

Stakeholder Comments Template

Transmission Access Charge Options Issue Paper

Submitted by	Company	Date Submitted
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This template has been created for submission of stakeholder comments on the issue paper for the Transmission Access Charge Options initiative that was posted on October 23, 2015. The issue paper and other information related to this initiative may be found at:

<http://www.caiso.com/informed/Pages/StakeholderProcesses/TransmissionAccessChargeOptions.aspx>

Upon completion of this template please submit it to initiativecomments@caiso.com. Submissions are requested by close of business on **November 20, 2015**.

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.

The FERC has found that the CAISO's existing high voltage/low voltage local/regional Transmission Access Charge (TAC) mechanism reasonably aligns transmission cost allocation with the distribution of benefits among consumers served by Participating Transmission Owners with load serving obligations.¹ Transmission under the control of the CAISO is owned by a wide range of PTOs (e.g., large and small Investor Owned Utilities (IOUs), large and small municipal utilities, non-utility transmission developers) and includes both low voltage localized networks (e.g., SDG&E's and PG&E's 69 kV and 138 kV networks) and high voltage interstate connections (e.g., SCE's, PG&E's and SDG&E's 500 kV Alternating Current ties with Oregon, Nevada and Arizona; SDG&E's 230 kV ties with Mexico; municipal utilities' Direct Current ties to Utah).

¹ See *California Independent System Operator Corporation, et al., Order on Compliance Filing*, 143 FERC ¶ 61,057 (2013) (*FERC Order*). There, the FERC stated, "...we find that the regional cost allocation method that CAISO proposes to retain: (1) allocates costs in a manner that is at least roughly commensurate with estimated benefits; (2) does not involuntarily allocate costs to those who receive no benefits..."(P297). The FERC also noted, "...high voltage transmission facilities provide regional benefits and their costs are allocated regionally, and local transmission facilities provide only local benefits and their costs are allocated locally." (P304).

Accordingly, SDG&E believes the CAISO system already exhibits a range of characteristics broad enough to encompass most transmission cost allocation/benefit distribution conditions that could present themselves in the next decade. An open question is whether the benefits afforded by facilities operated between 200 kV and 300 kV are far-reaching enough to justify their inclusion in a larger regional TAC mechanism. Much of the existing 230 kV network within the CAISO Balancing Authority is located in metropolitan areas. But the 230 kV network also ties together the 500 kV system which reaches into neighboring states. The 230 kV system is therefore integral to achieving the substantial economic benefits of interregional market transactions. SDG&E believes a case could be made to either include the costs of facilities operated between 200 kV and 300 kV in a larger regional TAC mechanism, or limit such cost recovery to loads within existing balancing authorities; i.e., recover these costs through separate sub-regional TAC mechanisms.

SDG&E would not, however, support a TAC mechanism under which the costs of transmission facilities operated between 200 kV and 300 kV are recovered on a “local” basis. FERC has already determined that these facilities provide regional benefits: “We find persuasive CAISO’s explanation that CAISO’s high voltage regional transmission facilities, which provide a backbone function supporting regional flows, providing transfers between California and other states, reducing congestion and facilitating reserve sharing, facilitating import and export of power and development of large—scale generation resources, benefit all users of the grid.” Transmission operated between 200 kV and 300 kV provides benefits at both the regional and interregional levels. SDG&E believes it would be difficult to distinguish the benefits of these facilities at a sub-regional level and supports allocating these costs broadly through a single regional TAC charge.² For proposed transmission that would be operated at 300 kV or higher, the interregional cost allocation provisions of FERC Order 1000 are relevant and may suggest cost allocation to planning regions that are outside of the merged balancing authority.

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.

In determining whether to change the existing high voltage TAC structure, the most important consideration is whether a different structure is likely to offer enhanced benefits for all consumers within the merged balancing authority. SDG&E believes that the benefits of merging balancing authorities is likely to offset modest increases in transmission costs for consumers within one of the merging balancing authorities. However, because benefits are uncertain, SDG&E recommends that the merging balancing authorities consider the option of phasing-in costs for a single regional TAC mechanism.

