



proposed variations from the Commission's *pro forma* Small Generator Interconnection Agreement (Interconnection Agreement) jointly filed by CAISO and three participating Transmission Owners (Transmission Owners or PTOs)<sup>3</sup> (collectively, the Joint Parties).<sup>4</sup> In this order, we will grant in part the requests for rehearing, clarify aspects of the Underlying Order, and accept the compliance filings, subject to further modifications, as discussed below.

## **I. Background**

2. In Order No. 2006, the Commission required all public utilities to adopt *pro forma* Interconnection Procedures and *pro forma* Interconnection Agreements as part of their Open Access Transmission Tariffs (Tariffs). In Order Nos. 2006-A and 2006-B, the Commission directed utilities to include additional *pro forma* provisions in their Tariffs, and clarified and modified certain sections of Order No. 2006. The Commission permitted Independent System Operators (ISOs) greater flexibility to adopt variations from the *pro forma* Interconnection Procedures and *pro forma* Interconnection Agreement under the "independent entity variation" standard than non-independent entities can have under the "consistent with or superior to" standard or the regional differences standard.<sup>5</sup> The Commission thus allowed ISOs more flexibility to customize their interconnection procedures and agreements based on regional needs.

3. On February 10, 2006, CAISO filed its proposed Interconnection Procedures in response to Order Nos. 2006 and 2006-A (Original Interconnection Procedures Filing). CAISO also filed revisions to CAISO Tariff section 5.7, which provides for the Generating Facility interconnection process, as well as Appendix A to the CAISO Tariff, the Master Definitions Supplement. The Joint Parties filed their Order No. 2006 and 2006-A proposed Interconnection Agreement (Joint Parties' Interconnection Agreement

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<sup>3</sup> The three participating Transmission Owners are: Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E), and Southern California Edison Company (SoCal Edison).

<sup>4</sup> The Interconnection Agreement is a three-party agreement among the Interconnection Customer, Transmission Owner, and CAISO. PG&E, SDG&E, and SoCal Edison are the participating Transmission Owners that have been active in this Small Generator Interconnection Procedures and Interconnection Agreement process.

<sup>5</sup> Order No. 2006, FERC Stats. & Regs. ¶ 31,180 at P 549.

Filing).<sup>6</sup> CAISO then filed amendments to its *pro forma* Interconnection Procedures study agreements, in compliance with Order No. 2006-B.<sup>7</sup> CAISO and the Joint Parties requested that, because the Commission had found that CAISO is an independent entity, the filings be evaluated under the independent entity standard.<sup>8</sup>

4. In the Underlying Order, the Commission accepted in part CAISO's and the Joint Parties' proposed revisions to the Interconnection Procedures and Interconnection Agreement. We rejected certain variations, finding that CAISO and the Joint Parties failed to demonstrate that those variations met the independent entity standard.<sup>9</sup> The Commission also accepted and rejected in part, subject to revision, revisions to CAISO Tariff section 5.7 and the CAISO Master Definitions Supplement, CAISO Tariff Attachment 1.<sup>10</sup> Finally, the Commission directed CAISO and the Joint Parties to submit a compliance filing, consistent with the directives in the Underlying Order, within 30 days from the issuance of the order.

5. On December 13, 2007, as revised on December 17, 2007, CAISO filed revised Interconnection Procedures, as required by the Underlying Order. Also on December 13, 2007, the Joint Parties filed a revised Interconnection Agreement, as required by the Underlying Order.

6. PG&E and the Joint Parties also filed timely requests for rehearing and clarification of the Underlying Order.

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<sup>6</sup> In Order No. 2003, and again in Order No. 2006, the Commission required three-party agreements in areas where the Transmission Provider and Transmission Operator are different entities. The Joint Parties' Interconnection Agreement Filing is consistent with Order No. 2006 because it is a three-party agreement among the Interconnection Customer, Transmission Owner, and CAISO. Order No. 2003 at P 909; Order No. 2006 at P 349.

<sup>7</sup> Order No. 2006-B, FERC Stats. & Regs. ¶ 31,221 at P 10.

<sup>8</sup> *California Independent System Operator Corp.*, 112 FERC ¶ 61,010, at P 36 (2005).

<sup>9</sup> The Commission directed that the proposed revisions to the Interconnection Procedures and Interconnection Agreement be effective on the date of issuance of the Underlying Order, which was November 16, 2007.

<sup>10</sup> Underlying Order, 121 FERC ¶ 61,177 at P 64-65, 85.

## **II. Notice of Filings**

7. Notice of the compliance filings was published in the *Federal Register*,<sup>11</sup> with interventions and protests due on or before January 3, 2008. None was filed.

