

DRAFT
Forward Capacity Market
Generator Interconnection Process Stakeholder Group
Conditional Qualified Capacity Resources & Interconnection Process Issues
Term Sheet
Version 3.0
May 16, 2008

1) Current Forward Capacity Auction Qualification Rule regarding Overlapping Impacts

Under current Forward Capacity Market (“FCM”) Rules, where, as a result of the initial interconnection analysis, the ISO determines that because of overlapping interconnection impacts, New Generating Capacity Resources that are otherwise accepted for participation in the Forward Capacity Auction (“FCA”) cannot provide the full amount of capacity that they each would otherwise be able to provide, those New Generating Capacity Resources will be accepted for participation in the Forward Capacity Auction on the basis of their Queue Position, as described in Schedules 22 and 23 of Section II of the Transmission, Markets and Services Tariff (the Large/Small Generator Interconnection Procedures or L/SGIP), with priority given to resources that entered the queue earlier.¹

This term sheet describes potential changes to the Interconnection Procedures and FCM participation rules for generating resources. Some proposed changes to the Interconnection Procedures are described in the following Sections:

- Section 2 – Changes to the Large Generator Interconnection Procedure (“LGIP”) Interconnection Queue Processes – Milestone/Financial Requirements
- Section 3 - Changes to the L/SGIP Interconnection Queue Processes – Capacity & Energy Interconnections
- Section 4 - Changes to the L/SGIP Interconnection Queue Processes – Optional Studies

In the later Sections of the Term Sheet, three areas of proposed changes are discussed

- Section 5 – FCM Qualification
- Section 6 – Forward Capacity Auction Mechanics
- Section 7 – Long Lead Resources

¹ The analysis of overlapping interconnection impacts under FCM is intended to determine if proposed New Generating Capacity provides incremental capacity to the system. This means that proposed New Generating Capacity will be qualified at the level at which it can operate without re-dispatch of other capacity resources. The details of the Overlapping Impact test are contained in Planning Procedure 10

In these sections, two alternatives are discussed. Alternative A describes the proposed changes in the case of implementing what have been called “Condition Resources”. Alternative B describes the proposed changes for the “Single Queue” approach.

2) Changes to the Large Generator Interconnection Procedure (“LGIP”) Interconnection Queue Processes – Milestone/Financial Requirements²

The following changes to the LGIP process are intended to increase the likelihood that generating projects that are maintaining queue positions and consuming study effort are viable projects with a demonstrated ability and willingness to proceed to completion.³

	Current Schedule 22 Requirements	Proposed Schedule 22 Requirements
Interconnection Request (“IR”)	<ul style="list-style-type: none"> • \$10,000 refundable deposit due with IR <ul style="list-style-type: none"> ○ Balance applicable to Feasibility Study or System Impact Study deposit 	<ul style="list-style-type: none"> • \$50,000 non-refundable study deposit due with IR <ul style="list-style-type: none"> ○ Balance applicable to Feasibility Study or System Impact Study deposit
Interconnection Request	<ul style="list-style-type: none"> • Additional \$10,000 refundable deposit or demonstration of Site Control within a cure period 	<ul style="list-style-type: none"> • Site Control required with Capacity IR
Feasibility Study Agreement	<ul style="list-style-type: none"> • Additional deposit of the greater-of \$10,000 or estimated monthly study cost due with Feasibility Study Agreement 	<ul style="list-style-type: none"> • Deposit of 100% of study cost estimated balance due with Feasibility Study Agreement
System Impact Study Agreement (SISA)	<ul style="list-style-type: none"> • Deposit of the lower-of estimated study cost, or, \$50,000 	<ul style="list-style-type: none"> • Deposit of the lower-of estimated study cost, or, \$50,000 AND copies of major permit applications (including state siting for generator, generator lead, fuel lateral and air permit if applicable) <p>OR</p> <ul style="list-style-type: none"> • Greater of 100% of study costs or \$250,000

² The changes listed in this section of the term sheet are proposed to apply only to the LGIP (Schedule 22 of the Tariff). Changes to the Milestone/Financial requirements are not proposed for the Small Generator Interconnection Procedures (SGIP) which applies to generators smaller than 20MW.

