May 29th, 2024

Chair Jan Schori
Vice Chair Severin Borenstein
Governor Joe Eto
Governor Angelina Galiteva
Governor Mary Leslie:

I am writing on behalf of the Large-scale Solar Association (LSA) to follow up on several topics discussed between Governor Borenstein and LSA consultant Susan Schneider during the 2023 IPE Track 2 Final Proposal briefing at the May 23rd CAISO Board meeting. This letter supplements LSA's earlier letter expressing concern about several elements of the CAISO proposal.

LSA offers additional comments on these topics: (1) Transmission Plan Deliverability (TPD) Zone vs. Merchant Deliverability (MD) Zone applicability to Cluster 15 (C15); (2) Mixed-Fuel Resource (MFR) scoring; and (3) Load-Serving Entity (LSE) transparency/fairness implications to ratepayers.

TPD vs. MD Zone applicability to C15 projects

Proposed rules for TPD Zones (with deliverability) and Merchant Deliverability (MD) Zones (with little/no deliverability) are based on current "Option A" and "Option B" rules, respectively, in the interconnection study process. However, it is very likely that the large amount of Cluster 14 capacity participating in the current TPD Allocation process will severely reduce remaining deliverability far below levels shown thus far based on pre-TPD Allocation figures, leaving few or no TPD Zones and subjecting most or all C15 projects to MD Zone rules.

This is troubling, because virtually every project that has ever reached Commercial Operation under current rules has done so under Option A rules, and virtually none under Option B rules. As explained further below, proposed MD Zone rules are even more onerous than Option B rules today, and the result may be that most or all C15 projects in the queue will be rendered non-viable.

Option A rules (and proposed TPD Allocation Zone rules) require projects to finance and pay for Network Upgrades needed for reliability (RNUs) and local deliverability (LDNUs). These projects must then compete for wider-area deliverability provided by existing and approved large transmission upgrades. RNU and LDNU costs are capped through the study process, and payments are refundable to projects after they reach Commercial Operation.

Option B rules (and proposed MD Zone rules) require projects to finance and pay for the area upgrades needed to mitigate any regional deliverability constraints (ADNUs), as well as RNUs and LDNUs. While these projects are guaranteed deliverability as a result (without competing with other projects in the TPD Allocation process), ADNU costs are neither capped nor refundable, and they can run hundreds of millions of dollars, or even over $1 billion. Some projects are behind more than one constraint, requiring funding of multiple ADNUs.

The current Option A vs. Option B election is open to all projects. Despite the guaranteed deliverability under Option B, only a very small handful of projects have ever elected it, because ADNU costs and risks are simply too great. Under the Final Proposal, however, projects in MD Zones would have only this "option" available – the only other choice is to drop from the queue.

Moreover, MD Zone rules would be even more onerous than current Option B rules, because:

- **The choice of whether to proceed under MD Zone rules must be made before study results are available** about actual ADNU costs for any project. (Currently, Option A/Option B elections come after Phase I Studies, when ADNU costs are first calculated for each project.)

- **ADNU security postings would be far more onerous under MD Zone rules**.
  - MD Zone projects must provide a new up-front "Commercial Readiness Deposit" of up to $5 million for estimated costs, before any study results are available, of which half ($2.5 million) will be non-refundable if the project withdraws, i.e., after study results are issued. (Under current Option B rules, the first security posting is not due until 90 days following the Phase I Study, when projects have an indication of their own eventual upgrade costs.)
  - That deposit must be increased to 50% of ADNU costs after the study process is complete, of which half will be non-refundable. (Under current rules, the second security posting (of only 30% of estimated costs) is due six months after the cluster studies are complete.)

LSA is only asking for an honest reconsideration of these new rules as applied to C15 if most or all the cluster must proceed under MD Zone rules or withdraw. The CAISO should not move blindly ahead without this key information (available just days after the June 12th Board meeting) or any detailed consideration of the implications, is not wise. By the time Cluster 16 is forecasted to open in October 2026, there would have been 3.5 years without any new Interconnection Request submittals, and potential significant C15 attrition impacts should at least be considered.

Mixed-Fuel Resources

Most projects in Cluster 15 are MFRs – mostly "solar + storage" (S+S) combinations. Because the two fuel types can share the same Interconnection Service Capacity (ISC), these projects are highly efficient and cost-effective. This is recognized under the new CPUC "Slice of Day" (SOD) framework, where deliverability is not required for solar capacity used to charge associated storage capacity because no use of the grid is needed.

However, there has been inadequate consideration of how MFR projects will be scored in the Commercial Interest category, by LSEs and other off-takers (assuming that there are any TPD Zones (the only areas where the scoring rubric would apply to projects seeking deliverability)).

