

resources that will compete in the wholesale electricity market, and facilitate development of non-polluting alternative energy sources (such as photovoltaic, fuel cell, and wind generators).

2. The Proposed SGIP sets forth the procedures that Interconnection Customers and Transmission Providers would be required to follow during the interconnection process.² Included in the Proposed SGIP are (1) the application form (referred to as the Interconnection Request), (2) Super-Expedited Procedures for interconnecting Precertified Small Generating Facilities no larger than 2 MW to a Low-Voltage Transmission System (*i.e.*, less than 69 kilovolts), (3) Expedited Procedures for interconnecting Small Generating Facilities larger than 2 MW but no larger than 10 MW to a Low-Voltage Transmission System, (4) procedures for interconnecting Small Generating Facilities to a High-Voltage Transmission System (*i.e.*, 69 kilovolts and above) and Small Generating Facilities larger than 10 MW interconnecting with a Low-Voltage Transmission System.

3. The Proposed SGIA sets forth the legal rights and obligations of each Party, addresses cost responsibility issues, establishes Milestones for the completion of the interconnection, and lays out a process for the resolution of disputes.

4. In this NOPR, we propose standard procedures and a standard agreement to be used by a public utility to interconnect a Small Generator with the utility's transmission facilities or with its jurisdictional distribution facilities for the purpose of selling electric energy at wholesale in interstate commerce.

A. Background

5. This NOPR responds to business and technology changes in the electric industry. Where the electric industry was once primarily the domain of large, vertically integrated utilities generating power at large centralized plants,

² Unless otherwise defined in this Preamble, capitalized terms used in this NOPR have the meanings specified in Section 1 of the Proposed SGIP and Article 1 of the Proposed SGIA. The term Generating Facility means the specific device for which the Interconnection Customer has requested interconnection. The owner of the Generating Facility is referred to as the Interconnection Customer. The entity with which the Generating Facility is interconnecting is referred to as the Transmission Provider. The term Small Generator is intended to refer to any energy resource having a capacity of no more than 20 megawatts, or the owner of such a resource. Likewise, Large Generator refers to any energy resource having a capacity of more than 20 megawatts, or the owner of such a resource.

advances in technology have created a burgeoning market for small power plants that may offer economic, reliability, or environmental benefits.

6. With these developments in mind, the Commission continues to work to encourage fully competitive bulk power markets. The effort took its first significant step with Order No. 888,³ which required public utilities to provide other entities comparable access to their transmission systems, and continued with Order No. 2000,⁴ which began the process of developing Regional Transmission Organizations (RTOs). The Commission has taken numerous actions to establish and protect robust, seamless, and competitive wholesale electricity markets.⁵ Concurrent with the issuance of this NOPR, the Commission is issuing a Final Rule establishing standard interconnection procedures and a standard agreement for large generators to further encourage fully competitive bulk power markets and much-needed investment in generation.⁶

7. The Commission continues to seek the establishment of robust competitive wholesale electric markets.⁷ A recent Commission White Paper stated the Commission's intent to focus on the formation of RTOs and Independent System Operators (ISOs) and on ensuring that RTOs and ISOs have good wholesale market rules in place.⁸ It proposed to require all public utilities to join an RTO or ISO. Further, the White

³ Promoting Wholesale Competition Through Open Access Non-Discriminatory Transmission Services by Public Utilities; Recovery of Stranded Costs by Public Utilities and Transmitting Utilities, Order No. 888, 61 FR 21540 (May 10, 1996), FERC Stats. & Regs. ¶31,036 (1996), *order on reh'g*, Order No. 888-A, 62 FR 12274 (Mar. 14, 1997), FERC Stats. & Regs. ¶31,048 (1997), *order on reh'g*, Order No. 888-B, 81 FERC ¶61,248 (1997), *order on reh'g*, Order No. 888-C, 82 FERC ¶61,046 (1998), *aff'd in relevant part sub nom. Transmission Access Policy Study Group v. FERC*, 225 F.3d 667 (D.C. Cir. 2000), *aff'd sub nom. New York v. FERC*, 535 U.S. 1 (2002).

⁴ Regional Transmission Organizations, Order No. 2000, 65 FR 810 (Jan. 6, 2000), FERC Stats. & Regs. ¶31,089 (1999), *order on reh'g*, Order No. 2000-A, 65 FR 12088 (Mar. 8, 2000), FERC Stats. & Regs. ¶31,092 (2000), *aff'd sub nom. Public Util. Dist. No. 1 v. FERC*, 272 F.3d 607 (D.C. Cir. 2001).

⁵ *E.g.*, Remedying Undue Discrimination Through Open Access Transmission Service and Standard Electricity Market Design, Notice of Proposed Rulemaking, 67 FR 55452 (Aug. 29, 2002), FERC Stats. & Regs. ¶32,563 (2002).

⁶ Standardization of Generator Interconnection Agreements and Procedures, Final Rule, Docket No. RM02-1-000 (issued concurrently with this NOPR).

⁷ *E.g.*, Remedying Undue Discrimination Through Open Access Transmission Service and Standard Electricity Market Design, Notice of Proposed Rulemaking, 67 FR 55452 (Aug. 29, 2002), FERC Stats. & Regs. ¶32,563 (2002).

⁸ White Paper: Wholesale Power Market Platform, Docket No. RM01-12-000 (Apr. 28, 2003) (White Paper).

Paper stated that all RTOs and ISOs would, with limited exceptions, be required to implement a wholesale market platform consisting of elements that must be in place for well-functioning wholesale markets: (1) Regional independent grid operation, (2) a regional transmission planning process, (3) fair cost allocation for existing and new transmission, (4) market monitoring and market power mitigation, (5) spot markets to meet real-time energy needs, (6) transparency and efficiency in congestion management, (7) firm transmission rights; and (8) a regional approach to ensuring resource adequacy. Also, an RTO or ISO may propose participant funding for transmission upgrades for a generator interconnection, and, for a transitional period not to exceed a year, a region may use participant funding as soon as an independent entity has been approved by the Commission and the affected states.

B. Generator Interconnections

8. While the subject of generator interconnection arose in the Order No. 888 rulemaking, no explicit reference to it appeared in the OATT. Nevertheless, interconnection is a critical component of open access transmission service, and the Commission must ensure that interconnection service is provided under just and reasonable terms and conditions.

9. Entities seeking to interconnect generators have been hindered by the lack of standard interconnection procedures and agreements. Standard interconnection procedures limit opportunities for public utilities that own both generation and transmission to favor their own generation and help produce just and reasonable interconnection charges for generators. A standard interconnection agreement reduces market entry costs for generators and offers them access to regional energy markets on standard terms.

10. As discussed below, after the Commission initiated its interconnection NOPR in Docket No. RM02-1-000, Standardization of Generator Interconnection Agreements and Procedures, it became apparent that the rule as proposed might not sufficiently encourage the development of small generators, and that there needed to be a separate interconnection agreement and set of procedures designed specifically for small generators.

11. The effort to generically address Small Generator interconnection issues presents numerous challenges. The electric industry is faced with the