

# **Generator Interconnection Driven Network Upgrade Cost Recovery**

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**Draft Final Proposal**

**February 6, 2017**

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# Generator Interconnection Driven Network Upgrade Cost Recovery

## Draft Final Proposal

### 1. Summary

Current rules on interconnection driven upgrades assign a participating transmission owner's (PTO's) costs responsibility of low-voltage upgrades to customers of that specific PTO. This will have a large impact on the Valley Electric Association's and similarly situated small PTO's low-voltage or "local" transmission access charge (TAC).

The ISO has issued several proposals for stakeholder discussion, ranging from changes that would affect small PTOs only to ones that would affect all PTOs – the latter being in particular, shifting the cost of all generation interconnection driven low voltage network costs into the high-voltage (regional) TAC.

The ISO's preferred and final proposed solution is one that narrowly addresses small PTOs facing large local TAC increases that do not need to procure the generators interconnecting in their area. While this solution gained stronger consensus than earlier proposed options, a few stakeholders remain opposed.

### 2. Background

The ISO tariff requires PTOs to reimburse interconnection customers (ICs) whose generators are interconnecting to their systems for the costs of reliability<sup>1</sup> and local deliverability network upgrades necessary for the interconnection. The PTOs then include those network upgrade reimbursement costs in their FERC-approved rate bases, requiring ratepayers to pay those costs through either low- or high-voltage transmission access charges (TAC). Network upgrades 200 kV and above are considered high-voltage; their costs are recovered through the high-voltage TAC, an ISO system-wide "postage stamp" rate based on the aggregated transmission revenue requirements ("TRR") of all PTOs for all high-voltage facilities on the ISO system. In contrast, upgrades below 200 kV are considered low-voltage; their costs are recovered through PTO-specific low-voltage TAC rates charged only to customers within the service area of the PTO to whose system the generator interconnects.

The ISO opened this initiative due to a concern that the current practice for low-voltage upgrades could soon negatively impact ratepayers who are not the beneficiaries of the

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<sup>1</sup> Reimbursement for reliability network upgrades (RNU) is limited to \$60,000 per installed MW of capacity; there is no limit on reimbursement for costs of local delivery network upgrades (LDNU).

upgrades, but who solely bear their costs. For example, if a large generator or a large number of generators with significant low-voltage network upgrade costs interconnect to a PTO with a relatively small rate base, that PTO's low-voltage revenue requirement and its low-voltage TAC rates may increase significantly under the current cost allocation framework, even though the upgrades and the associated generation capacity may not materially benefit or be needed by that PTO's ratepayers. This issue is currently facing the Valley Electric Association (VEA) where larger scale renewable generation is seeking to connect to the VEA low-voltage transmission system driving low-voltage network upgrades that will have a direct impact on VEA ratepayers, yet the generation is not needed by VEA's ratepayers and is wholly contracting to entities outside of the VEA service territory.

The ISO has issued three papers thus far: an 'Issue Paper/Draft Straw Proposal' on 8/1/2016, a 'Revised Straw Proposal' on 9/6/2016, and a 'Second Revised Straw Proposal' on 11/21/2016.

The 'Issue Paper/Draft Straw Proposal' set out a broad range of alternatives. Based on stakeholder input that tended to be polarized advocating one extreme or another, the 'Revised Straw Proposal' focused on a single option from the original issue paper, referred to as Option 1. Option 1 proposed to include the cost of generator-driven low-voltage facilities of all PTOs in the aggregated high-voltage TRR for recovery through the system-wide "postage stamp" high-voltage TAC. Stakeholder comments received on the 'Revised Straw Proposal' were again mixed with no clear consensus, with SCE and the Municipal utilities opposed and PG&E, VEA, SDGE and the Generator community in favor.

In an attempt to gain stronger consensus, and as suggested by a few stakeholders, the 'Second Revised Straw Proposal' offered more narrowly focused solutions that are consistent with cost allocation principles and address the issue currently facing VEA and potentially future similarly-situated PTOs. These options were identified as Option A and Option B so not to cause confusion with the prior proposals. Rather than allocating costs differently for the low-voltage related costs of all PTOs, these options would identify which smaller PTOs are sufficiently dissimilar from other PTOs and as a result are experiencing an inequitable outcome of the existing cost allocation approach. Once selected, those specific PTOs would qualify for different treatment in that their generator interconnection driven network upgrade costs would go the CAISO-wide, high-voltage transmission revenue requirement.

