

40.17 Headroom

40.17.1 Headroom Accounting

If, pursuant to these rules, an Interconnection Customer, Connecting Transmission Owner, Affected Transmission Owner, Affected System Operator, or Load Serving Entity (each an “Entity”) pays for any Distribution Upgrades, System Upgrade Facilities or System Deliverability Upgrades, or for any Attachment Facilities or Distribution Upgrades that are later determined to be Distribution Upgrades, System Upgrade Facilities or System Deliverability Upgrades, that create “Headroom,” and pays for the Headroom that is created, then that Entity will be paid the depreciated cost of that Headroom by the Interconnection Customer of any subsequent Project that interconnects and uses the Headroom within the applicable period of time following the creation of the Headroom, as specified in Section 40.17.1.3 herein. The ISO will depreciate Headroom cost in accordance with Section 40.17.1.3 herein.

40.17.1.1 Interconnection Customers of terminated Projects who have paid for Headroom with forfeited cash or Security instruments, as well as Interconnection Customers of completed Projects who have paid for Headroom, will be repaid in accordance with these rules.

40.17.1.2 The Interconnection Customer of the subsequent Project shall pay the prior Entity as soon as the cost responsibilities of the subsequent Interconnection Customer are determined in accordance with these rules. In the case of Headroom created by Load Serving Entity funding Highway System Deliverability Upgrades pursuant to Schedule 12 of the ISO OATT, the Interconnection Customer of the subsequent Project shall pay the Connecting Transmission Owner, and any Affected Transmission Owner(s) or Affected System Operator, that are receiving

or will receive Load Serving Entity funding for the Highway System Deliverability Upgrades pursuant to Schedule 12 of the ISO OATT. Upon receipt of the Interconnection Customer's Headroom payment, the Connecting Transmission Owner and any Affected Transmission Owner(s) or Affected System Operator, will make the rate adjustment(s) called for by Section 6.12.4.1.3 of Schedule 12 of the ISO OATT.

40.17.1.3 The ISO will determine the depreciated cost of the Distribution Upgrades, System Upgrade Facilities and/or System Deliverability Upgrades associated with the Entity-created Headroom using one of the following two methods:

40.17.1.3.1 In all cases except the case of Highway System Deliverability Upgrades funded by Load Serving Entities pursuant to Schedule 12 of the ISO OATT, the ISO will use the FERC-approved depreciation schedule applied to comparable facilities by the Connecting Transmission Owner or the applicable Affected Transmission Owner or Affected System Operator. The ISO will depreciate the Headroom cost annually, starting with the year when the Headroom account is first established.

40.17.1.3.2 In the case of Highway System Deliverability Upgrades funded by Load Serving Entities pursuant to Schedule 12 of the ISO OATT, the ISO will use the FERC-approved depreciation schedule applied to the particular Highway System Deliverability Upgrades by the Connecting Transmission Owner or the applicable Affected Transmission Owner or Affected System Operator pursuant to Schedule 12 of the ISO OATT. The ISO will depreciate the Headroom cost annually, starting with the year the Highway System Deliverability Upgrade is placed in

service. If a Cluster Study Deliverability Study or Additional SDU Study determines that an Interconnection Customer in such study uses Headroom on such a Highway System Deliverability Upgrade before the Highway System Deliverability Upgrade has been placed in service, the ISO will calculate the Headroom use payment obligation of the Interconnection Customer using the undepreciated cost of the Headroom.

40.17.1.4 Entity-created Headroom will be measured by the ISO in accordance with these rules. The use that a subsequent Project makes of Entity-created Headroom will also be measured by the ISO in accordance with these rules.

40.17.1.4.1 In the case of Headroom on Distribution Upgrades, System Upgrade Facilities that have an excess functional capacity not readily measured in amperes or other discrete electrical units, the use that each subsequent Project makes of the Entity-created Headroom will be measured solely by using the total number of Projects in the current and prior Cluster Studies and Class Years needing or using the System Upgrade Facility.

40.17.1.4.1.1 The use that each Project in a subsequent Cluster Study makes of Headroom on such a Distribution Upgrade or System Upgrade Facility will be measured as an amount equal to $(1/b)$, where “b” is the total number of Projects in all prior and current Cluster Studies and Class Years using the System Upgrade Facility.

40.17.1.4.1.2 Each Interconnection Customer in a subsequent Cluster Study that uses Headroom on such a Distribution Upgrade or System Upgrade Facility will make a Headroom payment to all prior Interconnection Customers that have previously

made payments for that Distribution Upgrade or System Upgrade Facility, both the prior Interconnection Customers that have previously made Headroom payments and the Interconnection in the first Class Year or Cluster Study, as applicable, that paid for the original installation of the Distribution Upgrade or System Upgrade Facility. The amount of the Headroom payment to each prior Interconnection that each Interconnection Customer in a subsequent Cluster Study must make for its use of Headroom on such a Distribution Upgrade or System Upgrade Facility will be an amount equal to $c/(b) \times (d)$, where “c” is the depreciated cost of the Distribution Upgrade or System Upgrade Facility at the time of the subsequent Cluster Study, “b” is the total number of Projects in all prior and current Class Years and Cluster Studies using the Distribution Upgrade or System Upgrade Facility, and “d” is the total number of Projects in all the prior Class Years and Cluster Studies that have previously made payments for the Distribution Upgrade or System Upgrade Facility, both Headroom payments and payments for original installation.

