

May 23, 2024

Board of Governors
California Independent System Operator
250 Outcropping Way
Folsom CA 95630
Via Email

RE: 2023 Interconnection Process Enhancements Track 2 Proposal

Dear Board of Governors,

Aypa Power has been an active participant in the Interconnection Process Enhancements ("IPE") 2023 stakeholder initiative from the onset. I am writing to you to consider some key and unresolved issues that have been raised throughout the 2023 IPE but have not been provided with sufficient consideration and remain largely unaddressed from the original straw proposal. Aypa and several other stakeholders including generation developers and CAISO transmission owners have provided elements of the feedback summarized in this letter early and repeatedly during the 2023 IPE process that has been largely ignored. Without further improvements we are concerned that a significant number of resources will be consumed supporting Cluster 15 without producing a desirable or meaningful outcome for the CAISO market and ratepayers.

We ask that you direct CAISO to either 1) focus on implementing Order 2023 changes alone for Cluster 15 and continue to work with stakeholders on a more comprehensive reform, 2) remove the zonal, scoring, and auction elements from the current proposal and begin working on a new proposal for Cluster 16, or 3) work with stakeholders to further revise the proposal before work on Cluster 15 commences.

Aypa Power has supported many elements of the proposal, especially changes that seek to place time constraints on projects who have completed the study process to execute GIAs in a timely manner, securitize network upgrades earlier to provide certainty on their timing, and limiting the time projects can hold interconnection service without demonstrating incremental development activity and investment leading to operational projects. CAISO provided data during the IPE that demonstrates there are 10's of GW of projects that have completed studies and have been granted interconnection service with little to no carrying cost to date which has encouraged these projects to hold onto significant amounts of interconnection service and delay their commercial operation dates. This is creating a significant barrier to later queued projects that are willing and ready to move to commercial operations expeditiously. The existing lack of controls represent a significant risk to the CAISO market as to whether sufficient capacity will materialize when it is needed as the hoarding of interconnection service prevents future projects that are mature from entering the market. The current proposal provides several changes to the post-study queue administration process that will eventually lead to a more efficient use of interconnection service but leaves opportunities for accelerated implementation and enforcement, especially on prior clusters.

The details of the current CAISO proposal we are concerned with are rooted in an over-simplified goal of CAISO to limit number of projects entering the interconnection process. We believe that a more robust, efficient, and certain process would allow for reasonable and scalable levels of competition for service while ensuring that only the most-ready and cost-effective projects are granted available interconnection service. The key elements of CAISO's IPE proposal that have not been given sufficient consideration and are not structured to improve the overall quality and effectiveness of the Interconnection Process are as follows.

1. The Zonal approach as proposed is fundamentally flawed and proposes to use irrelevant data to limit participation of projects.
2. The scoring system as proposed gives a majority of control to LSEs who are being tasked to make decisions on the viability of projects with little to no useful information on the timing or cost of interconnection which currently represents the greatest development risk to future generation resources in CAISO.
3. The auction mechanism adds to the cost of developing projects without providing benefits to the CAISO market or ratepayers.
4. CAISO dismissed early developer proposals to restructure, streamline, and automate the interconnection study business practices, committing to revisit and include them in a more comprehensive proposal later in the process but failed to do so.

The Zonal Approach is Fundamentally Flawed

The zonal approach seeks to use data from previously conducted deliverability studies on earlier queue clusters to limit the participation of future interconnection projects. This same data will not be used to evaluate and award deliverability service during the study process. In other ISO footprints with deliverability service, a project has certainty as to what transmission capacity will be available and considered when it enters the interconnection process. The CAISO process as proposed continues to evaluate projects for deliverability up to a year after the 3 year study process has concluded. CAISO seeks to cap the number of projects and limit projects from applying in locations based on data from a point in time before the cluster begins. CAISO then proposes use different data during the allocation process from a point in time years later where deliverability service may decrease or increase significantly as a result of other planning processes.

The current CPUC process that results in CAISO policy and economic driven transmission expansion projects is the largest source of new deliverability capacity. This is an annual process that leads into CAISO's TPP. The CPUC currently uses CAISO interconnection queue location and size information to gauge the viability of developing projects in certain areas as part of their siting process. This is a lagging indicator which does not necessarily represent current feasible or favorable insights into developing projects. Not only does this proposal eliminate this feedback loop without an alternative proposal, but it significantly decreases the certainty of the process. Projects entering the queue face a significant risk that capacity will no longer be available to them when they are eligible for deliverability allocations, as higher queued projects are likely to reserve all this capacity before future projects are eligible. There is also a timing concern that areas with zero deliverability today would not be available for application, requiring a project to wait until

the year after a TPP is passed, then an additional 3 years to be eligible for a TPD allocation.