## **III. Discussion**

### **A. Requests for Rehearing or Clarification**

#### **1. Centralized Study Process**

8. In its Original Interconnection Procedures Filing, CAISO proposed to add a new Interconnection Procedures section 3.1.1, Centralized Study Process,<sup>12</sup> which describes a centralized interconnection study process for Small Generating Facilities that want to interconnect to facilities under the operational control of CAISO.

9. In the Underlying Order, the Commission found that CAISO's proposed centralized study process for its small generators generally "strikes the appropriate balance between CAISO, as an independent Transmission Provider with grid-wide responsibilities, and the PTOs, as Transmission Owners with specialized knowledge of their respective systems."<sup>13</sup> However, the Commission noted that CAISO's proposal for its small generators<sup>14</sup> differed from its process for large generators<sup>15</sup> in that it assumed

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<sup>11</sup> 73 Fed. Reg. 2,468 (2008).

<sup>12</sup> See CAISO proposed Interconnection Procedures sections 3.1.1.1-3.1.1.4.

<sup>13</sup> Underlying Order, 121 FERC ¶ 61,177 at P 36 (citing *California Independent System Operator Corp.*, 115 FERC ¶ 61,237, at P 49 (2006)).

<sup>14</sup> CAISO's proposed Interconnection Procedures section 3.1.1.4 states that:

CAISO will execute the interconnection study agreements and subcontract to the PTOs the required small generator interconnection studies and any additional studies CAISO determines to be reasonably necessary, unless otherwise agreed to by the Interconnection Customer, PTO and CAISO.

<sup>15</sup> Section 3.2(a) of CAISO's Large Generator Interconnection Procedures, Roles and Responsibilities, provides the following:

Each Interconnection request will be subject to the direction and oversight of the ISO. The ISO will conduct or cause to be performed the required

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that the participating Transmission Owners will conduct *all* of the studies. The Commission concluded that “as we required for CAISO’s large generators, the applicable PTO should only perform *certain* studies, under the direction and oversight of CAISO, where the PTO has specific and non-transferable expertise or data and can conduct the studies more efficiently and cost effectively than the ISO.”<sup>16</sup> Therefore, the Commission directed CAISO to modify its proposed centralized study process for small generators accordingly.

**a. Rehearing Request**

10. PG&E argues that the Commission failed to address the merits of CAISO’s proposal for small generators under the independent entity variation. Specifically, PG&E contends that the Commission did not consider CAISO’s justification that “this proposal strikes an appropriate balance given the nature and size of the Interconnection Generating Facilities, the remoteness of seams issues, and the reduced timelines provided in the FERC *pro forma* LGIP.”<sup>17</sup> PG&E states that it will not repeat its various arguments opposing the Commission’s rulings in the CAISO large generator interconnection proceeding because those rulings are now pending review at the U.S. Court of Appeals for the District of Columbia (D.C. Circuit). Thus, PG&E asserts, the Commission should, at a minimum, clarify that its ruling in this proceeding is subject to the outcome of the appellate review.<sup>18</sup>

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Interconnection Studies and any additional studies the ISO determines to be reasonably necessary, and will direct the applicable Participating TO to perform *portions of studies where the Participating TO has specific and non-transferable expertise or data and can conduct the studies more efficiently and cost effectively than the ISO.* (Emphasis added).

<sup>16</sup> Underlying Order, 121 FERC ¶ 61,177 at P 39.

<sup>17</sup> PG&E Rehearing Request at 3 (citing CAISO’s Original Interconnection Procedures Filing at 7).

<sup>18</sup> *Id.* at 3-4.

**b. Commission Determination**

11. We will deny PG&E's request for rehearing. As we stated in the CAISO large generator interconnection proceeding,<sup>19</sup> and reiterated in the Underlying Order, CAISO, as an independent entity must manage its interconnection policy and procedures, including its system study process, so that an interconnecting generator is not unduly burdened by coordinating multiple studies with the participating Transmission Owners.<sup>20</sup> We explained that the Transmission Owners can conduct *certain* studies under the direction and oversight of CAISO, but that those studies "should generally be *limited to areas where either the PTOs have very specific and non-transferable expertise or data* and it is determined that it is most efficient and cost effective for the PTOs rather than CAISO to conduct those studies."<sup>21</sup> These procedures, the Commission noted, must also allow for expert review from sources available to CAISO to ensure an independent review of the results of the studies conducted by the Transmission Owners.

12. Thus, in the Underlying Order, we found that CAISO must modify its centralized study process for small generators to make use "of the PTOs' specialized knowledge of their respective portions of the CAISO Controlled Grid," and to ensure CAISO's primary and independent role in conducting interconnection studies and evaluating grid-wide impacts and solutions.<sup>22</sup> Moreover, we found that CAISO's direction and oversight of all aspects of the centralized study process, with participation from the PTOs, was reasonable and would facilitate the interconnection process, thereby supporting the reliable transmission of electric energy in the California market.

