UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

California Independent System Operator Corporation	))	**Docket No. ER17-1432-001**

ANSWER TO SECOND COMMENTS

The California Independent System Operator Corporation ("CAISO") respectfully submits its answer to Southern California Edison Company's ("SCE") comments addressing the CAISO's response to the Commission's June 5, 2017 letter requesting additional information on the CAISO's proposal to allocate generator-interconnection-driven Local Transmission Facilities to the transmission owner's Regional Transmission Revenue Requirement in limited, narrow circumstances.[1] SCE's comments overlook the fundamental cost allocation issue currently facing the Valley Electric Association ("VEA") and argue to maintain the *status quo*. SCE's comments also reference prior CAISO testimony that is inapposite to this proceeding.

---

[1] The CAISO submits this answer pursuant to Rule 213 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213. Capitalized terms not otherwise defined herein have the meanings set forth in the CAISO tariff, and references to specific sections, articles, and appendices are references to sections, articles, and appendices in the current CAISO tariff and revised or proposed in this filing, unless otherwise indicated. *California Independent System Operator Corp*., Tariff Amendment to Implement 2015 Interconnection Generator Interconnection Driven Network Upgrade Cost Allocation Recovery Initiative, Docket No. ER17-1432-000 (April 18, 2017) ("Transmittal Letter"); Response to Deficiency Letter (July 5, 2017) ("CAISO Response").

I. Background

On April 18, 2017, the CAISO filed a tariff amendment to ensure that the CAISO's transmission rate design effectively balances the costs of generator-interconnection-driven network upgrades with commensurate benefits for its transmission owners. The CAISO explained that VEA currently faces the risk of being allocated all of the costs for network upgrades necessitated by other transmission owners' procurement efforts, and that similarly situated small transmission owners potentially could face the same issue in the future. VEA's Local Transmission Facilities are a highly favorable point of interconnection for load serving entities to meet renewable portfolio standards ("RPS") and provide cost-efficient power. Unfortunately for VEA ratepayers, the current CAISO tariff allocates the costs of Local Transmission Facilities entirely to the transmission owner's Local Transmission Revenue Requirement and not to the Regional Transmission Revenue Requirement (which is allocated among all transmission owners based on Gross Load). As such, VEA ratepayers will face significant rate increases for facilities to support generators procured to benefit other utilities' ratepayers.

To address this anomaly, the CAISO proposed to create a new class of transmission owner—the Certified Small Participating Transmission Owner ("CSPTO")—whose low-voltage, generator-interconnection-driven network upgrade costs will be allocated regionally instead of to the local transmission owner alone. CSPTOs would have to demonstrate in a CAISO stakeholder process and again in a tariff amendment process before the Commission that they would not be the sole beneficiaries of generator-interconnection-driven network upgrades on their Local Transmission Facilities, and therefore should not bear their costs alone. CSPTOs would have to demonstrate (and annually reaffirm) that:

1. The transmission owner maintains annual gross load at or below 2,000 GWh;
2. The transmission owner is located in an area where there is significant interest in developing new generating facilities that can support municipal, county, state, federal, or other RPSs; and
3. The transmission owner is not subject to an RPS or comparable directive.[2]

The CAISO also proposed to memorialize that VEA meets the CSPTO criteria.[3]

On June 5, 2017, the Commission issued a letter requesting more information regarding the CAISO's proposal. The CAISO responded on July 5, 2017. GridLiance and VEA both filed comments supporting the CAISO's Response. SCE filed comments critical of several CAISO responses. The CAISO responds to these criticisms below.

---

2 Proposed Section 26.7.1 of the CAISO tariff.

3 The CAISO detailed VEA's qualifications in its Transmittal Letter, pp. 10-11.

II. Answer

A. SCE's claim that the CAISO's proposal is not just and reasonable is based on SCE's preference for the status quo*.*

Similar to its initial comments in this proceeding, SCE argues that "the CAISO's high-voltage/low-voltage transmission access charge split should be maintained," having been in effect "for nearly two decades."[4] SCE cautions that "[i]f FERC ultimately elects to make a change to the current construct, it should do so on a narrow and limited basis. . . ."[5]

The CAISO does not disagree with SCE on these points, and for this reason it worked with stakeholders to tailor a very narrow exception to the CAISO's cost allocation methodology. The CAISO has no intention of further revising its cost allocation rules or its voltage distinctions. The CAISO's only intention is to address a very narrow, but very real issue. If approved, the CSPTO methodology would apply to a very small subset (currently one) of the smallest CAISO transmission owners and for only a subset of its facility costs (generator-interconnection-driven network upgrades on CSPTO low voltage systems that are not procured by the CSPTO itself). All other transmission facility costs would be subject to the CAISO's historic rate treatment. The CAISO's proposal could not be more narrow and still address the issues facing VEA.

