

# Memorandum

**To:** ISO Board of Governors  
**From:** Phil Pettingill, Manager of Infrastructure Policy and Contracts  
Anjali Sheffrin, Chief Economist / Director of Market and Product Development  
**Date:** May 13, 2008  
**Re:** *Decision on Assignment of Revenue Requirement for Startrans' Mead Facilities*

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*This memorandum requires Board action.*

## EXECUTIVE SUMMARY

On April 23, 2008 the CAISO assumed Operational Control of the Mead transmission facilities of the newest Participating Transmission Owner ("Participating TO"), Startrans IO, L.L.C. ("Startrans"). At that time, the CAISO became obligated to collect the Transmission Revenue Requirement ("TRR") of Startrans through its transmission Access Charges ("TAC"). By assigning the TRR collection of Startrans to the East Central TAC Area, Management intends to maintain the status quo to assure that there are no cost shifts resulting from the change in ownership from the City of Vernon ("Vernon") to Startrans.

## MOTION

*Moved, that the ISO Board of Governors assigns the Transmission Revenue Requirement for Startrans IO, L.L.C.'s Mead Facilities to the East Central TAC Area, as further described in the memorandum dated May 13, 2008, and related attachments.*

## BACKGROUND

In accordance with ISO Tariff Appendix F, Schedule 3, Section 3.4, Vernon became a part of the East Central TAC Area when it became a Participating TO. Earlier this year Vernon and Startrans entered into a Purchase and Sale Agreement to transfer ownership of Vernon's Mead transmission rights to Startrans. Startrans subsequently applied to the CAISO to become a Participating TO. On March 26, 2008, the ISO Governing Board approved the CAISO's acceptance of the Participating TO application of Startrans, subject to three conditions. As of April 4, 2008 each of the three conditions was satisfied, and on April 11, 2008 the CAISO consented to the transfer of the Mead transmission rights from Vernon to Startrans. By a March 31, 2008 order in FERC Docket No. EC08-33, FERC authorized the acquisition of the Mead transmission rights by Startrans. On April 23, 2008 the sale was completed and the CAISO assumed Operational Control of the Mead transmission facilities on behalf of Startrans.

## **MAINTAIN THE STATUS QUO**

Management is proposing to maintain the existing Mead transmission rights in the East Central TAC Area since the facilities became part of that TAC Area when Vernon became a Participating TO. Upon the transfer of the Mead transmission rights from Vernon to Startrans, Appendix F, Schedule 3, Section 3.4 "Section 3.4" of the ISO Tariff no longer applies to specify the assignment of these rights to the East Central TAC Area.<sup>1</sup> This occurs because Appendix F, Schedule 3, Section 3.4 does not name Startrans as an entity to become part of the East Central TAC Area nor were the Mead transmission rights located in Southern California Edison Company's Control Area prior to the ISO Operations Date. Therefore, the CAISO cannot automatically keep the Mead transmission rights in the East Central TAC Area. In fact, no section of Appendix F, Schedule 3 of the ISO Tariff automatically places Startrans in any TAC Area. However, ISO Tariff Appendix F, Schedule 3, Section 3.7 ("Section 3.7") allows the ISO Governing Board to determine whether it is reasonable to integrate the facilities into an existing TAC Area or establish a new TAC Area. Therefore, Management proposes to rely on Section 3.7 to determine how to integrate the collection of the Startrans TRR into the TAC Area framework. Specifically, Section 3.7 provides:

If the Imperial Irrigation District or an entity outside the State of California should apply to become a Participating TO, the CAISO Governing Board will review the reasonableness of integrating the entity into one of the existing TAC Areas. If the entity cannot be integrated without the potential for significant cost shifts, the CAISO Governing Board may establish a separate TAC Area.

Management considers Startrans to fall within the category of entities outside the State of California as described in Section 3.7. Management comes to this conclusion because Startrans is headquartered in a state other than California and has no PTO Service Territory in California. Management recommends that it is appropriate to assign Startrans to the East Central TAC Area with regard to the Mead transmission rights because the East Central TAC Area has been allocated the TRR associated with the Mead transmission rights as a result of their ownership by Vernon before the purchase by Startrans. As a general matter, keeping the TRR recovery for transmission rights assigned to the same TAC Area maintains the status quo and does not introduce the potential for new cost shifts. In this instance, Startrans can be integrated into the East Central TAC Area without significant cost shifts. Therefore, there is no need for the Board to establish a separate TAC Area pursuant to Section 3.7. Moreover, there is no logical separate TAC Area – nor any other existing TAC Area – to which the TRR for Startrans' Mead transmission rights could be assigned that would not result in cost shifts.

