

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

**California Independent System
Operator Corporation**

**Docket Nos. ER06-615-000
ER02-1656-027
ER02-1656-029
ER02-1656-030
ER02-1656-031**

**REPORT AND MOTION OF THE CALIFORNIA INDEPENDENT SYSTEM
OPERATOR ON THE CALIFORNIA ENERGY COMMISSION'S PROPOSAL
CONCERNING REBATE OF OVER-COLLECTED TRANSMISSION LOSSES TO
RENEWABLE RESOURCES**

I. Introduction

The California Independent System Operator Corporation (the ISO) submits this report concerning undertaking a stakeholder process to examine the proposal of the California Energy Commission (CEC) to rebate the over-collection of transmission losses to renewable resources. The CEC made this proposal in stakeholder proceedings leading to the Commission's order in 2006 conditionally approving the ISO's nodal market.¹ At this time, the ISO has determined that it is not necessary to conduct a stakeholder process to examine this proposal.²

As the Commission is aware, the ISO has undertaken multiple initiatives to facilitate the development of renewable resources. The ISO does not provide rebates of transmission loss over-collections to resource owners whether they are variable energy resources or conventional generators, and there does not appear to

¹ *Cal. Indep. Sys. Operator Corp.*, 116 FERC ¶ 61,274 (2006) (*September 2006 MRTU Order*).

² Out of an abundance of caution, the ISO requests, pursuant to Rule 212 of the Commission's Rules of Practice and Procedure, that the Commission find the ISO is no longer required to conduct additional stakeholder process to address the CEC's proposal. As described in this report, good cause exists to grant this motion. The ISO has conducted a stakeholder process to address additional issues related to the integration of variable energy resources and neither the CEC nor any other party have expressed interest in pursuing the proposal to rebate over-collections of transmission losses to renewable resource. If the Commission determines this motion is unnecessary, it need not rule on it.

be a need to provide such rebates to renewable resources. Over the last two years, stakeholders have expressed no support for the ISO to examine this proposal and the CEC has informed the ISO that it no longer wishes to pursue this matter. For these reasons, it would be an inefficient use of ISO and stakeholder resources to initiate a stakeholder process to examine whether or not to provide rebates of transmission loss over-collections to renewable resources.

II. Background

As part of stakeholder proceedings underlying the development of the ISO's nodal markets, the CEC proposed that the ISO should provide rebates of over-collected transmission losses to renewable resources.³ This issue arose, in part, as a result of the Commission's recognition that a marginal loss mechanism may place a burden on intermittent resources that locate near their fuel source but at a distance from load.⁴ These resources may face greater transmission losses and this fact may discourage intermittent resource development.

In its *September 2006 MRTU Order*, the Commission acknowledged the ISO's plan to address the CEC's issue as part of Release 2, which the ISO expected to implement within three years of the Release 1 implementation date.⁵ Last year, the ISO requested until April 2014 to consider the CEC's proposal concerning any over-collection of transmission losses based on the fact that the ISO was examining other

³ *September 2006 MRTU Order* at P 1373 and fn. 570.

⁴ *Cal. Indep. Sys. Operator Corp.*, 107 FERC P 61274 (2004) at PP 150.

⁵ *September 2006 MRTU Order* at P 1373 at P 1402.

market changes related to the integration of variable energy resources.⁶ The Commission granted the ISO's request.⁷

The marginal loss component in locational marginal pricing helps assure least cost dispatch and appropriate locational price signals. This is because the marginal losses are the incremental change in line losses that result from a change in power flow. However, the revenue collected from marginal losses will always exceed the total cost of losses on the system because marginal losses are greater than average loss factors on the system.