SCE argues that "[a]llocating any [low voltage] costs grid-wide, and in turn allocating additional costs to SCE's customers would be inequitable because

---

[4] SCE Second Comments at pp. 1-2.

[5] *Id*. at P 2.

SCE's customers would pay both for SCE's [low voltage] facilities *plus* a share of other qualifying [Participating Transmission Owner's] grid-equivalent voltage facilities."[6] This argument overlooks (1) the allocation disparities this presents for VEA; and (2) SCE's relative potential share of low-voltage interconnections.

First, generation developers have identified the VEA low-voltage system as a highly favorable, cost-efficient point to interconnect photovoltaic solar resources, and other load-serving entities have contracted with these developers for future generation capacity to meet an RPS. VEA—a rural co-op with a small customer base—has not contracted with these resources and is not subject to an RPS. Nevertheless, under existing cost allocation rules, VEA's ratepayers would have to bear all of the costs of the network upgrades necessary to interconnect new generators intended to benefit the ratepayers of other transmission owners. This seems unfair.

Second, as the CAISO explained in its transmittal letter, SCE is uniquely situated among CAISO transmission owners because it has relatively very little low-voltage transmission. The following table sets forth the Transmission Revenue Requirements for the CAISO transmission owners that serve load and have both regional and local transmission:[7]

---

[6] *Id*.

[7] As of January 1, 2017. http://www.caiso.com/Documents/HighVoltageAccessChargeRatesEffective1Jan_2017.pdf.

Transmission Owner	Local TRR	Regional TRR	Total TRR
Pacific Gas & Electric	$653,436,882	$468,014,921	$1,121,451,803
Southern California Edison	$34,798,476	$1,030,478,735	$1,065,277,211
San Diego Gas & Electric	$298,854,329	$469,609,354	$768,463,683
Valley Electric Association	$3,413,410	$11,934,204	$15,347,614

The following table breaks these revenue requirements into percentages of total transmission revenue requirements.

Transmission Owner	Local TRR %	Regional TRR %	Total TRR
Pacific Gas & Electric	58.3%	41.7%	$1,121,451,803
Southern California Edison	3.3%	96.7%	$1,065,277,211
San Diego Gas & Electric	38.9%	61.1%	$768,463,683
Valley Electric Association	22.2%	77.8%	$15,347,614

There are few SCE facilities—only 3.3% of its system—where generators could interconnect and impose network upgrades costs solely on SCE ratepayers. By contrast, network upgrades resulting from interconnections to the other 96.7% of SCE's system are socialized among all CAISO transmission owners commensurate with their ratepayers' gross load—the same treatment the CAISO proposes for generator-interconnection-driven network upgrades on CSPTOs' low voltage systems.

While local cost allocations have a negligible impact on large transmission owners, they present a significant impact on small transmission owners such as VEA. The following table demonstrates the extent to which a specified amount of network upgrades would increase the total transmission revenue requirements (Regional and Local) of each transmission owner.[8]

Cost of New Upgrades	VEA	PG&E	SCE	SDG&E
$5,000,000	6.93%	0.04%	0.06%	0.12%
$10,000,000	13.86%	0.08%	0.13%	0.25%
$15,000,000	20.80%	0.12%	0.19%	0.37%
$20,000,000	27.73%	0.16%	0.25%	0.49%
$25,000,000	34.66%	0.19%	0.32%	0.61%

The same set of network upgrades that would raise SCE's rates by 0.32% would raise VEA's total transmission rates by 34.66%.

B. That VEA receives other benefits of CAISO membership is immaterial.

SCE notes that "VEA continues to benefit from being a CAISO PTO, with full access to the CAISO transmission system and markets," implying that these other benefits counterbalance the potential cost misallocation currently facing VEA ratepayers. The CAISO disagrees with this argument. Although all transmission owners generally benefit from CAISO membership, the Commission's cost causation principles provide that costs should be allocated to entities who benefit from the specific activities that cause the costs to be incurred. In other words, cost causation principles are not a holistic test examining whether a transmission owner's costs and benefits are roughly equal overall compared to other transmission owners, or whether a transmission owner receives other types of benefits that should be counted against it in determining

8 This table is based on Fall 2016 transmission access charges.

cost allocation in another context. Because a CSPTO is not the *sole* beneficiary of generator-interconnection-driven network upgrades on its low-voltage system, it should not bear *100%* of those upgrades' costs. After all, a CSPTO's ratepayers will still incur costs for these network upgrades to the extent that they use high-voltage CAISO transmission and pay the Regional Transmission Access Charge (just as all transmission owners do).

