

DRAFT
Forward Capacity Market
Generator Interconnection Process Stakeholder Group
Conditional Qualified Capacity Resources Term Sheet
April 9, 2008

I. Forward Capacity Auction Qualification

- A. Under current Forward Capacity Market 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, with priority given to resources that entered the queue earlier. These resources 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.
- B. 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.

II. Forward Capacity Auction Mechanics

- A. As long as the Primary Resource remains in the FCA, it will clear the auction. A Primary Resource that withdraws based on price 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replaced by the Conditional Resource(s) later in the transmission queue, provided the Conditional Resource(s) has not withdrawn at an earlier price.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 prevailing price in the FCA.
- B. 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. A queue position is required when qualifying for the FCA. The two choices are as follows:

- a. 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.
- b. 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.

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. This feature limits the magnitude of the advantage offered by the higher transmission queue position to a Primary Resource.

- C. 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.

III. Overlapping Impact Deliverability Standard

- A. An overlapping transmission deliverability standard will be incorporated into the Open Access Transmission Tariff (“OATT”) Large/Small Generator Interconnection Procedures (“LGIP/SGIP”). Analysis would be limited to the “group” of resources being evaluated 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”. 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. The adoption of this criterion would meet the requirement to address an intra-zonal deliverability standard in the LGIP/SGIP. An “Energy Only” interconnection product would be created for those resources that do not elect to become capacity resources.

IV. Long Lead Time Capacity Resources

- A. Power plants with development life-cycles that are longer than the time between when the FCA is conducted and the beginning of the Capacity Commitment Period will be allowed advance opportunity to study and “secure” transmission plans/obligations sufficient for FCM participation through the LGIP process. The long-lead facility would participate in “near-term” FCA Overlapping Impact analysis, thereby securing its overlapping interconnection space until a FCA occurs in which the facility elects to clear and obtain an obligation. In order to sustain this treatment, such resources would have to demonstrate compliance with a project development schedule. The resource would also have to provide similar financial commitments as those resources that clear in an FCA and would have to begin immediate

payment such that transmission construction of any needed upgrades may proceed to minimize uncertainty for other projects.

V. Optional Studies

- A. Under an optional study, a developer can specify the assumptions for earlier queued generation that would be modeled 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 done in the group study. Note that such an optional study would not override the final outcome of the overlapping impact group study. Finalization of the overlapping impact analysis would occur after the FCA in which the generator obtains an obligation.
- B. The generator could interconnect with a subordinate Minimum Interconnection status to earlier queued units. If the earlier queued units also interconnected, then the developer may have more Minimum Interconnection upgrades than those identified in the optional study. If the earlier queued units did not interconnect, then the developer may have no further Minimum Interconnection upgrade obligations.