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<sup>19</sup> See *California Independent System Operator Corp.*, 112 FERC ¶ 61,009, at P 56-57 (July 2005 Order), *clarifications and extension of time granted, reh'g denied*, 112 FERC ¶ 61,231, at P 21 (August 2005 Order) (2005); *California Independent System Operator Corp.*, 115 FERC ¶ 61,237 (May 2006 Order), *order on compliance filings and denying reh'g*, 117 FERC ¶ 61,148 (November 2006 Order) (2006), *accepted*, Docket Nos. ER04-445-015, *et al.* (Jan. 30, 2007) (unpublished letter order), *dismissed sub nom.*, *Pacific Gas & Electric Company*, 533 F.3d 820 (D.C. Cir. 2008). See CAISO Tariff Appendix U, LGIP section 3.2 and First Revised Sheet No. 1064A.

<sup>20</sup> Underlying Order, 121 FERC ¶ 61,177 at P 34.

<sup>21</sup> August 2005 Order, 112 FERC ¶ 61,231 at P 21 (emphasis added).

<sup>22</sup> Underlying Order, 121 FERC ¶ 61,177 at P 40.

13. We note that the D.C. Circuit, in *Pacific Gas & Electric Company*,<sup>23</sup> upheld the Commission's rulings on the centralized study process for large generators. The court concluded that because the plain language in the Order No. 2003<sup>24</sup> series required that the Transmission Provider perform the interconnection studies for large generators, PG&E's claim was an impermissible collateral attack on those earlier orders.<sup>25</sup> Therefore, the court dismissed PG&E's petition for lack of jurisdiction. Accordingly, because the same rationale applies to CAISO's small generator procedures, we will deny PG&E's request for rehearing or clarification on this issue.

## 2. Interconnection Study Timeline Extensions

14. CAISO proposed a number of variations to the *pro forma* Interconnection Procedure's study agreement completion timelines. Specifically, it proposed variations to the *pro forma* Feasibility Study (Interconnection Procedures section 3.3), System Impact Study (Interconnection Procedures section 3.4), and Facilities Study (Interconnection Procedures section 3.5). CAISO proposed corresponding variations to the interconnection study agreements in *pro forma* Interconnection Procedures Attachments 6, 7, and 8.

15. In the Underlying Order, the Commission found that CAISO's proposal to allow the Transmission Owners an additional 15 Business Days, in Interconnection Procedures subsections 3.3.4 and 3.5.7, and a period of 20 Business Days, in Interconnection Procedures subsection 3.4.5, to provide the Interconnection Customer with executable

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<sup>23</sup> 533 F.3d 820 at 825 (D.C. Cir. 2008).

<sup>24</sup> *Standardization of Generator Interconnection Agreements and Procedures*, Order No. 2003, 68 *Fed. Reg.* 49,845 (Aug. 19, 2003), FERC Stats. & Regs. ¶ 31,146 (2003) (Order No. 2003); *order on reh'g*, Order No. 2003-A, 69 *Fed. Reg.* 15,932 (Mar. 26, 2004), FERC Stats. & Regs. ¶ 31,160 (2004) (Order No. 2003-A); *order on reh'g*, Order No. 2003-B, 70 *Fed. Reg.* 265 (December 20, 2004), FERC Stats. & Regs. ¶ 31,171 (2004) (Order No. 2003-B), *order on reh'g*, Order No. 2003-C, 70 *Fed. Reg.* 37,662 (June 30, 2005), FERC Stats. & Regs. ¶ 31,190 (2005) (Order No. 2003-C), *see also Notice Clarifying Compliance Procedures*, 106 FERC ¶ 61,009 (2004), *aff'd sub nom. National Association of Regulatory Utility Commissioners v. FERC*, 475 F.3d 1277 (D.C. Cir. 2007).

<sup>25</sup> Order No. 2003, FERC Stats. & Regs. ¶ 31,146 at P 36 (finding that "Interconnection Studies [are] to be performed by, or at the direction of, the Transmission Provider.").

interconnection study agreements did not meet the standard for independent entity variations.<sup>26</sup> The Commission also rejected CAISO's proposed variations to *pro forma* Interconnection Procedures Attachments 6, 7, and 8, which provide for the Feasibility, System Impact, and Facilities Interconnection Study Agreements, to add 10 Business Days for CAISO review and approval of the interconnection agreement studies.<sup>27</sup> Thus, we required CAISO to revise these sections to use the time periods provided for in Order No. 2006.