C. SCE cites precedent and testimony inapposite to the facts and issues in this proceeding.

SCE also states that the CAISO's position in this proceeding is inconsistent with its Order No. 1000 compliance filing, which "supported the distinction between the low-voltage system and the high-voltage system and the benefits that each provide."[9] The precedent and testimony SCE cites are inapposite and taken out of context. Order No. 1000 and the CAISO's discussion thereof pertained to network upgrades approved through the CAISO's annual transmission planning process. Such upgrades are not relevant to this proceeding, which is limited to the narrow case of generator-interconnection-driven network upgrades on the low-voltage systems of CSPTOs. Indeed, the Commission expressly found that "issues related to the generator interconnection process *and to interconnection cost recovery* are outside the scope of [the Order No. 1000] rulemaking."[10] As such, the CAISO's previous statements are not inconsistent with its answers in this proceeding. In any case, the CAISO

---

[9] SCE Second Comments at p. 5.

[10] *Transmission Planning and Cost Allocation by Transmission Owning and Operating Public Utilities*, 136 FERC ¶ 61,051 At P 760 (2011) (emphasis added).

reiterates that it has no intention of further revising its cost allocation rules or its voltage distinctions. The CAISO's only intention is to address a very narrow, but very real issue.

SCE also quotes from Order No. 2003 where the Commission noted that

> in assessing the benefits of the network upgrades needed to interconnect new generating capacity, the Commission's approach to interconnection pricing looks beyond the direct usage related benefits usually associated with transmission system enhancements. That is, our approach also recognizes the reliability benefits of a stronger transmission infrastructure and more competitive power markets that result from a policy that facilitates the interconnection of new generating facilities.[11]

SCE argues that this quote is inconsistent with the CAISO's statements that generator-interconnection-driven network upgrades on low-voltage systems primarily provide one benefit: enabling new generation. To the contrary, the Commission's language supports the CAISO's proposal because it "looks beyond the direct usage related benefits usually associated with transmission system enhancements," which are negligible for generator-driven upgrades on CSPTOs' low-voltage systems, and recognizes the benefits of "more competitive power markets that result from a policy that facilitates the interconnection of new generating facilities."[12] Critically, the CAISO requires that CSPTOs *not* be subject to an RPS or comparable directive. Because a CSPTO itself is not under an

---

[11] SCE Second Comments at pp. 4-5, (quoting *Standardization of Interconnection Agreements and Procedures,* 106 FERC ¶ 61,220 at P 584 (2004)).

[12] *Id*.

RPS,[13] it stands to reason that the new renewable generation procured on its system is intended to benefit other transmission ratepayers, namely, those under an RPS (including the load serving entity procuring the generation to meet its RPS).

As the CAISO explained in in its transmittal letter, VEA's peak system demand is 135 MW. Nevertheless, the CAISO received eight interconnection requests in its previous request window comprising 2,008 MW of new capacity. The beneficiaries of such new capacity and the upgrades required cannot be VEA ratepayers alone. Moreover, since the CAISO's original filing, 100 MW of new generation from previous study clusters executed generator interconnection agreements to begin financing construction to interconnect to VEA. Without the just and reasonable relief the CAISO proposes through the CSPTO tariff revisions, VEA ratepayers imminently face significant cost increases for upgrades designed to benefit other ratepayers.

[13] In addition, CSPTOs cannot include generator-interconnection-driven low-voltage network upgrade costs in their Regional Transmission Revenue Requirement where the CSPTO itself is procuring the generation.

III. Conclusion

For the reasons explained above and in this docket, the CAISO respectfully requests that the Commission accept the proposed tariff revisions as filed and without condition.

Respectfully submitted,

By: *<u>/s/ William H. Weaver</u>*
Roger E. Collanton
General Counsel
Sidney L. Mannheim
Assistant General Counsel
William H. Weaver
Senior Counsel
California Independent System
Operator Corporation
250 Outcropping Way
Folsom, CA 95630
Tel: (916) 351-4400
Fax: (916) 608-7222
bweaver@caiso.com

Counsel for the California Independent
System Operator Corporation

Dated: August 17, 2017

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all of the parties listed on the official service list for the above-referenced proceeding, 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, CA this 17th day of August, 2017.

/s/ Grace Clark
Grace Clark