Submit comment on discussion paper

Initiative: Interconnection process enhancements 2023

1. Please provide a summary of your organization's comments on the 2023 Interconnection Process Enhancements (IPE) track 2 discussion paper and stakeholder call.

CESA appreciates the opportunity to provide feedback on the California Independent System Operator (CAISO or ISO) discussion paper regarding Track 2 of the 2023 IPE initiative. We also support the ISO's decision to issue this paper with the intent to stimulate discussion among stakeholders regarding the problems the initiative seeks to address and the potential concepts that could be further developed for that purpose. In the spirit of fostering conversation around the elements included in the discussion paper, CESA submits the following high-level comments:

- The ISO's problem statement should include recognition of the need to bolster planning and engineering resources.
- CESA offers feedback and reactions to the Concepts presented in the Discussion paper but refrains from formally endorsing or opposing any of the Concepts at this time.
    - Concept 1 warrants further investigation, but decisions surrounding Options 1 and 2 will have an impact on its timeline and competitiveness.
    - CESA has strong reservations regarding Concept 2 as written since it shifts the power of shortlisting to off-takers and creates cost risks for projects.
    - CESA has some reservations regarding Concept 3 since it is novel, complex, and could become a race to the top that limits competition and increases ratepayer costs; to avoid that, the ISO could wait and look at developments in other jurisdictions (Federal, other RTOs).

2. Please provide feedback on whether the proposed problem statement below addresses the issues associated with new interconnection requests for clusters 14 and 15 and possible trends in future interconnection requests.

The massive increase in interconnection requests seeking to meet the accelerated cadence of resource development now needed by the state on a sustained basis has overwhelmed critical planning and engineering resources across the industry. The current generator interconnection processes simply cannot efficiently accommodate all applicants, and must be substantially redesigned to meet state policy and reliability needs.

The ISO's problem statement should include recognition of the need to bolster planning and engineering resources

CESA appreciates the ISO's work to try and identify a concise problem statement that captures the extraordinary circumstances faced by participating transmission owners (PTOs), the ISO, developers, and load-serving entities (LSEs) with regards to QC 14 and 15. Overall, the ISO's proposed problem statement captures that given the increase in commercial interest and interconnection requests, these are unprecedented circumstances. Nevertheless, the problem statement is overly focused on the means to redesign or revamp the interconnection process in order minimize the applications considered and does not include consideration of ways the ISO and PTOs can bolster their planning and engineering resources. In essence, the problem statement

assumes that the “critical planning and engineering resources across the industry” are fixed and at capacity, thus framing the problem as one solely focused on limiting the consideration of applications. In order to better reflect the issues at hand, CESA recommends the following problem statement:

“The massive increase in commercial interest to serve California loads has resulted in a surge of interconnection requests that have overwhelmed current critical planning and engineering resources across the industry. In order to meet the accelerated cadence of resource development now needed by the state on a sustained basis, planning and engineering resources must be bolstered, and the current generator interconnection processes must be substantially redesigned to be more efficient and meet State policy and reliability needs.”

3. Please provide feedback on whether the proposed problem statement below appropriately addresses the issues associated with the number of projects in the existing queue that are neither progressing to construction nor withdrawing from the queue.

Following the study process, many projects in the interconnection queue do not proceed to commercial operations as expected. The current processes for managing the queue do not facilitate a timely development process, and a number of projects remain in the queue without indication of their near-term viability or intent to proceed to contracting or construction.

CESA agrees with the problem statement above as it fairly represents the challenges associated with managing projects within the queue and looks forward to further refining the matter with other stakeholders within the working group process.

4. Provide your organization’s high-level comments on each of the three Concepts for Managing Interconnection Request Intake, as described in section 4 of the discussion paper.

In this section, CESA provides our initial high-level comments and reactions to the three Concepts explored in Section 4 of the Discussion Paper. At this time, CESA does not categorically endorse or oppose any of these concepts, but we do have certain reservations regarding Concepts 2 and 3 as described in the Discussion Paper. In addition, we encourage the ISO staff to be cognizant of the Federal Energy Regulatory Commission’s (FERC) Open Access Transmission Tariff (OATT) requirements and consider how all the Concepts described in the Discussion paper could potentially conflict with the OATT.

In this context, CESA hopes these initial comments can help ISO staff and other stakeholders inform their participation in the upcoming Working Groups, as well as any alternative proposals stakeholders put forth in the coming weeks. CESA urges the ISO to thoroughly consider alternative proposals by stakeholders within the Working Group process so as to avoid prescribing the potential solution to any of the three Concepts described in the Discussion Paper.

Concept 1 warrants further investigation, but decisions surrounding Options 1 and 2 will have an impact on its timeline and competitiveness.

In Concept 1, CAISO proposes the use of a qualification process for determining projects studied for Full Capacity Delivery Status (FCDS) and a study path for all others. Within this concept, the ISO proposed categorizing interconnection requests by the TPP zone to which each project is seeking to interconnect and two potential options to consider for the study process and TPD allocation (i.e., Option 1 & Option 2). While the concepts and options proposed by the ISO still need further

discussion and development, CESA believes that Option 1, which proposes to "study interconnection request megawatts (MW) in each zone that in aggregate are somewhat greater than the available transmission capacity" might result in extensive stakeholder debate regarding the eligibility criteria; considering that the main hurdle developers face to be studied for deliverability under both Option 1 & 2 will be meeting criteria that will be developed to demonstrate a project's level of development maturity, as discussed in section 2.1 of Concept 1.

