Stakeholder Comments Template

Transmission Access Charge Options Issue Paper

Submitted by	Company	Date Submitted
Colin Rizzo, Esq., Energy Division cr2@cpuc.ca.gov; (415) 703-1784 *Louis Torres,* Energy Division lt4@cpuc.ca.gov; (415) 703-1784 *Keith White,* Energy Division kwh@cpuc.ca.gov; (415) 355-5473	*California Public Utilities Commission*	*November 20, 2015*

The Staff of the California Public Utilities Commission (CPUC staff) appreciates this opportunity to comment on the California Independent System Operator's (CAISO) Issue Paper, *Transmission Access Charge Options for Integrating New Participating Transmission Owners.*

Background

The Transmission Access Charge (TAC) structure is a method of recovering[1] the transmission revenue requirement (TRR) associated with CAISO-controlled electrical grid facilities. The purpose of the TAC initiative is to determine whether the existing TAC structure is appropriate if the CAISO were to expand its balancing authority area into a regional ISO or whether another TAC structure would be more appropriate under such expansion. The issue paper offers four options to revise the existing TAC structure. The options for allocating costs of transmission facilities above 200 kilovolts (kV)[2] include:

- A "Baseline 1" scenario where a potential new participating transmission owner (PTO) maintains a completely separate TRR for all existing and currently planned transmission facilities in its footprint, at all voltage levels;
- A "Baseline 2" where the potential new PTO joins the CAISO and is immediately incorporated into the current TAC structure with a single postage stamp rate[3] for all

[1]Recovery is based on a megawatt (MW) basis.
[2]The Issue Paper stipulates that sub-200kV facility costs would be allocated using present methodologies, both within the present footprints for the CAISO and any entities joining the CAISO. In addition, the Baseline and Alternative allocation options shown in the Issue Paper appear to apply to costs of both facilities existing at the time of integration and facilities developed and placed into service subsequently. See, generally, TAC Issue Paper, October 23, 2015.
[3] TRR charges associated with facilities rated 200kV and above are recovered through a system-wide rate.

existing and planned facilities above 200kV, and PTO-specific rates for all facilities below 200kV;

- An "Alternative 1" with an (expanded) CAISO-wide postage stamp rate for facilities greater than 300kV, with separate sub-regional rates[4] for facilities between 200-300kV and PTO-specific rates for facilities below 200 kV; and
- An "Alternative 2" where a five-year phase-in period transitions from separate rates (Baseline 1) to the postage stamp rates (Alternative 1) structure.

Under all of the above options, the PTOs continue to recover TRRs for all facilities below 200kV at the PTO-specific rate. For developing the initial straw proposal and subsequent iterations, the CAISO will consider these four options along with suggestions, issues, and concerns raised by stakeholders.

Below, the CPUC staff provides answers to the questions raised in the Template.[5]

1. Please offer your suggestions for how best to achieve good cost-benefit alignment and explain the reasoning for your suggestions.

In order to develop an appropriate cost-benefit alignment, CPUC staff requests that the proposed Baseline1, Baseline 2, Alternative 1, and Alternative 2: (a) include transmission expansion scenarios; (b) incorporate cost allocation scenarios for transmission projects associated with accessing Wyoming wind; (c) clarify whether and how the different TAC rate scenarios would affect overall wheeling access charges; and (d) demonstrate how different TAC rate scenarios will impact general convenience for exporting surplus renewable generation.

CPUC staff requests that the proposed Baseline 1, Baseline 2, Alternative 1, Alternative 2, and potentially, the additional TAC scenarios developed through the stakeholder process include a limited yet informative set of plausible hypothetical transmission expansion scenarios. For example, CPUC staff recommends that that these illustrative hypotheticals capture PacifiCorp's Gateway projects D, E, and F.[6] The energy generation that might utilize PacifiCorp's Gateway projects D, E, and F was captured in the October 2015 E3 study, *Benefits of PacifiCorp and ISO Integration* (E3 study),[7] but these projects do not appear in the Baseline 1, Baseline 2, Alternative 1, and Alternative 2 scenarios featured in the Issue Paper. The E3 study and the TAC Issue Paper should not be mutually exclusive and thus, CPUC staff believes their analyses should be considered together when appropriate. Moreover, CPUC staff requests that CAISO provide example TAC scenarios for using current procedures to allocate costs for all existing projects, projects under construction, and projects that are fully permitted/approved. This should be combined with allocating going-forward projects under the different methods outlined in the Issue Paper. This will inform stakeholders of cost impacts under various potential conditions.

[4] The existing CAISO footprint (with multiple PTO's would constitute one sub-region, with new sub-regions consisting of the footprints of new CAISO members which presumably could each contain single or multiple PTOs.
[5] See https://www.caiso.com/informed/Pages/StakeholderProcesses/TransmissionAccessChargeOptions.aspx
[6] See Energy Gateway, PacifiCorp, available at: http://www.pacificorp.com/energygateway.
[7] See E3 study, *Benefits of PacifiCorp and ISO Integration*, pages 23-26.