### **3. Stakeholder process**

The ISO plans to take this issue to the ISO Board in March of 2017. Timely resolution of this issue remains critical because there are generation interconnection customers, currently in the study process or generation interconnection agreement (GIA) negotiation phase, that require low-voltage network upgrades and therefore may significantly impact VEA ratepayers. The ISO thanks stakeholders for their continued participation in this effort.

Stakeholder process schedule		
Step	Date	Activity
Draft Issue Paper/Straw Proposal	August 1, 2016	Post Issue Paper/Straw Proposal
	August 8, 2016	Stakeholder web conference
	August 19, 2016	Stakeholder comments due
Revised Straw Proposal	September 6, 2016	Post Revised Straw Proposal
	September 13, 2016	Stakeholder web conference
	September 20, 2016	Stakeholder comments due
Second Revised Straw Proposal	November 21, 2016	Post Revised Straw Proposal
	December 5, 2016	Stakeholder web conference
	December 16, 2016	Stakeholder comments due
Draft Final Proposal	February 6, 2017	Post Draft Final Proposal
	February 13, 2017	Stakeholder web conference
	February 22, 2017	Stakeholder comments due
Seek Board approval	March, 2017	ISO Board of Governors meeting

#### 4. Stakeholder Positions

As mentioned above, stakeholder comments revealed greater consensus support for a more narrowly focused solution that addresses the issue currently facing VEA that also could apply to a similarly-situated PTO in the future, consistent with principles of cost allocation. In the 'Second Draft Straw Proposal', the ISO proposed two new low-voltage generator-driven network upgrade cost allocation approaches for qualified small load serving PTOs, as defined below. These options were identified as Option A and Option B so not to cause confusion with the prior proposals. Rather than allocating costs differently

for the low-voltage related costs of all PTOs, these options identified which smaller PTOs are sufficiently dissimilar from other PTOs and as a result are experiencing an inequitable outcome of the existing cost allocation approach. Once selected, those specific PTOs would qualify for different treatment.

Moreover, the cost allocation treatment under options A and B were the same – i.e., to include the low-voltage upgrade costs in the PTO's high-voltage transmission revenue requirements. The options merely differed in the procedure for determining whether a given PTO should receive this treatment. Option A would entail a case-by-case decision for each such candidate PTO, based on principles specified in the tariff but ultimately subject to an ISO management determination for approval by the Board of Governors and FERC. Option B would incorporate a formulaic approach into the ISO tariff that would be aligned with the same principles as Option A, but would be sufficiently specific that the ISO could make a definitive determination under the tariff without requiring Board or FERC approval for each PTO. Once the determination is made for a given small PTO under either approach, the PTO would retain this classification for all future low-voltage generator-driven network upgrades unless the PTO no longer meets the specified principles.

Stakeholders supporting a more narrowly focused solution were equally divided between Option A and B. Those preferring Option A asserted that each PTO requires a case-by-case review and ultimate ISO Board and FERC approval. Those preferring Option B were concerned that a case-by-case review may unnecessarily delay progress in the generation interconnection process. The ISO does not agree with the argument that Option A would cause delays since any ISO decision and subsequent FERC approval could be combined with the PTO application process when a new PTO joins the ISO.

A couple of stakeholders oppose both Options A and B and prefer the original Option 1 from the 'Draft Straw Proposal' (to include the cost of generator-driven low-voltage facilities of all PTOs in the aggregated high-voltage TRR for recovery through the "postage stamp" high-voltage TAC). One stakeholder does not agree that the "current cost allocation rules have been appropriate and continue to work for generator interconnections to the larger load serving entities['] low voltage transmission systems. The ISO's views remain as stated in section 5 of the 'Second Revised Straw Proposal' that the current cost allocation rules have been appropriate and continue to work for generator interconnections to the larger load serving PTOs' low voltage transmission systems.

## 5. Draft Final Proposal

Based on stakeholder input, the ISO proposes to move forward with slight modifications to Option A.

### Selection on a case-by-case basis, subject to ISO Board and FERC approval for each selected PTO

The draft final proposal is based on principles that by design apply to VEA and other potential similarly situated entities. Rather than trying to develop tariff provisions that could address every potential unique circumstance, this proposal specifies guiding principles the ISO would apply on a case-by-case basis to alleviate unintended adverse impacts for each unique PTO. Upon applying the principles and determining the appropriate treatment of the PTO in question, ISO management would present its recommendation for approval to the ISO Board and, if approved by the Board, to FERC.