**a. Rehearing Request**

16. The Joint Parties assert that the Commission erred by rejecting CAISO's proposal to extend these timelines. They explain that, during the stakeholder process, CAISO posted the draft Interconnection Procedures, including the provisions with the extended timelines, on its website, and none of the stakeholders objected to the modest variations from the *pro forma* Interconnection Procedures. CAISO also explained in its Original Interconnection Procedures Filing that certain extensions of timelines were needed because of CAISO's centralized study process, under which CAISO collaborates with the participating Transmission Owners.<sup>28</sup> The Joint Parties contend that all of the parties involved in discussions leading up to the CAISO's Interconnection Procedures filing agreed that more time than allotted in the *pro forma* Interconnection Procedures is required to accommodate the coordination between the various entities in California. Thus, they assert that the Commission ignored two major factors in its decision: (1) no generators involved in the stakeholder process objected to the minimal extensions of time that CAISO proposed; and (2) CAISO, which actually manages and oversees the interconnection process, has explained that additional time for coordination and review *is* necessary in order for the process to run in an efficient manner.

**b. Commission Determination**

17. We will deny rehearing on this issue. In Order No. 2006, the Commission adopted the interconnection study deadlines proposed by the National Association of Regulatory Utility Commissioners (NARUC) because "[t]hey strike a good balance, allowing sufficient time to complete the studies while ensuring that Small Generating Facilities can

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<sup>26</sup> Underlying Order, 121 FERC ¶ 61,177 at P 49.

<sup>27</sup> *Id.* P 74-75.

<sup>28</sup> Joint Parties' Rehearing Request at 16 (citing CAISO's Original Interconnection Procedures Filing at 11).

be interconnected within a reasonable time.”<sup>29</sup> Further, as we reiterated in the Underlying Order, a major goal of Order No. 2006 was to reduce the time and cost of processing interconnection requests.<sup>30</sup>

18. Accordingly, in the Underlying Order, the Commission found that CAISO’s proposed interconnection study timeline extensions “could harm the Interconnection Customer, could discourage new small generators, and thus is not consistent with Order No. 2006’s goal of reducing interconnection time and costs.”<sup>31</sup> Thus, we found that because CAISO had not shown that the longer deadlines were needed, we rejected the proposal as inconsistent with the independent entity variation standard.

19. The Joint Parties’ arguments that the Commission should allow the proposed timeline extensions because no one protested or simply because all parties agreed that more time was required are not compelling; they do not show that the independent entity variation standard is met. For example, the Joint Parties do not indicate how often they use their existing flexibility to extend the current deadlines.<sup>32</sup> Thus, the Commission is unconvinced that the *pro forma* deadlines are insufficient to meet the requirements of the California ISO. The Commission must make its own decision as to whether the independent entity standard is met; it cannot approve a variation simply because no one opposes it.<sup>33</sup> This principle is particularly important where small generators are concerned, since they are less likely to have the resources to intervene or to participate in

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<sup>29</sup> Order No. 2006, FERC Stats. & Regs. ¶ 31,180 at P 192. Underlying Order, 121 FERC ¶ 61,177 at P 74.

<sup>30</sup> Underlying Order, 121 FERC ¶ 61,177 at P 75.

<sup>31</sup> *Id.* P 49.

<sup>32</sup> *New York Independent System Operator, Inc.*, 118 FERC ¶ 61,130, at P 38 (2007) (*New York ISO*). In the *New York ISO* case, the Commission declined to extend the parties’ proposed deadlines for the New York ISO’s small generator interconnection studies, finding that the proposal did not meet the independent entity standard. We note that, in the *New York ISO* case, no protests or interventions were filed; the same is true in the case at hand.

<sup>33</sup> *See, e.g., Midwest Independent Transmission System Operator, Inc.*, 118 FERC ¶ 61,208, at P 21 (2007) (finding that the stakeholder process is not the end of the Commission’s analysis; the Commission retains its statutory duty to examine a parties’ proposal on its merits and objectively determine whether it is just and reasonable).

the stakeholder process. While we commend CAISO and all the parties who worked on this proposal to resolve the difficult issues involved, the Commission's main concern here is to ensure that small generator interconnections in the California ISO are as efficient and simple as possible.<sup>34</sup>

### **3. Inclusion of Restudy Provisions in Interconnection Studies**

20. In its Original Interconnection Procedures Filing, CAISO proposed to provide a procedure for restudy. In the Underlying Order, the Commission rejected CAISO's proposal, since in Order No. 2006, the Commission had found that restudy provisions are not needed.<sup>35</sup> Thus, the Commission directed CAISO to delete the restudy provisions.

#### **a. Rehearing Request**

21. The Joint Parties argue that the Commission erred by rejecting restudies. They assert that although restudies may not be necessary in other parts of the country, CAISO has concluded that interconnections of small generators to the CAISO Controlled Grid require restudies under certain circumstances, as the size of the generator and the timing of the interconnection process have very little to do with whether a restudy would be necessary.

