.

Allocation of "Transmission Plan Deliverability" and Limitations on Cash Reimbursement for Network Upgrades

Allocation of Transmission Plan Deliverability, or "TP Deliverability," will determine generation developers' cost responsibility for network upgrades. Specifically, the CAISO will identify the needed transmission upgrades in its annual TPP and then will calculate, based on the upgrades identified, the additional amount of transmission capacity, *i.e.*, TP Deliverability, needed in each study area to enable proposed generation projects to achieve their selected deliverability status. The CAISO then will allocate such TP Deliverability to the proposed generation projects in each

¹ *California Indep. Sys. Operator Corp.*, 140 FERC ¶ 61,070 (2012). The compliance filing does not relate to the substance of the TPP/GIP integration proposal; rather, it merely requires the CAISO to clarify in its tariff that it will not require projects in interconnection Queue Clusters 1-4 to demonstrate they have in place a power purchase agreement to receive their requested deliverability status.



study area that prove most viable. Only those proposed projects receiving a sufficient allocation of TP Deliverability will receive cash reimbursement for their network upgrades.

Each interconnection customer seeking either full or partial capacity deliverability status will have to choose between Option A and Option B. Proposed projects that require cost reimbursement for network upgrades must choose Option A. While interconnection customers choosing Option A will not have to pay for Area Delivery Network Upgrades (ADNUs) and will receive cash reimbursement in accordance with their assigned cost responsibility for Local Delivery Network Upgrades (LDNUs),² they will have to downsize, convert to “Energy-Only Deliverability Status” or withdraw from the interconnection queue if they do not receive sufficient TP Deliverability.³ In addition, the CAISO will limit cash reimbursement for reliability network upgrades to \$60,000 per megawatt (MW), which reflects a change from its previous policy of allowing full cash reimbursement for such costs.

An interconnection customer choosing Option B must be willing and able to assume cost responsibility for all network upgrades required to interconnect its generation facility without cash reimbursement if the CAISO does not allocate sufficient TP Deliverability to the project. Accordingly, interconnection customers choosing Option B may have to fund their needed network upgrades as merchant transmission. An interconnection customer that does not receive cash reimbursement for network upgrades, however, will be eligible for Congestion Revenue Rights associated with the network upgrades or portions thereof that it funds. Most interconnection customers likely will choose Option A, but generation developers should consider Option B if a project’s business model does not require reimbursement for network upgrades and/or if required network upgrades for a project are likely to be *de minimis*.

To maximize the possibility of receiving cash reimbursement for network upgrades, interconnection customers should consider participating actively in the TPP and should ensure that their queued projects have made material progress toward project development milestones to demonstrate viability (e.g., having a power purchase agreement in place and advanced permitting, financing, and land acquisition status). Because only projects receiving TP Deliverability will receive cash reimbursement, the TPP—which will determine which transmission upgrades get built and, thus, the amount of TP Deliverability available in each study area—will be a critical process for interconnection customers hoping to receive reimbursement for network upgrades associated with their planned projects. Active participation in the TPP may improve the likelihood of an allocation of TP Deliverability to a desired geographic/study area.

After the CAISO calculates how much TP Deliverability it will allocate to each study area, it will have to determine which resources in each area will receive a part of the allocation if the amount of queued MWs in a particular area exceeds that area’s available TP Deliverability. The CAISO will make this determination based on a project’s demonstration of viability, as informed by the several factors mentioned above.

Interconnection Financial Security Requirements

While the GIDAP framework maintains many of the interconnection financial security requirements of the GIP, the choice between Option A and Option B will affect these requirements. Specifically, an interconnection customer that selects Option A must post initial interconnection financial security for the costs assigned to it in its Phase I interconnection study for Reliability Network Upgrades and LDNUs, but an Option A customer will not have any cost responsibility or interconnection financial security posting requirement for ADNUs. In contrast, Option B interconnection customers will make an initial interconnection financial security posting for the cost responsibility assigned in the Phase I interconnection study for *all* network upgrades, including ADNUs. When there is a large volume of interconnection requests in an area relative to the amount of TP Deliverability for that area, the Phase I interconnection study will model a representative amount of new generation in that area to identify the next significant

² ADNUs are transmission upgrades or additions identified by the CAISO to relieve an area deliverability constraint, while LDNUs are transmission upgrades or additions identified by the CAISO to relieve a local deliverability constraint. ADNUs generally are identified in the TPP, while LDNUs generally are identified in the GIP.

³ An Option A project that does not receive sufficient TP Deliverability also will have the opportunity to “park” its interconnection request for a year.

incremental ADNU that will be needed. The CAISO then will use such incremental ADNU to calculate a per-MW ADNU rate upon which to base the initial ADNU posting requirements for Option B projects.

Interconnection Studies Modifications

Among other things, the GIDAP reforms modify the scope of the Phase I interconnection study to include the most recent CAISO annual transmission plan and resource portfolios identified for the next TPP cycle. The GIDAP reforms also add a new reassessment process between the Phase I and Phase II interconnection studies to account for changes to earlier-queued projects to ensure that the CAISO bases its Phase II interconnection study on the latest available data. Project developers also should note that the GIDAP reforms extend the overall interconnection study process. Specifically, the FERC approved the CAISO's proposal to extend the previous 134-day timeline for issuing the Phase I interconnection study results to 200 days for Queue Cluster 5 and 170 days for Queue Cluster 6 and subsequent clusters. The FERC also approved an extension of the time for the CAISO to issue Phase II interconnection study results from 196 to 205 days. Interconnection customers also now will have 10 days (increased from five) after their Phase I interconnection study results meeting to modify their interconnection requests in accordance with the applicable GIDAP parameters.

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