The three principles below provide the framework for justifying an alternative TAC rate methodology for VEA and any similarly situated small load serving PTOs that would align with FERC cost allocation principles. The proposed alternative methodology is that the cost of network upgrades to serve generation on the PTO's low-voltage system, where the generation is not being built to serve load within that PTO's service area in some manner, would be put into the PTO's high-voltage transmission revenue requirements. If the generation connecting to the PTO's low voltage transmission is being built to serve load within the PTO's service area, for example if a load-serving entity in the PTO's service area has entered into a power purchase agreement with the generator, the cost of any low-voltage network upgrades driven by this generation would be put into the PTO's low-voltage TAC rates.

In addition, if VEA's or a similar PTO's situation changes such that it fails to meet any one of the three principles below, it would no longer qualify for this TAC rate treatment. At that time, any low-voltage network costs stemming from new generator interconnections, as well as any as-yet unrecovered low-voltage costs, e.g. undepreciated value, associated with previously-approved interconnections would be applied to the PTO's low-voltage TAC rates. VEA or a similar situated PTO would be required to certify to the ISO annually (for example at the close of each annual generation interconnection cluster window) that they still meet the three principles below to continue to receive this TAC rate treatment.

1. Relatively very small PTO in relation to other load-serving PTOs with load service territories where the PTO's filed annual gross load<sup>2</sup> is 2,000,000 MWh or less, which currently is approximately 2.2% of the largest PTO's filed annual gross load.

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<sup>2</sup> [http://www.caiso.com/Documents/HighVoltageAccessChargeRatesEffectiveJan1\\_2017\\_RevisedJan25\\_2017.pdf](http://www.caiso.com/Documents/HighVoltageAccessChargeRatesEffectiveJan1_2017_RevisedJan25_2017.pdf)

VEA's filed annual gross load is only 0.3% of the ISO annual gross energy load, and only 0.6% of the largest PTO's with load service territory filed annual gross load. The next smallest load serving PTO with low-voltage transmission facilities under ISO Operational Control is 10% of the ISO annual gross load and 23% of the largest PTO's annual gross load. Clearly, VEA is in a category of its own related to the amount of its load. The ISO proposes that a threshold value of 2,000,000 MWh be applied such that if the PTO's load increases above this threshold, it would no longer qualify for this treatment. This will ensure that this proposal is very narrowly focused on the current situation. In addition, a fixed MWh value is preferred by the ISO instead of using a fixed percentage of the largest PTO's filed annual gross load since the annual gross load of the PTOs can change over time and a fixed value provides certainty going forward.

2. The small PTO is in a resource rich area that is leading to elevated generator regional procurement interest within the area.

For example, VEA's service territory and the low voltage transmission system built to serve its load is located in southern Nevada. It is an area of valuable solar capability, ample available land suitable for siting solar projects, and competitive costs for generation interconnections. This makes projects interconnecting to VEA's transmission system attractive to solar project developers and for California LSEs seeking additional renewable generation for meeting California's RPS requirements.

3. The small PTO is not under a Renewable Portfolio Standard (RPS) requirement or, if under an RPS requirement, does not have a need for the new interconnecting generation to meet that requirement.

In the case of VEA, Nevada's RPS requires electric utilities to acquire or save with portfolio energy systems or energy efficiency measures annual amounts increasing to 25% in 2025. However, as a small electric cooperative, VEA is not a defined Provider of electric service under the statute, and is not required to meet Nevada's RPS requirements. As a small electric cooperative with no RPS requirements, VEA has only developed a relatively small amount of solar on its own system. If VEA or another similarly situated PTO that qualifies for this rate treatment were ever required to meet an RPS and needed to procure additional resources to comply with the RPS, it would no longer qualify for this treatment.

The final draft proposal supports the ISO's position that any solution needs to retain the fundamental design and features of the Generation Interconnection and Deliverability Allocation Procedures (GIDAP), Appendix DD of the ISO Tariff, specifically:

- Two-phase cluster-study approach with annual reassessments;
- Cost certainty to interconnection customers early in the study process through cost caps; and



- Reliability and local deliverability network upgrades would continue to be reimbursed to interconnection customers upon commercial operation in accordance with the GIDAP.

## **6. Next steps**

As a next step, the ISO will conduct a conference call to discuss this draft final proposal on February 13<sup>th</sup>. The ISO then invites stakeholders to submit comments on the ISO's final draft proposal. Comments are due February 22<sup>th</sup> and should be submitted to InitiativeComments@caiso.com.

Following review and evaluation of the comments received, the ISO plans to seek ISO Board approval in March, 2017.