

SDG&E appreciates the opportunity to comment on CAISO's August 1, 2022 *Subscriber Participating TO Model* presentation. As SDG&E understands the proposal, the TransWest Express (TWE) transmission capacity would become part of the CAISO Balancing Authority Area (BAA). This is a very positive development and should enhance aspects of the CAISO's day-ahead and real-time markets, as well as providing an added layer of security for operation of the CAISO BAA.

While SDG&E supports including the TWE transmission capacity in the CAISO BAA, SDG&E believes certain elements of the proposal are inconsistent with day-ahead and real-time market efficiency. First, the "subscribed" transmission capacity would be treated the same as Existing Transmission Capacity (ETC)<sup>1</sup> which means aspects of this transmission capacity will not be subject to CAISO market rules and settlements.<sup>2</sup> This approach provides transmission access on a contract-path basis and limits the ability of CAISO market participants to economically optimize the supply of generation as well as end-use consumption.

Perhaps TWE's willingness to join the CAISO BAA is contingent on treating the "subscribed" transmission capacity as an ETC, and it may be that the overall benefits of including the TWE transmission capacity within the CAISO BAA (e.g., the fact that the cost of the subscribed transmission capacity will not be included in the CAISO's Transmission Access Charge (TAC)<sup>3</sup>) offsets the loss of market efficiency that comes with ETCs. However, this should be an explicit determination before the proposed treatment of "subscribed" transmission capacity as ETCs is accepted.

Second, SDG&E understands that use of the "unsubscribed" transmission capacity will be subject to a hurdle rate that is based on costs which do not vary with use of the transmission system; e.g., the fixed costs of the unsubscribed TWE transmission capacity as well as the fixed costs of the CAISO's existing transmission system (i.e., the CAISO TAC).<sup>4</sup> SDG&E assumes that they will be recovered in a way similar to how the CAISO's existing Wheeling Access Charge (WAC) is applied, i.e., on a volumetric use basis. As with the CAISO's existing wheeling-out charge (WAC), the recovery of fixed transmission costs through the CAISO's variable-cost based day-ahead and real-time markets would not allow for the most efficient market optimization.

SDG&E notes that in its Extended Day-Ahead Market (EDAM) proposal, the CAISO recognizes the inefficiency of including fixed cost-based hurdle rates in its markets and has made a considerable effort to avoid their use.<sup>5</sup> The CAISO should take a similar stance on the TWE proposal: Use of unsubscribed TWE transmission capacity should be based solely on the variable cost-based price/quantity offers of sellers and the variable benefit-based price/quantity bids of buyers.

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<sup>1</sup> "Subscriber Encumbrance treated as an Existing Contract." (CAISO presentation at p. 4.)

<sup>2</sup> "Subscriber Rights: No CAISO charge for...energy, congestion or losses." (CAISO presentation at p. 6)

<sup>3</sup> "Subscriber PTO would be required to fund the transmission revenue requirement from their subscriber, or the off-takers from the subscriber, not from the ISO" (CAISO presentation at p. 4)

<sup>4</sup> "Non-subscriber pays LMP at WY wind (energy, losses and congestion), SPTO [Subscriber Participating TO] Wheeling Charge for transmission to New or Harry Allen, plus ISO TAC from New or Harry Allen to SP15 DLAP, GMC, and other appropriate charges" (CAISO presentation at p. 7)

<sup>5</sup> See the CAISO's April 28, 2022 *EDAM Extended Day Ahead Market Straw Proposal* at p. 11-13.

SDG&E believes applying a hurdle rate to the use of unsubscribed TWE transmission capacity will reduce the volume of otherwise economic transactions. This may result in consumers paying more for power than they will save by not being required to pay for the fixed costs of the unsubscribed TWE transmission capacity. Further analysis should be performed to better understand whether the hurdle rate on unsubscribed TWE transmission capacity will have its intended effect.

Instead, the CAISO should evaluate the unsubscribed TWE transmission capacity in its annual Transmission Planning Process (TPP) and determine whether the expected benefits of this transmission capacity over time will offset the estimated costs of this transmission capacity. If the expected benefits are determined to offset the estimated costs, then the unsubscribed TWE transmission capacity should be included in the CAISO's day-ahead and real-time markets without any hurdle rates and the cost of this transmission capacity should be funded through the CAISO's TAC.

There are several mechanisms available to perform the TPP evaluation. One approach is to treat the unsubscribed TWE transmission capacity as an "economic" project and apply the CAISO's Transmission Economic Assessment Methodology (TEAM). Another approach is to evaluate the unsubscribed TWE transmission capacity as a possible "policy" project. The CAISO's presentation hints at this option by stating that the "Transmission [will be] predominately used to meet state or utility clean energy policy objectives.

Finally, SDG&E observes that the proposed distinctions between "subscribed" and "unsubscribed" TWE transmission capacity are inconsistent with the CAISO's general tariff provisions governing Participating Transmission Owners (PTOs). With certain exceptions, such as the Western Area Power Administration (WAPA), a PTO is required to place all of its transmission capacity in the CAISO market. The TWE proposal constitutes a departure from this requirement because the subscribed TWE transmission capacity is treated as an ETC and is not subject to the CAISO's day-ahead and real-time market mechanisms.