As part of its nodal market design, the ISO initially proposed to redistribute the over-collection of revenue associated with marginal losses to the balancing account for congestion revenue rights.⁸ Under this approach, the ISO would pay excess revenues in the congestion revenue rights balancing account at the end of each year to participating transmission owners to reduce transmission access charges. This approach effectively distributes most of the surplus revenue to loads that have paid for fixed transmission costs.⁹ The Commission determined that this allocation was consistent with the principle underlying its approach to allocating congestion revenue rights revenues—any excess should be returned to those who paid the fixed costs of the transmission system.¹⁰ Ultimately, however, the Commission authorized the ISO to allocate these surplus revenues to measured demand.¹¹ This approach

⁶ See Motion for Extension of Time to implement certain Commission Mandated Enhancements filed in Docket ER06-615-000 on March 28, 2012.
<http://elibrary.ferc.gov/idmws/common/opennat.asp?fileID=12929376>

⁷ *Cal. Indep. Sys. Operator Corp.*, 139 FERC ¶ 61,206 (2012) at P 26.

⁸ *Cal. Indep. Sys. Operator Corp.*, 107 FERC P 61274 (2004) at PP 144-153.

⁹ *Id.* at P 146.

¹⁰ *Id.* at P 146. See also *Cal. Indep. Sys. Operator Corp.*, 108 FERC ¶ 61254 (2004) at P 66.

¹¹ *September 2006 MRTU Order* at PP 95-96

provides for a more accurate rebate of surplus revenues from over-collected losses based on use of the transmission system and allows the ISO to disburse excess revenues more quickly than through a reduction in the transmission access charge.¹² This approach also ensures entities that would not have benefited from a reduction in transmission access charges (e.g. existing transmission contracts) receive surplus revenues.¹³

III. The ISO has implemented enhancements to support renewable resource development and is not aware of a reason to create a rebate for renewable resources

Over the last several years, the ISO has taken steps to support the development of renewable resources. Most notably, the ISO has integrated its transmission planning and interconnection processes, in part to develop ratepayer funded transmission projects to advance public policy goals such as California's renewable portfolio standard in a more efficient manner.¹⁴ The ISO has also worked to create mechanisms for distributed energy resources to obtain an allocation of deliverability on the transmission grid so that these resources may qualify as resource adequacy resources.¹⁵ These efforts will assist in the development of renewable resources seeking to interconnect to the ISO grid or to utility distribution systems within the ISO balancing authority.

Currently, the ISO is also developing changes to its market structure consistent with Commission Order 764 to provide 15 minute financially binding

¹² *Id.* at 95.

¹³ *Id.*

¹⁴ *Cal. Indep. Sys. Operator Corp.*, 140 FERC ¶ 61,070 (2012); *see also Cal. Indep. Sys. Operator. Corp.*, 133 FERC ¶ 61,224 (2010) .

¹⁵ *Cal. Indep. Sys. Operator Corp.* , 141 FERC ¶ 61,132 (2012).

schedules for internal resources, load, and interties.¹⁶ This functionality will allow variable energy resources to update their schedules more frequently to reflect changes in output, thereby mitigating exposure to imbalance charges.

The CEC's proposal at issue in this matter would change how the ISO allocates over-collected transmission losses by shifting the allocation of these revenues from metered demand (load and exports) to a sub-set of resources interconnected to the ISO grid. The ISO does not believe there is a need to create a subsidy for renewable resources interconnecting to the transmission grid under ISO operational control. California has adopted a renewable portfolio standard that requires load serving entities by December 31, 2020 to procure 33 percent of their energy requirements from eligible renewable resources, which includes wind resources.¹⁷ These resources generally receive revenues under long-term power purchase agreements they have entered into with load serving entities. Changing the allocation of loss over-collections to provide a rebate to renewable resources would discriminate against conventional generators as well as renewable resources that participate in the ISO's market but that interconnect closer to load. This approach would be inconsistent with ISO's nodal pricing design which in part sends a price signal to resources based on the transmission losses incurred by the resource to serve load. Absent a need for creating a subsidy, the ISO does not believe it should rebate transmission losses to resources.