22. The Joint Parties explain that, in California, restudies must be performed when a higher-queued Interconnection Customer drops out of the queue, or when system conditions change so that the study results are no longer reliable.<sup>36</sup> They state that either of these two events may occur at any time, without significant lead time, and that CAISO cannot predict when a higher-queued Interconnection Customer will drop out of the queue. CAISO needs to be able to perform a restudy, and to charge the Interconnection Customer for such study, to ensure that the proper upgrades are put in place.

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<sup>34</sup> See, e.g., *Midwest Independent Transmission System Operator, Inc.*, 124 FERC ¶ 61,183, at P 166 (2008).

<sup>35</sup> Underlying Order, 121 FERC ¶ 61,177 at P 54 (citing Order No. 2006, FERC Stats. & Regs. ¶ 31,180 at P 193).

<sup>36</sup> Joint Parties' Rehearing Request at 7. The Joint Parties also note that restudy might actually benefit the Interconnection Customer, as the results could reveal that such Interconnection Customer no longer triggers the need for certain upgrades.

**b. Commission Determination**

23. We will deny rehearing. We reiterate that, in Order Nos. 2006 and 2006-A, the Commission decided not to adopt restudy provisions in the Interconnection Procedures.<sup>37</sup> The Commission explained that the “very purpose of the Small Generator Final Rule is to expedite interconnections of Small Generating Facilities by removing unnecessary delays.”<sup>38</sup> Further, the Commission found that if the Interconnection Procedures timelines are respected and Small Generators are interconnected promptly, there should be no need for restudy.<sup>39</sup> The Commission stated that while a re-study provision in the LGIP was needed because system conditions may change between completion of a study and the Parties signing the LGIA, “it is unlikely that any significant change in system conditions will occur that was not foreseen by the Transmission Provider at the time of study because the Small Generator IP has a much shorter timeline.”<sup>40</sup>

24. We find no reason to depart from our Order No. 2006 policy prohibiting the inclusion of restudy provisions in the Interconnection Procedures. The Joint Parties’ argument that restudies must be performed when a higher-queued Interconnection Customer drops out of the queue is not a convincing reason to require a restudy and does not meet the independent entity variation standard. We note that the Commission recently conditionally approved a proposal, filed by CAISO, to reform its large generator interconnection procedures (as part of a two-step process) for CAISO to clear its interconnection queue backlog and streamline its interconnection process.<sup>41</sup> In that case,

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<sup>37</sup> Order No. 2006, FERC Stats. & Regs. ¶ 31,180 at P 193; Order No. 2006-A, FERC Stats. & Regs. ¶ 31,196 at P 25.

<sup>38</sup> Order No. 2006, FERC Stats. & Regs. ¶ 31,180 at P 193.

<sup>39</sup> Order No. 2006-A, FERC Stats. & Regs. ¶ 31,196 at P 25.

<sup>40</sup> *Id.* In the May 2006 Order, the Commission found that while under CAISO LGIP study procedures, “the PTOs have the right to review applicable study results, they are not permitted to duplicate studies performed by CAISO or a third party contractor, at the Interconnection Customer’s expense. We direct CAISO to clarify that where a study is performed, that study may not be duplicated at the Interconnection Customer’s expense.” May 2006 Order, 115 FERC ¶ 61,237 at P 54.

<sup>41</sup> *California Independent System Operator Corp.*, 124 FERC ¶ 61,292, at P 2 (2008) (CAISO Queue Order). *See also California Independent System Operator Corp.*, 124 FERC ¶ 61,031 (2008) and *Interconnection Queuing Practices*, 122 FERC ¶ 61,252, at P 4 (2008).

CAISO stated that its proposal was intended, in part, to reduce or eliminate the need for re-studies, which take time and frequently change the scope and cost of transmission upgrades assigned to the restudied project.<sup>42</sup> The Commission found that CAISO's proposal, which adopts a clustering approach to interconnection requests, "will improve the efficiency of the CAISOs interconnection process, clear the CAISO's interconnection backlog, and allow the interconnection process to be better integrated into the CAISO's transmission planning process."<sup>43</sup> Accordingly, we find that once CAISO's revised interconnection reform procedures are in place, there will be no need to perform re-studies on large generator interconnections, much less small generator interconnections.