The Scoring System is Ineffective

The scoring system in its current form gives a majority weight to LSEs without providing them sufficient, objective information to evaluate a project's feasibility, cost, or timing to interconnect. While deliverable capacity is a differentiator in project value and success, projects still face significant risks against interconnection facility, reliability, and local deliverability network upgrade costs, timing, and feasibility. Historically LSEs have utilized interconnection study reports to provide them with detailed and independent estimates to quantitatively judge a project's cost and viability. There is no alternative proposed to fill this gap in information as the study process was designed to provide this information. Any alternatives outside of a definitive study process would not provide the level of certainty that the existing process provides.

Under the proposal, there will be fewer projects evaluated for interconnection service. The resulting smaller pool of generators that LSEs contract with will likely have higher costs as a result of needing to make selection decisions without relevant cost data. As there will not be alternative projects to select from, the projects that are ultimately contracted in the future will need to pass on these higher costs to ratepayers. The proposal to limit project participation to 150% of available capacity effectively asks LSEs to select resources for future contracts without having any interconnection studies available. The existing process allows LSEs to make shortlisting and contracting decisions that rank deliverability allocations after information on interconnection cost, timing, and feasibility is made available, allowing LSEs to make prudent decisions on prioritizing the resources they select.

The Auction Mechanism is an Inefficient Cost Adder

The auction mechanism was proposed as a simple way to help differentiate between projects that share the same impact (DFAX) as another project. Putting a value in the auction does not convey any value of the project's viability or readiness unlike other elements of the proposal. As the highest bid(s) are awarded, it is further encouraging speculative behavior that does not lead to a first-ready, first-served, efficient interconnection process. If a project moves forward this money is refunded but if a project does not move forward the money is surrendered, and the largest risks of a project not moving forward at this stage are the interconnection costs and time which are not known prior to the auction process. The funds surrendered in this process will be ultimately subsidized and recovered through other projects and the costs of administering the auction process, deposits, and distribution will also add costs to all projects that will need to be recovered with no direct benefits to CAISO ratepayers.

The IPE Proposal is Administratively Focused to Minimize Projects Entering a Cluster While Core Study Process Issues Remain Unaddressed

Early in the IPE process CAISO had solicited feedback on what should be in scope for this 2023 IPE effort. Aypa, several other developers, and PG&E have provided feedback

throughout the IPE process that included proposals to simplify the study process and significantly reduce the time to deliver results. These proposals were designed to give developers quicker access to relevant, binding results, that could be used for developers to “self-screen” projects based on directly measurable impact and merit. Developers would be able to use this information to make decisions if the cost and timing support a viable project. These processes have been recognized by other ISOs to provide a shorter overall process with less withdrawals post-GIA execution and higher degrees of certainty and completion for those projects that remain.

CAISO’s current and proposed process do not give the same level of clarity as to what future system a project intending to be studied for interconnection will be evaluated against compared with ISOs in the United States. The lack of certainty if you will be allowed entry to a study cluster or what TPP projects will be passed in a 3-year period leading up to a project’s eligibility to be evaluated for a deliverability allocation has and will continue to lead to speculative interconnection requests hoping to be in the right place at the right time. The proposal as it stands continues to rely on a slow and lengthy process that is expected to take around 5 years from application to LGIA, including deliverability allocations. These artificial barriers will make it extremely challenging for the State of California to implement its resource plans and reach its decarbonization goals without a more comprehensive approach to generator interconnection planning.

MISO and NYISO currently employ a 3-phase study process that provide open access, faster results, actionable information at decision points, clear off ramps to encourage poorly sited and/or sized projects to withdraw early based on those results, and stepped-up money at risk the longer a project stays in the process. MISO and NYISO’s current process also provides absolute clarity on which approved transmission projects will be included in each cluster study so that developers can make sensible decisions on when to enter the queue if they want to be eligible for assignment of energy and/or deliverable capacity afforded by those transmission projects and an option to be evaluated to self-fund deliverability upgrades. CAISOs currently proposal seeks to largely eliminate the ability to self-fund minor Area Deliverability Network upgrades by projects (without taking on extraordinary risk).

We appreciate your consideration of our feedback on the proposal and recommendations we have provided. We welcome the opportunity to discuss this matter with you further at your convenience.

Sincerely,



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