California ISO

Transmission Access Charge Options for Integrating New Participating Transmission Owners

Addendum to
Draft Regional Framework Proposal

December 20, 2016

Market & Infrastructure Policy

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Introduction

On December 6 the California Independent System Operator ("CAISO") posted its Draft Regional Framework Proposal on the Transmission Charge Options ("TAC Options") initiative, and on December 13 conducted a stakeholder meeting to discuss that proposal. Based on some of the questions raised during the December 13 meeting the CAISO decided it would be useful to issue a brief addendum to the December 6 proposal to clarify a few elements of the proposal.

The topics discussed in this addendum provide clarifications to elements of the December 6 proposal. Nothing in this paper is intended to revise or modify any element of the December 6 proposal.

In conjunction with the release of this addendum the CAISO is also extending the due date for written comments to January 11, 2017, as indicated in a market notice issued on December 16. The new due date also applies to comments on the December 1 Regional Resource Adequacy Draft Framework Proposal.

Specific Clarifications

1. Inclusion in the sub-regional license-plate TAC of costs associated with a PTO's rights or entitlements on external transmission facilities.

See discussion of "existing facilities," December 6 proposal pp. 6, 9, 11-12.

The CAISO clarifies that the existing facilities of a PTO would include any rights or entitlements the PTO has on transmission facilities external to the expanded balancing authority area ("BAA") that are turned over to ISO operational control upon the PTO being integrated into the expanded BAA. As existing facilities, the costs associated with such rights or entitlements will become part of the appropriate sub-regional license-plate TAC rate. Any such rights provided to the PTO under contracts that are renewed after the PTO has been integrated into the expanded BAA will remain "existing facilities" after contract renewal for purposes of cost recovery through the sub-regional TAC rate.

2. Incorporating sub-regional transmission cost allocation provisions into the ISO tariff for purpose of calculating TAC rates.

See, in particular, discussion of cost allocation for new transmission projects, December 6 proposal, pp. 14-17.

During the December 13 stakeholder meeting the CAISO was asked whether the ISO in the future expanded BAA would be filing TAC rates for PTOs. The CAISO clarifies that the proposal does not intend for the future ISO to file actual TAC rates. Rather, it intends to incorporate the cost allocation provisions described in the proposal into the tariff for the expanded BAA. Once the provisions are approved by FERC, they will specify how the costs for any new transmission project should be allocated so that the ISO can apply them to the FERC-approved TRRs to determine the TAC rates to be used in wholesale settlements. Thus the tariff provisions plus the approved TRR amounts would determine the appropriate TAC rates without any need for additional regulatory filings. The rates so determined would reflect the costs of high-voltage facilities and external transmission rights under ISO operational control, including:

- Sub-regional license-plate TAC rates covering the costs of existing facilities and sub-regional shares of new facilities, and
- Additional rates for the loads of specific state or local regulatory authorities for policy-driven projects whose costs are allocated more granularly within a sub-region.

3. Allocation of additional costs beyond capital cost for a new transmission project.

The CAISO clarifies that the proposal intends the “cost” of a new transmission project to include all costs related to the relevant facilities, including ongoing operation and maintenance as well as capital costs and any cost overruns that may occur if they are approved by FERC to be included in the TRR. The ISO proposes that the allocation of these and any additional costs beyond the capital cost that was estimated at the time the project was approved would all follow the same cost allocation provisions.

4. Use of the Transmission Economic Assessment Methodology (“TEAM”) to calculate sub-regional economic benefits of a transmission facility.

At the stakeholder session of December 13, stakeholders raised two questions with production simulation results being used for losses determination.

One slide provided in the December 13 session stated that the ISO would ”Consider transmission line loss benefits through powerflow analysis”. This slide had not been updated from its first use in the transmission planning stakeholder session of September 21-22, 2016. Regarding energy savings associated with transmission line loss reductions, the CAISO’s response to stakeholder comments posted on the CAISO website, the CAISO noted: “Yes, line loss analysis relies on both the production simulation studies for energy and power flow analysis for the demand impact, and this detail was omitted from the slides presented. The ISO relies on production simulation results if available. Many smaller projects are not suitable for production simulation analysis and power flow analysis is used in those cases with estimates extrapolated from a reasonable number of cases." As noted in the stakeholder session, powerflow analysis would be necessary to confirm capacity savings.

Stakeholders also questioned the need for a determination of line losses as a benefit, as it was suggested that transmission line loss savings resulting from a new transmission project are already reflected in the production cost savings within an area benefiting from the transmission project. The production cost savings could in fact come from accessing lower cost generation to serve the area, and also reducing the amount of energy the generation is required to serve by the amount of the line loss savings within the area. When production cost simulation is performed, it is performed using DC power flow and least cost dispatch to simulate system operations in 8760 hours in a year. The simulation uses a full network model and computes locational marginal prices for every node, consisting of the short run marginal cost of energy, the marginal cost of congestion and the marginal cost of losses. In these cases, the production simulation analysis allows the tracking and reporting of the three components individually – which is important in understanding the value a proposed transmission project is providing. The ISO agrees it would be incorrect to double count the benefits.

5. Accounting for Export Access Charge ("EAC") revenues as an offset to Transmission Revenue Requirements ("TRR").

See discussion of EAC revenue accounting, December 6 proposal, item 16, p. 20.

The CAISO provided the discussion referred to in an attempt to explain as simply as possible how, in today's CAISO, export revenues collected through the Wheeling Access Charge ("WAC") are used to offset the TRRs that are charged to internal loads. During the December 13 meeting some parties indicated that the CAISO's explanation was not entirely accurate. In response the CAISO only wishes to clarify at this time that the December 6 proposal does not intend to alter any of the accounting mechanics used today for crediting export revenues against TRRs. At this point the CAISO does not intend to get more deeply into explanations of these mechanics, as that would be time-consuming and a digression from the purposes of both the initiative and the December 6 proposal. As the regional ISO BAA discussions continue later in 2017 it may be appropriate to pursue these details, but for the present suffice to say that the December 6 proposal does not envision any changes to the mechanics whereby export revenues (now called "EAC" instead of "WAC") would be credited against TRRs.

At the same time, it should be noted that the December 6 proposal does depart from today's CAISO allocation of export revenues to PTOs. Today the CAISO allocates the export charges collected in association with a given intertie facility to the PTO or PTOs that own that facility. In contrast, the December 6 proposal does not align the allocation of EAC revenues to PTOs based on the amount of EAC revenues collected on each intertie. Instead the CAISO proposes to allocate the EAC revenues in proportion to each sub-region's TRR, so that all sub-regions receive the same percentage TRR reduction as a result of the EAC revenues. The proposal does not address the allocation of EAC revenues to individual PTOs within a sub-region that contains multiple PTOs. The CAISO expects, however, that the same principle of revenue shares proportional to TRRs could extend to PTOs within a sub-region.