#### **4. Interconnection Procedures section 4.11 - Interconnection Handbook**

25. In the Underlying Order, the Commission rejected CAISO's proposal to add Interconnection Procedures section 4.11, Interconnection Handbook Requirements, which would require Interconnection Customers to meet the requirements of the PTO's technical design standards as established in the PTO's Interconnection Handbook.<sup>44</sup>

##### **a. Rehearing Request**

26. The Joint Parties argue that the Commission erred by rejecting CAISO's proposed Interconnection Procedures section 4.11. They note that the Commission approved that same provision in CAISO's Large Generator IP and in various other tariffs.<sup>45</sup> The Joint Parties assert that the Commission has not explained why the same rationale would not apply here, especially since no intervenors objected to the provision. Further, the Commission has not explained why it approved several Transmission Owners' individual small generator procedures that contain the same provision even though those tariffs were not subject to the independent entity variation. The Commission's rejection of the provision in CAISO's small generator procedures creates a discriminatory situation in

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<sup>42</sup> CAISO Queue Order, 124 FERC ¶ 61,292 at 4 and 8.

<sup>43</sup> *Id.* P 2.

<sup>44</sup> Underlying Order, 121 FERC ¶ 61,177 at P 59.

<sup>45</sup> See *Southern California Edison Co.*, 110 FERC ¶ 61,176, at P 31 (2005), *order on reh'g*, 112 FERC ¶ 61,036 (2005); *Southern California Edison Co.*, 113 FERC ¶ 61,022, at P 28 (2005); and *Southern California Edison Co.*, 114 FERC ¶ 61,197 (2006) (order approving uncontested settlement).

which all generators interconnecting to a utility's Distribution System are required to comply with the participating Transmission Owner's Interconnection Handbook, but small generators connecting to the CAISO Controlled Grid are not so required.<sup>46</sup>

27. Finally, the Joint Parties explain that while the Commission accepted the definition of Interconnection Handbook in Interconnection Agreement Attachment 1, it was silent on the requirement in Interconnection Agreement article 1.5.4 that the Interconnection Customer comply with the applicable PTO's Interconnection Handbook. The Joint Parties seek clarification that the Commission intended to accept that provision.<sup>47</sup>

**b. Commission Determination**

28. We will grant rehearing on this issue. Upon further consideration, we agree with the Joint Parties and PG&E that the Commission has allowed a participating Transmission Owner to require compliance with its interconnection handbook.<sup>48</sup> In the order accepting such a provision in the Large Generator IP docket, the Commission found that "each PTO's transmission system may have certain standards and protocols for the interconnection of new generation that must be followed in order to protect the safety and reliability of those systems."<sup>49</sup> Accordingly, we will direct CAISO to file revised tariff sheets including Interconnection Procedures section 4.11, as CAISO proposed in its Original Interconnection Procedures Filing.

29. We also clarify that the Commission, in the Underlying Order, accepted the requirement in Interconnection Agreement article 1.5.4 that the Interconnection Customer comply with the applicable participating Transmission Owner's Interconnection Handbook.

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<sup>46</sup> Joint Parties' Rehearing Request at 11.

<sup>47</sup> *Id.* at 12 (citing Underlying Order, 121 FERC ¶ 61,177 at P 114-115).

<sup>48</sup> See *Southern California Edison Co.*, 110 FERC ¶ 61,176 at P 31; *Southern California Edison Co.*, 113 FERC ¶ 61,022 at P 28; July 2005 Order, 112 FERC ¶ 61,009 at P 167-169.

<sup>49</sup> July 2005 Order, 112 FERC ¶ 61,009 at P 167-169.

**5. Interconnection Agreement article 1.7: Revenue Quality Metering**

30. In the Joint Parties' Interconnection Agreement Filing, they proposed a variation to Interconnection Agreement article 1.7, similar to what is in their Large Generator Interconnection Agreement. It would state that the Participating Transmission Owner may install (at the generator's expense) additional revenue quality metering and associated equipment under its retail tariff.<sup>50</sup> In the Underlying Order, the Commission rejected the Joint Parties' proposal, finding that such a requirement could result in an excessive cost burden on small generators.<sup>51</sup>

**a. Rehearing Request**

31. PG&E requests rehearing, arguing that revenue quality metering basically entails the same equipment and that the current cost of revenue quality metering is comparable to other types of meters (panel type meters) used for other applications.<sup>52</sup>

**b. Commission Determination**

32. We will deny rehearing. As the Commission stated in the Underlying Order, "[w]hile we understand that additional revenue quality metering may allow for better information to be collected from the small generators, we are concerned that allowing the [participating Transmission Owners] to install these meters could result in an excessive cost burden to these small generators."<sup>53</sup> We reiterated that Order No. 2006 was intended to result in procedures and agreements that foster increased development of economic Small Generating Facilities and protect system reliability. However, we stated that our rejection was "without prejudice to the Filing Parties making a showing that their proposal will not make small generators uneconomic."<sup>54</sup> We find that PG&E has not made such a showing here and has not shown that the independent entity variation

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<sup>50</sup> Revenue Quality Meters measure data collected from small generators that meet the standards and requirements established and maintained by the CAISO. *See* CAISO Tariff Appendix A, Master Definitions Supplement.