³ Similar approaches are being considered by others such as the California ISO and the Midwest ISO

		<p>non-refundable study deposit due with SISA</p> <ul style="list-style-type: none"> ○ Refundable (net administrative and study costs, including Transmission Owner (“TO”) study costs) upon Interconnection Agreement (“IA”) execution ● Binding Financial Commitments for the greater-of \$1M or 5% of the cost of the Interconnecting Transmission Owners Interconnection Facilities and Generator Interconnection Related Upgrades as estimated in the Feasibility Study (if completed), due with System Impact Study Agreement <p>OR</p> <ul style="list-style-type: none"> ● Demonstration of “at-risk”⁴ project expenditures in at least the amount of increased deposit requirement above
Facilities Study Agreement	<ul style="list-style-type: none"> ● Deposit of the greater-of \$100,000 or estimated monthly study cost due with Facility Study Agreement 	<ul style="list-style-type: none"> ● Deposit of the greater-of 25% of study costs or \$250,000 non-refundable study deposit due with Facilities Study Agreement <ul style="list-style-type: none"> ○ Refundable (net administrative and study costs, including TO study costs) upon IA execution ● Additional Binding Financial Commitments for 5% of the Interconnecting Transmission Owners Interconnection Facilities and Generator Interconnection Related Upgrades due with Facilities Study Agreement
Interconnection Agreement		<ul style="list-style-type: none"> ● Deposit of 100% of estimated costs of Engineering studies (if Facilities Study bypassed – i.e. expedited interconnection)
Interconnection	<ul style="list-style-type: none"> ● Commit to upgrade 	<ul style="list-style-type: none"> ● Provide copies of major permit approvals

⁴ At-risk project expenditures are those project expenditures that may not be recouped if the project is terminated and would include expenditures to obtain permits for the specific site, lease payments, non-refundable deposits toward the purchase price of the land, site-specific design, surveys, non-refundable equipment deposits, and actual construction costs. Examples of project expenditures that may be recouped if the project is terminated-and that would not be counted as “at-risk” investments-include payments to purchase the land (which may be recovered if the land is sold), any recoverable deposits for equipment, and generic designs that may be reused.

Agreement	expenditure schedule	<p>(including state siting for generator, generator lead, fuel lateral and air permit if applicable)</p> <p>OR</p> <ul style="list-style-type: none"> • Payment of 20% of the Interconnecting TO and Generator Interconnection Related Upgrades as estimated in the Facilities Study, due at IA execution <ul style="list-style-type: none"> ○ If TO expenditure schedule calls for an initial payment of greater than 20% of the total upgrade costs, then payment of the scheduled initial payment ○ Full remaining financial commitment due within 6 months of executed IA
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3) Changes to the L/SGIP Interconnection Queue Processes – Capacity & Energy Interconnections

- a) The same overlapping transmission deliverability standard used in the FCM will be incorporated into the Open Access Transmission Tariff (“OATT”) L/SGIP, meeting the FERC requirement to address an intra-zonal deliverability standard in the L/SGIP. An “Energy Only” interconnection option would be allowed for those resources that do not elect to become capacity resources.
- b) Generators would identify which interconnection type is being pursued. A generator may change from a Capacity Interconnection to an Energy Interconnection without a new queue position. The IR for a Capacity Interconnection would need to specify both the Qualified Capacity (i.e.; the amount that will be available for capacity sales) and the amounts available for energy sales (i.e.; the ambient temp-based capacities that are on the current IR). However, changing from Energy Interconnection to Capacity Interconnection would require a new queue position, this change being considered a material modification.
- c) All generators over 20 MW that seek distribution interconnects wishing to participate in the FCM must follow the procedures which mirror the L/SGIP. The Transmission Owner (“TO”) will notify its customers of this requirement when they apply to the State queue.

