

Stakeholder Comments Template

Transmission Access Charge Options Issue Paper

Submitted by	Company	Date Submitted
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The Office of Ratepayer Advocates (ORA) is the independent consumer advocate within the California Public Utilities Commission (CPUC). ORA's statutory mandate is to obtain the lowest possible rates for utility services consistent with reliable and safe service levels in all significant proceedings. ORA also advocates for customer and environmental protections in connection with utility service. These are ORA's comments on the October 23, 2015 issue paper for the Transmission Access Charge (TAC) Options initiative (Issue Paper).

1. One theme emphasized in the issue paper and in FERC orders is the importance of aligning transmission cost allocation with the distribution of benefits. Please offer your suggestions for how best to achieve good cost-benefit alignment and explain the reasoning for your suggestions.

In order to best align cost allocation with the distribution of benefits, consensus metrics that are mutually agreed upon by stakeholders should be used to quantify and measure the type and magnitude of the benefits, and the location where the benefits are received. For example, transmission costs attributed to the construction and/or use of a transmission facility in a particular balancing authority area (BAA) should be allocated to those entities that receive benefits consistent with the transmission cost allocation principles established in the Federal Energy Regulatory Commission (FERC) Order

1000.¹ The use of uniform metrics (i.e. TAC elements such as transmission capital costs, rate of return, peak load, and depreciation schedule that are utilized consistently in each individual BAA and in the combined BAA) as well as compliance with FERC Order 1000 cost allocation principles will provide transparency in the distribution of transmission facility costs and benefits.

2. Please comment on the factors the ISO has identified in section 5 of the issue paper as considerations for possible changes to the high-voltage TAC structure. Which factors do you consider most important and why? Identify any other factors you think should be considered and explain why.

The most important factors include the facility's electric characteristics (voltage), the zones or sub-regions that benefit from the project (benefit criteria), and the geographic scope of the project (scope). Consideration of a facility's voltage level will help determine if a different cost factor should be applied to that facility based upon the cost of service. For example, if the cost to provide transmission service above a voltage threshold is significantly higher, then this cost should be taken into account. The process for considering the appropriate cost factors should be undertaken regardless of its location in an individual or a combined BAA scenario. Since high voltage thresholds are defined differently in the ISO (200 kV and higher) and PacifiCorp (230 kV and higher) BAAs, consideration of setting a high voltage threshold for a combined BAA will be important to address potential cost shifts. In addition, consideration of the benefit criteria within a specific region or sub-region will be important if there is a wide variation of benefits among regions.

ORA recommends that this initiative clearly assess and identify the variability in benefits attributed to each project within each zone or sub-zone. For example, if the construction of a single transmission project results in the receipt of energy, either from

¹ In Order No. 1000, FERC specified six principles of cost allocation for new transmission projects: (1) Costs must be allocated in a way that is roughly commensurate with benefits, (2) Costs may not be allocated involuntarily to those who do not benefit, (3) A benefit to cost threshold may not exceed 1.25, (4) Costs may not be allocated involuntarily to a region outside of the facility's location, (5) The process for determining benefits and beneficiaries must be transparent, and (6) A planning region may choose to use different allocation methods for different types of projects. (Issue Paper, pp. 4-5, citing *Transmission Planning and Cost Allocation by Transmission Owning and Operating Public Utilities*, Order No. 1000, FERC Stats. & Regs. ¶ 31,323 at P 612 *et seq.* (2011), *order on reh'g*, Order No. 1000-A, 139 FERC ¶ 61,132, *order on reh'g*, Order No. 1000-B, 141 FERC ¶ 61,044 (2012), *aff'd sub nom. S.C. Pub. Serv. Auth. v. FERC*, 762 F.3d 41 (D.C. Cir. 2014).)

renewable or conventional generation resources, in varying amounts based upon where the BAA is situated, this could result in different benefits for each BAA. One suggested process to examine these impacts would be to assess current and future transmission capacity and identify areas of transmission congestion through a power flow simulation. Prior to beginning this exercise, production cost modeling results should be utilized to render generation resource-related inputs (i.e. amounts and costs of generation transmitted onto the grid in the combined BAA) into a power flow model. The results of this exercise will better inform where costs and benefits should be assigned throughout the transmission system in the combined BAA.

- 3. The examples in section 7 illustrate the idea of using a simple voltage-level criterion for deciding which facilities would be paid for by which sub-regions of the combined BAA. Please comment on the merits of the voltage-based approach and explain the reasoning for your comments.*

ORA recommends that the ISO and PacifiCorp retain their current voltage-level criterion for the TAC rate structure for their respective BAAs until they conduct further studies to evaluate the impact of the voltage-level criterion for deciding which facilities would be paid for by which sub-regions of the combined BAA. This exercise will require the ISO and PacifiCorp to jointly study the transmission costs that underlie their respective TAC rates. The current voltage-based approach is simple and enables a clear distinction between the high voltage TAC that is socialized and the low voltage TAC that is paid by the investor-owned utilities' (IOUs) customers. This simplicity should be retained before and after the integration of the BAAs.