<sup>51</sup> Underlying Order, 121 FERC ¶ 61,177 at P 95.

<sup>52</sup> PG&E Rehearing Request at 5.

<sup>53</sup> Underlying Order, 121 FERC ¶ 61,177 at P 95.

<sup>54</sup> *Id.* n.71.

standard is met. For example, PG&E has not shown that the cost of revenue quality meters is comparable to the cost of other types of meters. Thus, we find that requiring small generators to provide for such meters may hamper their development and we are not convinced that it is necessary in every instance.

**6. Interconnection Agreement article 6.1.2 - Billing and Payment Procedures and Final Accounting**

33. In the Underlying Order, the Commission rejected the Joint Parties' proposed variation from the Commission's *pro forma* Interconnection Agreement article 6.1.2. That would have added three months (for a total of six months) to the amount of time that the PTO has to provide the Interconnection Customer with the final accounting report of the difference between the actual costs of the Interconnection Facilities and Upgrades and the Interconnection Customer's payments for these Facilities and Upgrades.<sup>55</sup>

**a. Rehearing Request**

34. The Joint Parties assert that the Commission erred by rejecting this variation.<sup>56</sup> They explain that the mere fact that a generating facility is under 20 megawatts does not mean that the facilities built to accommodate such interconnection will be any less complex than those required to accommodate a generating facility that is over 20 megawatts. In support, the Joint Parties point to a 2.4 MW project, which they state demonstrates that interconnecting small generating facilities may necessitate substantial upgrades. Thus, the Commission's conclusion that less time is needed to generate a final invoice under the Small Generator Interconnection Agreement than under the Large Generator Interconnection Agreement is unsupported.

35. Moreover, the Joint Parties assert that the Commission has not explained why it granted their request for an extension of time for a true-up under the Large Generator Interconnection Agreement, but not under the Small Generator Interconnection Agreement. They note that while article 12.2 of the Commission's *pro forma* LGIA provides that the Transmission Provider has six months after completing the construction of the relevant facilities to provide a final cost accounting, the Commission accepted the Joint Parties' request, based on the independent entity variation, that the PTOs be granted 12 months after the completion of construction to true up the costs of the facilities.<sup>57</sup>

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<sup>55</sup> Underlying Order, 121 FERC ¶ 61,177 at P 110.

<sup>56</sup> Joint Parties' Rehearing Request at 12-13.

<sup>57</sup> *Id.* at 14.

They argue that the Commission failed to explain why it granted the extension under the Large Generator Interconnection Agreement, but not under the Small Generator Interconnection Agreement.

36. Further, the Joint Parties argue that three months is not sufficient time for the utilities to process all invoices related to the construction of the relevant facilities. They assert that the PTOs have performed numerous interconnections, and their experience has demonstrated that a minimum of six months (and preferably twelve months) is necessary to allow for receipt of invoices from vendors once the project is technically complete, processing such invoices, and internal accounting and recordkeeping. The Joint Parties explain that three months is not sufficient time for PTOs to review and process invoices if there is any delay by one or more vendors. This puts the PTO in the difficult position of either sending a final invoice to the Interconnection Customer before all charges are received and properly authenticated (which could be to the detriment of the Interconnection Customer) or risking the loss of a portion of its prudently incurred costs that are properly attributable to the Interconnection Customer. The Joint Parties urge the Commission to provide the PTOs with six months to submit a final cost accounting to the Interconnection Customer.

**b. Commission Determination**

37. We will grant the Joint Parties' request for rehearing. As noted above, in the Underlying Order, we found that the Joint Parties' proposal to add three months (for a total of six months) to Interconnection Agreement article 6.1.2 was not sufficiently supported under the independent entity variation standard because they had "not shown that more time is needed."<sup>58</sup> Upon further consideration, and based on the Joint Parties' explanation on rehearing, we agree that three months is not enough time to process all invoices related to the construction of the facilities. Accordingly, we will direct the Joint Parties to file revised tariff sheets stating that PTOs are allowed six months to provide a final accounting of construction costs under Interconnection Agreement article 6.1.2.

**7. Article 12.12 - Reservation of Rights**

38. In the Joint Parties' Interconnection Agreement Filing, they proposed a variation from Interconnection Agreement article 12.12, Reservation of Rights, setting forth the respective section 205 of the Federal Power Act (FPA)<sup>59</sup> filing rights between the PTOs

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<sup>58</sup> Underlying Order, 121 FERC ¶ 61,177 at P 110.