40.17.1.4.2 In the case of Distribution Upgrades, System Upgrade Facilities or System Deliverability Upgrades that have an excess capacity readily measured in amperes or other discrete electrical units, the use the subsequent Project makes of the Entity-created Headroom will be measured in terms of the electrical impact of the subsequent Project, as that electrical impact is determined by the ISO in accordance with these rules.

40.17.1.4.3 The ISO will publish accounts showing the Headroom for each Interconnection Customer and other Entities, and will update those accounts to

reflect the impact of subsequent Projects. With the exception of Headroom on Highway System Deliverability Upgrades funded by Load Serving Entities pursuant to Schedule 12 of the ISO OATT, the ISO will close the Headroom account of an Entity when the electrical values in the account are reduced to zero or when ten years have passed since the establishment of the account, whichever occurs first.

40.17.1.4.3.1 In the case of Headroom on Highway System Deliverability Upgrades funded by Load Serving Entities pursuant to Schedule 12 of the ISO OATT, the ISO will close the Headroom account of the Load Serving Entity when the MW value in the account is reduced to zero, or at the end of the useful financial life of the Highway System Deliverability Upgrades, whichever occurs first.

40.17.1.4.4 If a subsequent Interconnection Customer uses up all the Headroom of an earlier Entity, and also triggers the need for a new Distribution Upgrade, System Upgrade Facility or System Deliverability Upgrade, then the subsequent Interconnection Customer will pay the Connecting Transmission Owner, Affected Transmission Owner, or Affected System Operator for the new Distribution Upgrade, System Upgrade Facility or System Deliverability Upgrade, but will not pay the earlier Entity for the Headroom used up or the account extinguished. However, the earlier Entity will get a new Headroom account and a *pro rata* share of the Headroom in the new Distribution Upgrade, System Upgrade Facility or System Deliverability Upgrade purchased by the subsequent Interconnection Customer. The economic value of this *pro rata* share will be equal to the

economic value of the earlier Entity's Headroom account that was extinguished by the subsequent Interconnection Customer.

40.17.1.5 The Interconnection Customer of the subsequent Project shall pay the prior Entity within the five (5) business day period specified in Section 40.15.2.8 of this Attachment HH. Headroom obligations related to a Distribution Upgrade or System Upgrade Facility that has been fully constructed must be satisfied by cash payment. All remaining Headroom obligations may be satisfied by a form of "Headroom Security" – a bond, irrevocable letter of credit, parent company guarantee or other form of security from an entity with an investment grade rating, executed for the benefit of the prior Entity, meeting the requirements of these cost allocation rules, and meeting the respective commercially reasonable requirements of the prior Entity. Headroom Security shall be posted to cover the period ending on the date on which full payment is made to the prior Entity for the Headroom obligation; *provided, however*, that Headroom Security may be posted with a term as short as one year, so long as such Headroom Security is replaced no later than fifteen (15) business days before its stated expiration. In the event Headroom Security is not replaced as required in the preceding sentence, the prior Entity shall be entitled to draw upon the Headroom Security and convert it to cash, which cash shall be held by the prior Entity for the account of the Interconnection Customer.

40.17.2 Headroom Account Adjustments in the CBA

In addition to the adjustments made by the ISO in Headroom accounts to reflect the impact of subsequent Projects, the ISO will make other adjustments to Headroom accounts when

preparing for each Cluster Baseline Assessment. The ISO will make these adjustments to reflect the impact of changes in the Existing System Representation modeled for the Cluster Baseline Assessment that result from the installation, expansion or retirement of generation and transmission facilities for load growth and changes in load patterns. Such changes in the Existing System Representation can also result from changes in these rules or the criteria, methods, or software used to apply these rules.

40.17.2.1 No compensation will be paid as a result of these changes to the Existing System Representation. However, the ISO will adjust the ratios of dollars to electrical values in each Entity's account to maintain the economic value of the Entity's account that existed before the changes were made in the Existing System Representation.

40.17.2.2 The ISO will make no adjustments to Headroom accounts for the impact of subsequent generic solutions, except in those cases where the generic solution is a Cluster Study Project and the adjustment is made to reflect the impact of the Cluster Study Project.

40.17.3 Rate Base Facilities

With the exception of Interconnection Customer's use of Headroom created by Load Serving Entity funding of Highway System Deliverability Upgrades pursuant to Schedule 12 of the ISO OATT, Interconnection Customers are not charged for their use of any rate base facilities, except to the degree applicable as customers taking service in accordance with the rates, if any, that apply to those facilities.