## **REASONABLENESS EVALUATION**

In reviewing the reasonableness of integrating Startrans' TRR into the East Central TAC Area, Management believes there are three essential elements to consider. The first consideration is whether there are any cost shifts that are necessary or appropriate. As discussed above, Management recommends that the status quo is an appropriate determination. The second consideration is the size of the TRR assignment and any differential increase in the TRR, regardless of any cost shifts. In this case, the Startrans TRR is \$3.8M higher than the TRR when Vernon owned the Mead transmission rights. Under the current stage of the TAC phase-in, integrating the Startrans TRR into the East Central TAC Area increases the collection from the East Central TAC Area rate payers by 20% of this amount (\$769,000). This increase is within the bounds of a reasonable increase, and the relative

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<sup>1</sup> ISO Tariff Appendix F, Schedule 3, Section 3.4 states: "If any of the following entities becomes a Participating TO, its PTO Service Territory will become part of the East Central Area: City of Anaheim Public Utility Department, City of Riverside Public Utility Department, City of Azusa Light and Water, City of Banning Electric, City of Colton, City of Pasadena Water and Power Department, The Metropolitan Water District of Southern California and City of Vernon or any other entity owning or having contractual rights to High Voltage or Low Voltage Transmission Facilities in Southern California Edison Company's Control Area prior to the ISO Operations Date."

proportion of the costs allocated to each Participating TO does not change as a result of adding Startrans' TRR to the East Central TAC Area.

Finally, the reasonableness review should consider the effect of accelerating the removal of the TRR from the TAC Area rates as some stakeholders have requested. Currently, the CAISO is in the eighth year of a ten year phase-in to a "grid-wide" Transmission Access Charge. For the remainder of this year, the TAC Area percentage is at 20 percent, in 2009 the TAC Area percentage reduces to 10 percent and in 2010 the TAC Area component of the TAC is reduced to zero. After this phase-in is completed, all transmission rate payers will pay only a "grid-wide" transmission rate. Recovering Startrans' TRR from only the "grid-wide" portion of the TAC would shift costs from the East Central TAC Area to all California transmission rate payers. Therefore, shifting the amount of Startrans' TRR that would have been paid by the East Central TAC Area to the "grid wide" component of the TAC would have the effect of accelerating the TAC Area phase out by two years for this TRR. Management believes it is most reasonable to collect Startrans' TRR in a manner that does not result in cost shifts from one rate payer group to another. Each of the foregoing three considerations supports this conclusion.

### **POSITIONS OF THE PARTIES**

Management solicited and received comments from stakeholders on the proposal to maintain the status quo by assigning the collection of Startrans' TRR to the East Central TAC Area (**Attachment A**). In general, San Diego Gas & Electric Company ("SDG&E"), the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside ("Six Cities") and Southern California Edison Company ("SCE") supported the assignment of Startrans to the East Central TAC Area. SDG&E supported the CAISO's approach to maintain the status quo and use Section 3.7 as authority to assign Startrans' TRR to the East Central TAC Area. The Six Cities and SCE oppose continuing to collect the TRR for the Mead transmission rights through the TAC in the same manner as when Vernon owned these rights. The Six Cities believe that the TRR should be recovered not by a blend of 20% TAC Area and 80% "grid-wide" charges but by 100% "grid-wide" charges. As discussed above, this would effectively result in a two-year acceleration of the phase-in period for the TAC; therefore Management does not believe charges should be shifted from the TAC Area to "grid-wide" at this time. SCE asserts that the Transition Charge, which is one of the three components of the TAC, should not apply to Startrans since Startrans does not have load and that Startrans' TRR should not be incorporated into the calculation of the Transition Charge. Management agrees with SCE that because Startrans has no load it is not appropriate to calculate a Transition Charge for Startrans or to incorporate Startrans' TRR into the Transition Charge calculation. Management considers this approach to be consistent with and authorized by the current provisions of the ISO Tariff. Management does not believe costs should shift from one set of rate payers to another merely because one PTO chose to sell its transmission assets to another PTO. Maintaining the status quo will assure that costs remain as they were before the purchase and that any transfer of these costs to a grid wide determination will occur by the design of the TAC implementation.

Finally, SCE believes that the application of Section 3.7 is inappropriate in this circumstance and advocates an amendment to Section 3.4 to incorporate Startrans into the East Central TAC Area. Management believes that the authority afforded the ISO Governing Board under Section 3.7 is sufficient. In addition, Management is concerned that an amendment to the ISO Tariff will not be accepted by FERC in time for the CAISO to collect Startrans' TRR without the need for settlement re-runs to make adjustments for both over and under collections from transmission ratepayers.

## **MANAGEMENT RECOMMENDATION**

Management recommends that the Board assign the Transmission Revenue Requirement for Startrans IO, L.L.C.'s Mead transmission rights to the East Central TAC Area.

Based on the reasoning above, Management has concluded that Startrans should be assigned to the East Central TAC Area and that no additional amendment to the ISO Tariff is required to implement this recommendation. Maintaining the status quo for collecting the TRR of Startrans' Mead transmission rights will assure that there will be no cost shifts between transmission rate payers.