¹⁶ See generally, ISO stakeholder initiative addressing Order No. 764 market changes <http://www.caiso.com/informed/Pages/StakeholderProcesses/FERCOrderNo764MarketChanges.aspx>

¹⁷ California Public Utilities Code Section 399.11 *et seq.*

IV. Stakeholders have expressed no support for examining whether to provide rebates of over-collected transmission losses to renewable resources and the CEC no longer wishes to pursue the proposal

As part of its 2011 stakeholder initiatives catalog process, the ISO received comments from various market participants concerning which initiatives the ISO should prioritize. No stakeholder expressed support for the ISO to consider providing rebates of over-collected transmission losses to renewable resources.¹⁸ As part of the 2012 stakeholder initiatives catalog process, the ISO again received no comments expressing support for examining this proposal.¹⁹

Accordingly, earlier this year, the ISO asked the CEC whether it wished to pursue its proposal to rebate the over-collection of transmission losses to renewable resources. The CEC informed the ISO that it did not. Attached hereto as Exhibit A is a letter to the CEC confirming that it does not want to pursue this proposal. The fact that stakeholders have expressed no support and the proponent of the proposal no longer wishes the ISO to initiate a stakeholder process signals that it is not a prudent use of resources to do so.

V. Conclusion

The ISO has a means to allocate transmission loss over-collections to metered demand that is just and reasonable. Over the last two years, stakeholders have expressed no support for the ISO to explore the CEC's proposal to provide rebates of over-collected transmission losses to renewable resources. The CEC,

¹⁸ See ISO's final market design initiatives catalog for 2011 at 11.
<http://www.caiso.com/Documents/Final2011MarketDesignInitiativeCatalog.pdf>

¹⁹ See ISO's Stakeholder Initiative Catalog as of December 4, 2012 at 22.
http://www.caiso.com/Documents/2012_StakeholderInitiativesCatalog.pdf

moreover, no longer wishes that the ISO explore the proposal. For these reasons, the ISO has determined not to initiate a stakeholder process to assess whether it should allocate transmission loss over-collections to renewable resources.

Respectfully submitted,

By: /s/ Andrew Ulmer

Nancy Saracino

General Counsel

Anthony Ivancovich

Deputy General Counsel

Andrew Ulmer

Director, Federal Regulatory Affairs

California Independent System

Operator Corporation

250 Outcropping Way

Folsom, CA 95630

Tel: (916) 608-7209

Fax: (916) 608-7222

aulmer@caiso.com

Attorneys for the California Independent
System Operator Corporation

Dated: September 27, 2013

EXHIBIT A

March 18, 2013

Via Electronic and U.S. Mail

Mr. Robert Oglesby
Executive Director
California Energy Commission
1516 Ninth Street
Sacramento, CA 95814-5512

Re: Request for California ISO to consider transmission loss rebate for renewable resources

Dear Mr. Oglesby:

In 2005, the California Energy Commission advocated that the California Independent System Operator Corporation adopt a rebate payable to renewable resources for over-collected transmission losses as part of the ISO's efforts to implement nodal markets. In an order dated September 21, 2006, the Federal Energy Regulatory Commission directed the ISO to consider the addition of features such as the CEC's proposal in subsequent market design releases.¹ This letter confirms the CEC's position that it no longer wishes that the ISO pursue examination of a rebate for over-collected transmission losses to renewable resources. We plan to inform the Federal Energy Regulatory Commission of the CEC's position later this year.

Thank you for your attention to this matter. If you have any questions, please feel free to contact me at 202.239.3947.

Sincerely,

/s/ Andrew Ulmer

Andrew Ulmer
Director, Federal Regulatory Affairs

cc: Dick Ratliff – CEC
Arlene Ichien - CEC
Sylvia Bender - CEC
Delphine Hou - ISO

¹ *California Independent System Operator Corp* 116 FERC ¶ 61,274 (September 2006) at P1402.

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon the parties listed on the official service lists in the above-referenced proceedings, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, California this 27th day of September 2013.

Is/ Anna Pascuzzo

Anna Pascuzzo