The Final Proposal contains two entirely different treatments for projects seeking deliverability and Energy Only projects, but seems that little consideration was given to MFRs with, e.g., storage capacity seeking deliverability with Energy Only solar capacity. There was so much confusion and opposition to the original MFR scoring proposal that CAISO had to issue a Second Addendum to clarify and change it, but the revised scoring method does not fully resolve the original problems.

Originally, CAISO proposed that MFRs would need Commercial Interest equal to the combined capacity of both fuel types to get the full 100 points for Commercial Interest under the scoring rubric. Thus, for example, a project with 750MW of Energy Only solar and 250MW of storage seeking deliverability, with 750MW of Interconnection Service Capacity (ISC, at the POI), would need 1,000 MW of LSE interest to get all 100 Commercial Interest points.

In response to uniform stakeholder opposition, CAISO issued the Second Addendum to revise that proposal, saying that now LSE interest equal to the 750MW of ISC capacity would get this hypothetical project the full 100 Commercial Interest points.

However, this new proposal still lacks logical consistency with respect to stand-alone projects – those seeking deliverability and those that are not.

The hypothetical MFR above would be at a disadvantage compared to stand-alone storage project seeking the same 250MW of deliverability. A stand-alone 250MW storage project seeking deliverability would only need 250MW of LSE interest to get all 100 Commercial Interest points, not the 750 interest points needed by the hypothetical MFR above.

On the other hand, if the MFR above is in an Energy Only non-reimbursement zone, it would have an advantage, because RNUs needed for the deliverable storage portion are the same RNUs needed for the Energy Only solar portion. Thus, it appears that MFR EO solar capacity can have its RNUs reimbursed, while a stand-alone EO solar project in the same zone could not receive RNU reimbursement.

Frankly, this is a bit of a mess. Given the prevalence of MFRs in C15, these important rules warrant carefully considered development, not last-minute changes that are not fully baked.

Importance of LSE interest-points allocation transparency and fairness

Governor Borenstein asked what harm there might be if LSEs choose their own projects, or otherwise choose projects in a discriminatory fashion, since LSE procurement is subject to regulatory oversight and approval. LSA has several responses to the question, in particular as it applies to Cluster 15.

The main issue is that ratepayers are best served when the lowest-cost projects that will meet their needs are selected for procurement by their LSEs. This principle is currently implemented through LSE contracting with projects largely on a competitive basis once interconnection costs are known, e.g., through the CPUC's "Least Cost, Best Fit" (LCBF) principles that consider both project construction and interconnection costs, in addition to operational characteristics. For this reason, most LSE competitive solicitations require at least a Phase I Study or equivalent.

There is no clear and transparent way at this time to ensure that the lowest-cost projects will gain LSE interest points in the scoring rubric and make it through to the study process. The CPUC amd other LSE regulators have not yet formally considered the interest-points allocation process nor issued any guidance about how interest points should be allocated in the absence of interconnection-study results. Such guidance may be forthcoming for future clusters, but there is not sufficient time for that to occur in any reasonable way for Cluster 15, especially since updated information reflecting the current TPD Allocation process is not likely to be available until around July.

Investor-Owned Utilities (IOUs) in particular have economic incentives to favor their own projects (upon which they would receive a return), and ensuring that they select the best projects in ratepayer interest is a key reason they face regulatory oversight of the procurement process. However, Commercial Interest, as defined in the scoring rubric, is not procurement, and it will take place before any study costs are available. Regulatory approval of specific contracts does not happen until those contracts are submitted by LSEs for approval; if LSEs earlier used their points allocations to favor their own projects, and exclude more competitive projects from even being studied, that most certainly will harm ratepayers.

Effectively, the Commercial Interest proposal gives LSEs new leverage to extract concessions from suppliers in return for interest-points allocations. We are already seeing situations where LSEs are trying to use this leverage to undermine competitive markets by requiring exclusive negotiation periods (restricting or prohibiting projects from discussions with other buyers) or other concessions in return for a points allocation that will get the project into the study process.

These and other considerations argue for a much more conservative initial approach to the Commercial Interest category in the scoring rubric for Cluster 15, at least. If this category is retained, it should be weighted at a far lower level (e.g., 10-15%), until it is clear that unintended consequences do not undermine procurement competition and open-access principles mandated by FERC. There is plenty of time to observe LSE use of this tool, and revisit the interest-points weights and other details, before the Cluster 16 application window opens in October 2026.

Conclusion

LSA urges the CAISO Board to direct Management to: (1) Reconsider the proposed framework applicability to C15 if the current TPD Allocation process results in few or no TPD Zones; (2) revisit with stakeholders the scoring-rubric application to MFRs; and (3) reduce or eliminate the Commercial Interest category applicability to C15 projects.

Sincerely,

Shannon Eddy

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