By contrast, Option 2 within Concept 1 proposes to study twice the amount of interconnection request MWs than what is available or planned in each zone. Compared to Option 1, Option 2 might reduce the potential extensive and contentious debates when developing the scoring criteria for projects competing to be studied as mentioned in section 2.1 of Concept 1 (i.e., Step 1). However, the downside to Option 2 as mentioned by the ISO is that Option 2 would require extra time to complete the TPD allocation using the current process. This being said, the potential benefits of Option 2 when compared to Option 1 heavily outweigh the cons. For example, studying twice the MWs than what is planned or available in a zone would require extra time to complete TPD allocation, but it would allow for greater competition and could subsequently lead to significant cost-minimization since the number of projects being studied and considered will be approximately double than what is proposed in Option 1. This would give LSEs a bigger pool of high-quality projects to contract with compared to the limited pool that Option 1 would yield.

Importantly, should CAISO decide to pursue either Option 1 or 2 within Concept 1, CESA urges CAISO to not develop a scoring criterion as mentioned in section 2.1 Step 1 that includes requiring a PPA to demonstrate a project's level of development maturity. As previously mentioned by CESA and other stakeholders in previous comments within the 2023 IPE initiative – requiring a PPA to demonstrate a project's level of development maturity would be a non-starter for developers in California and will lead to increased project costs and low-quality projects being procured. That said, CESA strongly urges the ISO to refrain from entertaining the possibility of using a PPA as a metric to demonstrate a project's level of development maturity prior to the completion of Phase II studies and more importantly if coupled with the priority zone approach.

CESA has strong reservations regarding Concept 2 as written since it shifts the power of shortlisting to off-takers and creates cost risks for projects.

The CAISO has proposed a concept that would "only study projects requested by LSEs and other off-takers" which in theory, would help manage interconnection request intake. While CESA appreciates any and every effort made to manage the queue, Concept 2 raises multiple concerns.

First and foremost, CESA believes that Concept 2, as proposed by CASIO, substantially hands the power of choosing winners and losers via the shortlisting process over to the off-takers, essentially make them the sole gatekeepers of development. Having LSEs and other off-takers provide a list of projects before entering Phase I studies that "would be limited to twice the capacity in the LSE's procurement target" results in an overwhelming amount of power for off-takers and limits the process' ability to find cost-effective developments and potential upgrades. Additionally, developing a process that fosters the appropriate amount of transparency, which will inevitably be requested by stakeholders if such a proposal is adopted, could be counterproductive and result in further delays to the process as a whole. Considering that the backlog in the interconnection queue and the delay of study completion has been partly due to the lack of resources available to the industry, including the LSEs, developing a transparent process that provides answers as to why certain projects were chosen by LSEs and other off-takers prior to Phase I studies would likely result in added work for said LSEs that will only perpetuate the issues with limited resources. As a whole, CESA believes that having off-takers shortlist projects would have little impact on process efficiencies and significant

effect on costs. This is due largely to the fact that off-takers don't know the true economics of each project that has not completed interconnection milestones, and as such they are likely to over-procure to deal with this lack of information. As a result, it is likely that Concept 2 would necessitate a similar volume of engineering work while short-listing projects that are not necessarily economic.

All things considered, CESA strongly opposes Concept 2 as proposed by the CAISO, given that this approach would be more counterproductive in the grand scheme of things, would add more work to already resource-constrained LSEs and would tilt the scale of resource planning and development almost fully to LSEs.

CESA has some reservations regarding Concept 3 since it is novel, complex, and could become a race to the top that limits competition and increases ratepayer costs; to avoid that, the ISO could wait and look at developments in other jurisdictions (Federal, other RTOs).

In Concept 3 the ISO proposes using an auction process for each transmission capacity zone where capacity is available. While CESA sees some potential in an auction approach to manage the volume and quality of interconnection requests, it is important to consider that this approach could be overly complex to develop and it could become a race to the top, raising costs for development and limiting participation to a smaller subset of developers and projects.

An auction mechanism could serve to manage the volume of interconnection requests entering the queue, but it is clear that the potential benefits of such a framework would be greater if this approach had been prior to the opening of QC 15. If stakeholders had known from the beginning that an auction mechanism would determine whether projects can move forward towards deliverability allocation it is feasible that the number of requests would have declined as developers would have been aware of the need for additional capital to advance each of their requests. As such, the ISO should consider whether development of this mechanism is timely and if it would actually allow for a more expedited intake and processing of requests.

It is also important to note that the framework put forth in Concept 3 would have to be extensively developed to avoid any unforeseen consequences that can arise from such an approach. For example, an auction approach could create a race to the top by heavily relying on the financial resources available to each developer which could result in a significant advantage for a subset of projects. As such, development of such a framework could be time-consuming since it will be essential to design it in a way that would provide every developer a fair opportunity to be competitive within the auction in order to have their project studied, while materially increasing the certainty of developers that move forward in the auction process.

With this in mind, CESA believes that the auction approach's complexity and its limitations make it so that the best course of action could be to wait and see how such an approach would be implemented in other ISOs/RTOs. It's CESA's understanding that this concept has been considered in other jurisdictions, including at the Federal Energy Regulatory Commission (FERC). In this context, waiting to see how this approach would play out in other regions might be the best course of action. That said, while CESA believes that an auction approach could meet the goals of the ISO for interconnection request management, it could be more effective if adequate time and thought are taken to develop the framework and then apply it to future clusters (i.e., QC 16 and beyond).

5. If your organization would like to present a proposal on an alternative methodology for accomplishing the fundamental principles in the discussion paper at an upcoming working group meeting, please provide a summary of your proposal, including a statement on how

the proposal addresses the problems identified and adheres to the principles outlined in the discussion paper and stakeholder comment.

CESA provides no comments at this time.

6. Provide your organization's comments on the IPE Track 2 proposed scope and schedule.

CESA provides no comments at this time.