<sup>59</sup> 16 U.S.C. § 824d (2006).

and CAISO and listing the articles of the Interconnection Agreement regarding those filing rights for each party.<sup>60</sup> In the Underlying Order, the Commission rejected the Filing Parties' proposal.<sup>61</sup>

**a. Rehearing Request**

39. The Joint Parties argue that the Commission erred by rejecting proposed Interconnection Agreement article 12.12, which sets forth the respective FPA section 205 filing rights of the PTOs and CAISO. The Joint Parties note that, in the order accepting the Large Generator IA, the Commission accepted the parties' proposal to allocate FPA section 205 between CAISO and the PTOs, concluding that:

[V]oluntary agreements to allocate these [section 205] rights may be acceptable where the interests of the region as a whole and market participants are properly safeguarded. The Filing Parties' proposal satisfies this standard.<sup>62</sup>

40. The Joint Parties assert that Commission's rationale for rejecting this provision for the Interconnection Agreement – that the Interconnection Agreement should be shorter and less complex for small generators – is not sufficient because the provision does not restrict the rights of generators.<sup>63</sup> They explain that while the additional language in the Reservation of Rights section makes the Interconnection Agreement slightly longer, it does not make it any more complex for the generator. The changes protect the Interconnection Customer from a PTO or CAISO making a section 205 filing to change a provision of the Interconnection Agreement in which it does not have a direct interest. Further, they state that the provision does not limit the Interconnection Customers' rights under the Interconnection Agreement.

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<sup>60</sup> The *pro forma* Interconnection Agreement article 12.12 sets forth a generic filing rights clause and does not list the articles of the Interconnection Agreement that apply to each party.

<sup>61</sup> Underlying Order, 121 FERC ¶ 61,177 at P 112.

<sup>62</sup> July 2005 Order, 112 FERC ¶ 61,009 at P 183.

<sup>63</sup> Joint Parties' Rehearing Request at 19.

**b. Commission Determination**

41. We will grant rehearing. Upon further consideration, we agree with the Joint Parties that the Interconnection Agreement will not be significantly longer or more complex because of this provision. In accepting a similar provision in LGIA article 30.11,<sup>64</sup> the Commission found that the Joint Parties' proposal was reasonable and "the kind of voluntary proposal allowed under the FPA."<sup>65</sup> We held that "[u]nder these circumstances, voluntary filing rights arrangements among these public utilities, whose rights would otherwise overlap, is consistent with Commission policy where the interests of the CAISO region and market participants are safeguarded."<sup>66</sup> However, the Commission accepted the Joint Parties' proposal "with the express understanding that our acceptance is meant to accommodate the parties' voluntary allocation of authority to accord the PTOs certain filing rights [and that] [n]o PTO filing can or will become effective, and thus binding on any entity, absent Commission review and approval."<sup>67</sup>

42. Accordingly, we will direct the Joint Parties to file amended tariff sheets containing Interconnection Agreement article 12.12, as proposed in their Interconnection Agreement Filing. We note that no right accorded to any Transmission Owner under the Joint Parties' proposal will prohibit the Commission from exercising our full authority under section 206 of the FPA,<sup>68</sup> as may be necessary, or will prohibit any market participant from seeking the relief available under the FPA.

**B. Compliance Filings**

43. On December 13, 2007, as revised on December 17, 2007, CAISO filed a revised Interconnection Procedures in response to the Underlying Order. Also on December 13, 2007, the Joint Parties' filed a revised Interconnection Agreement in response to the Underlying Order.

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<sup>64</sup> CAISO Tariff Appendix V, LGIA article 30.11, Original Sheet No. 1741.

<sup>65</sup> July 2005 Order, 112 FERC ¶ 61,009 at P 183 (citing *Atlantic City Electric Company v. FERC*, 295 F.3d 1, at 10 (D.C. Cir. 2002)).

<sup>66</sup> *Id.*

<sup>67</sup> July 2005 Order, 112 FERC ¶ 61,009 at P 184.

<sup>68</sup> 16 U.S.C. § 824e (2006).

44. We will accept CAISO's and the Joint Parties' compliance filings, subject to the modifications discussed above. We direct the CAISO and the Joint Parties to submit a compliance filing reflecting the changes discussed above within 30 days of the date of this order.

The Commission orders:

(A) The requests for rehearing of the Underlying Order are hereby granted in part and denied in part, as discussed in the body of this order.

(B) CAISO's and the Joint Parties' compliance filings are hereby accepted, subject to the modifications discussed in the body of this order.

(C) CAISO and the Joint Parties are hereby directed to submit a compliance filing, as discussed in the body of this order, within 30 days of the date of this order.

By the Commission. Commissioner Kelliher is not participating.

( S E A L )

Nathaniel J. Davis, Sr.,  
Deputy Secretary.