² See *FERC Order*, where the FERC stated, “We agree with CAISO that while the regional benefits from high voltage transmission facilities may inure to some areas of the regional grid more than others, the benefits will vary over time, as will the sectors of the grid that benefit...the effort to parse the benefits out further could lead to an allocation of costs that would not be roughly proportionate to benefits over the long run.” *Id.* at P298.

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.

As noted above, the FERC has already found the CAISO's existing TAC mechanism—which uses a simple voltage-level criterion—to provide a reasonable alignment between cost allocation and benefit distribution.³ SDG&E recommends continuing with this approach.

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.

SDG&E does not support using the “type” of transmission facility as a basis for cost allocation. While the CAISO tariff does draw distinctions between transmission upgrades that are needed for “reliability,” “economic” and “public policy” purposes, SDG&E believes these distinctions will be difficult to sustain over time. In the final analysis, all transmission upgrades should be “economic.” A “reliability” upgrade approved in the planning process should be more economic than other feasible alternatives that also meet the reliability need. Likewise, a transmission upgrade that is approved in the planning process to satisfy a “public policy” purpose should be more economic than other feasible alternatives that also satisfy the public policy purpose. Furthermore, once a transmission facility is assimilated into the merged balancing authority network, it is likely to provide multiple benefits over time, no matter the original justification. SDG&E recommends staying with the existing voltage-based criterion for allocating transmission costs.

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 joins versus transmission facilities that are energized after a new PTO joins.

An essential element of any decision to combine balancing authorities, is advance agreement on how the costs of each balancing authority's planned transmission facilities-- including those being permitted, in design or under construction -- will be treated for purposes of cost allocation.

Beginning on the effective date of the balancing authorities' merger, all planned transmission facilities should be evaluated in the combined balancing authority's comprehensive transmission planning process. This evaluation will establish whether—given the merger of the balancing authorities—the planned transmission facilities are still needed. Alternatively, the evaluation may identify a different alternative. Except as may be agreed in the decision to combine balancing authorities, transmission projects which are not on-line as of the date of the merger of

³ See *FERC Order*, where the FERC stated, “We agree with CAISO that its proposed bright-line voltage level split is a transparent method for determining the benefits and identifying the beneficiaries of transmission facilities...” *Id.* at P303.

the balancing authorities should not be automatically grandfathered into any particular cost allocation scheme.

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.

See response to question 5.

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.

As discussed in SDG&E’s response to question 1, SDG&E believes that the cost of transmission facilities operated between 200 kV and 300 kV could be allocated on either a single regional basis, or on separate sub-regional bases. The final determination would turn on the characteristics of the merging balancing authorities; specifically the extent to which facilities operated in this voltage range play an integral role in facilitating commerce on the above 300 kV system.

As noted in SDG&E’s response to question 1, SDG&E believes the cost of facilities operated below 200 kV should be allocated through “local” TAC rates and that the cost of facilities operated above 300 kV should be recovered through a single regional TAC rate. However, SDG&E also believes that the merging balancing authorities should consider whether to phase-*in* a single regional TAC rate over time. SDG&E suggests a maximum phase-in period of ten years—FERC accepted a ten-year phase-in period for the high voltage costs of the southern municipal utilities when they joined the CAISO as full PTOs.

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

SDG&E believes it would be timely to reconsider the advantages and disadvantages of the existing TAC-based charge for exports out of the CAISO controlled grid. While the export fee does generate some revenues which are used to reduce the TAC charges paid by loads within the CAISO Balancing Authority, it also limits otherwise economic sales to entities outside the CAISO controlled grid. Such sales will be necessary during periods of time when renewable generation within the CAISO balancing authority is high and loads within the CAISO Balancing Authority are low. With increasing levels of renewable development within the CAISO Balancing Authority, the need for unimpeded sales will be critical. Importantly, most of these sales revenues will accrue to the benefit of CAISO consumers since CAISO consumers effectively hold title to the renewable energy through their utility suppliers.

SDG&E opposed the export fee when the CAISO was being formed and continues to believe it is an impediment to efficient market operations. The CAISO transmission system does not incur any costs to support the export of power out of the CAISO controlled grid so there is no efficiency rationale for maintaining the export fee.⁴

⁴ SDG&E notes that for precisely this reason—because the CAISO transmission system does not incur any costs to support the import of power into the CAISO controlled grid—there is no “import” fee.