- 4. Please comment on the merits of using the type of transmission facility – reliability, economic, or public policy – as a criterion for cost allocation, and explain the reasoning for your comments.*

ORA recommends that the ISO retain its current transmission facility classification – reliability, economic, or public policy – as a criterion for cost allocation. The current transmission facility classification was vetted through a stakeholder process before approval by the ISO Board and use by the ISO for transmission planning and cost allocation. This classification has merit because it provides a clear distinction among reliability, economic, and public policy transmission infrastructure for planning, funding, and development purposes. If the ISO desires to change this classification because of its

potential BAA integration with PacifiCorp BAA, then the ISO should institute a stakeholder process to discuss the advantages and disadvantages of doing so, including the impacts of such changes on transmission planning, funding, development, and cost allocation in California.

5. Please comment on the merits of using the in-service date as a criterion for cost allocation; e.g., whether and how cost allocation should differ for transmission facilities that are in service at the time a new PTO [Participating Transmission Owner] joins versus transmission facilities that are energized after a new PTO joins.

The FERC Order 1000 cost allocation principles require that the cost an entity pays for the use of a transmission infrastructure should be commensurate with the benefit the entity receives (i.e. increased transmission capacity to enable receipt of electric generation to enhance system reliability, ability to meet needed load, and the ability to meet environmental and GHG mandates through higher access to renewable generation) from the use of that transmission infrastructure. Therefore, the cost a new PTO pays for the use of a transmission facility should be calculated based on the FERC Order 1000 cost allocation principles, regardless of whether the transmission facilities were in service at the time a new PTO joins or whether transmission facilities were energized after a new PTO joins.

6. Please comment on using the planning process as a criterion for cost allocation; i.e., whether and how cost allocation should differ for transmission facilities that are approved under a comprehensive planning process that includes the existing ISO PTOs as well as a new PTO, versus transmission facilities that were approved under separate planning processes.

ORA has no comment on this issue at this time.

7. The examples in section 7 illustrate the idea of using two “sub-regional” TAC rates that apply, respectively, to the existing ISO BAA and to a new PTO’s service territory. Please comment on the merits of this approach and explain the reasoning for your comments.

ORA recommends that the ISO retain the TAC rate structure as it is today and maintain separate sub-regional TAC rates for PacifiCorp and the current ISO footprint

(i.e. Baseline 1; Issue Paper, p. 9),² pending further understanding and studies of PacifiCorp's transmission infrastructure costs and the impact of these costs on California ratepayers. For example, it would be important to identify the costs of PacifiCorp's transmission infrastructure, and also understand the cost elements that underlie PacifiCorp's high and low voltage TAC.

Retention of separate sub-regional TAC rates in the interim, pending further studies of the PacifiCorp TAC rate structure ensures that California remain separate from those of other states and ensures that California ratepayers are solely responsible for TAC rates for transmission projects that meet the needs of California and its ratepayers. Retention of separate sub-regional TAC rates may be more beneficial as the different states involved may have different objectives regarding transmission projects. Baseline 1 provides state independence from transmission projects approved in other states. In contrast, under Baseline 2 and the proposed alternatives (Issue Paper, pp.13-14)³ there is the potential that more transmission projects may be built in the other states and their associated costs would be paid among a larger pool of ratepayers under the provisions of the FERC 1000 cost allocation methodology.

Furthermore, at this time, much of the PacifiCorp BAA and its associated transmission infrastructure are not physically integrated with the ISO controlled transmission grid in a robust manner. Therefore, it may be premature to integrate the TAC rates of both BAAs at this time until further studies of PacifiCorp's transmission costs structure are conducted and the benefits and costs of the combined BAA are analyzed under the FERC Order 1000 cost allocation principles.

8. Please offer any other comments or suggestions on this initiative.

ORA has no further comments at this time.

² Under Baseline 1, the potential new PTO joins the ISO's BAA, but the new PTO's TAC is not incorporated into the ISO's TAC structure. Therefore, separate sub-regional TAC rates are maintained for PacifiCorp and the ISO. (Issue Paper, p. 9.)

³ Under Baseline 2, the potential new PTO joins the ISO's BAA and the new PTO's TAC is immediately incorporated into the ISO's TAC structure, with single postage-stamp rate for all existing and planned facilities above 200 kV, and PTO-specific rates for all facilities below 200 kV. (Issue Paper, p. 9.)