4) Changes to the L/SGIP Interconnection Queue Processes – Optional Studies

- a) Under an optional study, a developer can specify which earlier queued generation to model in the feasibility study or the system impact study. This would allow the generator to attempt to anticipate the eventual outcome of the overlapping impact analysis. The analysis would be conducted in accordance with either alternative A or B below.
- b) The generator could interconnect with a subordinate Energy Interconnection status to earlier queued units without completing upgrades needed if both it and an earlier queued resource are

interconnected. If the earlier queued units also interconnected later, then the later queued project would be limited in operation until any needed Energy Interconnection upgrades are completed. If the earlier queued unit withdraws from the queue, then the developer’s subordinate status is eliminated.

5) FCM Qualification

Alternative A – Conditional Resources	Alternative B – Single Queue
<p>Analysis would be limited to the “group” of resources that are otherwise qualified for each FCA. Only resources intending to participate in the FCA for the specific Capacity Commitment Period would be able and required to be studied for overlapping impacts as part of the “group.” Long-lead resources would be included in the group study as described in the long-lead section below. Studies would assess the resources collectively and individually, thereby providing the necessary support for the conditional treatment of generating capacity resources with overlapping impacts at the same location. Overlapping impacts would continue to be determined sequentially, based on queue position.</p>	<p>Same</p>
<p>Earlier Queued resources that meet the overlapping impact standard will be defined as the Primary Resource within the FCA. The current Queue Position process will remain as the foundation on which the qualification of Conditional Qualified Capacity Resources, as defined below, is to take place.</p>	<p>Same</p>
<p>New generating capacity resources with overlapping transmission impacts at a specific location in competition with the Primary Resource for interconnection space may competitively participate in the FCA. The later transmission queue resource(s) at the same location would be allowed to conditionally qualify for the FCA along with the primary resource. These resources will be defined as the Conditional Resource(s) within the FCA.</p>	<p>Same</p>

<p>Information Provision. In the Qualification Determination Notification, or in the Feasibility Study/System Impact Study, Resources that overlap with earlier queued resources will be informed of the queue position number of those earlier queued resources. A primary resource will be informed of the queue position of any conditional resources relevant to that primary resource.</p>	<p>Same</p>
<p>Any resource that clears in the FCA becomes an Existing Resource for subsequent FCAs and will not have additional overlapping impact upgrade responsibilities beyond those associated with the FCA in which the resource cleared.</p>	<p>Interconnection cost responsibility (including costs to address overlapping impacts) is determined by queue position only and is independent of clearing in an FCA. Later queued resources may clear in the FCA and interconnect with “subordinate status” to earlier queued resources.</p>
<p>Not Applicable</p>	<p>Resources that must build upgrades if an earlier queue position resource becomes a capacity supplier may elect to wait to build those upgrades until the need is clear. If they fail to complete them and the earlier resource is a capacity resource their resource will be taken out of the capacity market and its owner must cover [Question: how long can they cover?] through a reconfiguration auction until the upgrades are complete.</p>
<p>Not Applicable</p>	<p>The later queued resources may not be able to meet their obligation in later Commitment Periods if an earlier queued resource clears in a later FCA and the needed upgrades are not in place but the later resource will have at least 3 years notice of the need.</p>

6) Forward Capacity Auction Mechanics

a) Auction Mechanics - Same for Alternative A and Alternative B

- i) As long as the Primary Resource remains in the FCA, it may clear the auction. A Primary Resource that withdraws would be replaced by the Conditional Resource(s) later in the transmission queue, provided the Conditional Resource(s) has not withdrawn at an earlier price. A Primary Resource must be willing to sell at the capacity clearing price in the FCA.
- ii) Since both resources may participate in the FCA a constraint needs to be added to the clearing algorithm recognizing that at most only one of the resources can be accepted. The

criteria that would determine how the accepted resource would be selected are still under discussion with the stakeholders. The two proposed choices are as follows:

- (1) That decision can be made based on economics, where the accepted resource results in a lower total cost than the alternative resource regardless of generator interconnection queue priority.
 - (2) That decision can be made based on the current approach where the generator queue position would have priority, assuming that both resources are willing to provide capacity at the prevailing price.
- iii) In either case, it would not be possible for a mutually exclusive generating capacity resource to “block” another resource simply by having a higher transmission queue position. In other words, the higher queued resource must also clear in the FCA in order to block a lower queued resource. This feature limits the magnitude of the advantage offered by the higher transmission queue position to a Primary Resource.
- iv) The disclosure of a Primary Resource and Conditional Resource(s) status prior to the FCA is also still under discussion with the stakeholders, but conditional resource(s) would not be informed of the exit of the Primary Resource because it reveals the Primary Resource’s reservation price.

Efforts to study and consider options that would permit interconnection priorities to be decided on a market basis rather than based on the earlier submission of an interconnection application will continue to be pursued. In order to assess the impact of the proposed modifications and the need for additional changes the following information will be included in filings to the FERC pursuant to Section III.13.8.2.

Filing of Forward Capacity Auction Results and Challenges Thereto:

- Identification of each Primary and each Conditional Resource that qualified for the FCA and the MW of capacity offered by each;
- Each Primary Resource that was selected in the FCA;
- Each Conditional Resource that was not selected in the FCA;
- Each long-lead time resource that secured an interconnection position in the FCA; and
- Each lower queued resource that was selected in the FCA subject to the higher priority of a long-lead time resource.

7) Long Lead Time Capacity Resources

Alternative A – Conditional Resources	Alternative B – Single Queue
Power plants with development life-cycles that are longer than the time between the FCA and the beginning of the Capacity Commitment Period will be allowed advance	Same

<p>opportunity to study and “secure” transmission plans/obligations sufficient for FCM participation through the LGIP process.⁵</p>	
<p>The long-lead facility would be modeled in “near-term” FCA overlapping impact analysis and adhere to the FCM qualification requirements (i.e. Financial Assurance and quarterly CPS milestone submittals), thereby securing its overlapping interconnection space until an FCA occurs in which the facility elects to clear and obtain an obligation.</p>	<p>Same</p>
<p>Later queued resources seeking to qualify for “near-term” FCAs will be analyzed using a model that includes the long-lead resource and its upgrades. Later queued resources will be responsible for upgrades that are incremental to the upgrades of the long-lead resource. However, later queued resources may be responsible for the advancement of upgrades needed in earlier Capacity Commitment Periods.</p>	<p>Same</p>
<p>In addition to the increased Schedule 22 requirements described in Section 2 above, long-lead resources shall begin immediate payment, as follows, such that transmission construction of any needed upgrades may proceed to minimize uncertainty for other projects:</p> <ul style="list-style-type: none"> • Binding Financial Commitments for the greater-of \$1M or 5% of the cost of the Interconnecting Transmission Owners Interconnection Facilities and Generator Interconnection Related Upgrades as estimated in the Feasibility Study (if completed), due with System Impact Study Agreement • Additional Binding Financial Commitments for 5% of the Interconnecting Transmission Owners Interconnection Facilities and Generator Interconnection Related Upgrades due with Facilities Study Agreement 	<p>Same?</p>
<p>If the long-lead time project does not demonstrate compliance with a project development schedule, satisfy the requirements for Financial Assurance or at-risk investment or does not clear as a capacity resource in FCA associated with its Commercial Operation Date, it will be removed from the capacity interconnection queue and will not be entitled to that queue priority. In that event, the later queue position resource that cleared in an earlier FCA will continue as an Existing Capacity Resource for all purposes.</p>	<p>Same?</p>

⁵ Under current LGIP rules, the initially requested Commercial Operation date may not exceed seven years from the date of the IR, unless the developer can demonstrate an engineering justification for a longer lead-time