Moreover, CPUC staff notes that accessing wind generation from Wyoming, as discussed in the E3 study,[8] is being considered as a potentially important benefit of integration. Therefore, CPUC staff requests that Baseline 1, Baseline 2, Alternative 1, and Alternative 2 incorporate cost allocation scenarios for transmission projects associated with accessing this renewable resource.

Senate Bill (SB) 350 raised California's Renewable Portfolio Standard (RPS) from 33 percent by 2020 to 50 percent by 2030.[9] With the enactment of SB 350, California will integrate more variable energy resources, and the need for managing renewable generation is expected to grow. CPUC staff requests that the CAISO demonstrate how different TAC rate scenarios will impact wheeling access charges and general convenience for ***exporting*** surplus generation: (1) out of California to areas in the current PacifiCorp footprint; and (2) beyond this, to other areas in the west. To be sure, CPUC staff also requests that CAISO clarify whether and how the different TAC rate scenarios, particularly for integrating PacifiCorp, would affect the overall wheeling access charges for importing energy into the existing CAISO area to help meet renewable or greenhouse gas reduction goals. This should be compared to circumstances under current wheeling charges and CAISO should provide an analysis discussing the affects.

Furthermore, integration of CAISO and PacifiCorp may help facilitate other western state's compliance with requirements under the Environmental Protection Agency's Clean Air Act Section 111(d) requirements ("Clean Power Plan") because they will have access to California's existing renewable energy resources and infrastructure.[10] This potential benefit should be considered so stakeholders have a holistic understanding of a diverse range of costs and benefits.

2. Please comment on the factors the ISO has identified in section 5 of the issue paper as considerations for possible changes to the high-voltage TAC structure. Which factors do you consider most important and why? Identify any other factors you think should be considered and explain why.

CPUC staff requests more discussion and illustrative examples of how benefit-based allocation and transmission type-based allocation (i.e., reliability *versus* economic *versus* public policy) might work and whether such approaches would be sufficiently transparent or feasible.[11] This elaboration could be incorporated into the expanded set of hypothetical transmission cost scenarios requested under Topic 1. The explanation should be sufficiently detailed to help

[8] Id.

[9] See SB 350 Clean Energy and Pollution Reduction Act of 2015, available at: leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201520160SB350

[10] In addition to access to economic over-supply renewable generation, participants of a regional ISO may also use this resource to meet their requirements under the pending Environmental Protection Agency's Section 111(d) requirements under the Clean Air Act. See http://www2.epa.gov/cleanpowerplan/what-epa-doing

[11] Pursuant to the Federal Energy Regulatory Commission (FERC) order nos. 890 and 1000 and precedent, Section 5 of the Issue Paper discussed the eight factors considered for allocating costs of any given transmission facility between current ISO PTOs and one or more PTOs. These factors are: (1) Is it a new or existing facility; (2) What are the facility's electrical characteristics; (3) What is the geographic scope of the project; (4) What is the purpose of the project; (5) Which zones or sub-regions benefit from the project; (6) When was the facility approved; (7) Under what planning process was the facility approved; and (8) What happens upon the new PTOs withdrawal. See Issue Paper, Section 5, page 8.

stakeholders understand and comment on feasibility and transparency of potential approaches, which CPUC staff believes could become problematic.

3. The examples in section 7 illustrate the idea of using a simple voltage-level criterion for deciding which facilities would be paid for by which sub-regions of the combined BAA. Please comment on the merits of the voltage-based approach and explain the reasoning for your comments.

As noted under Topic 1, similar quantitative illustrations should be developed for a wider range of TAC scenarios. While the use of a new voltage-level criterion has the net effect of reducing "rate shock" specifically for PacifiCorp transmission customers, this criteria may be inappropriate for other potential candidates. CAISO should demonstrate that a simple voltage-level criterion used in its examples for deciding which facilities would receive sub-region billing treatment do not discourage other new entrants into an expanding balancing authority area by considering an expanded set of "what if" transmission expansion scenarios. Additionally, as noted under Topic 1, similar quantitative illustrations should be developed for a wider range of TAC scenarios so stakeholders are fully informed of all "rate shock" and "transition" concepts.

4. Please comment on the merits of using the type of transmission facility – reliability, economic, or public policy – as a criterion for cost allocation, and explain the reasoning for your comments.

Different cost allocation formulas (i.e., reliability *versus* economic *versus* public policy) for transmission additions serve different purposes and appeal differently to both the sponsors of a transmission addition and the presumed beneficiaries. While the different cost allocations work in function, they could have the potential to unreasonably delay the project approval process. CPUC staff recommends that cost allocation formulas for transmission additions above the 200kV and, alternatively, the 300kV thresholds[12] be further explored.

CPUC staff notes that some projects are justified using multiple criterion (i.e., reliability *and/or* economic *and/or* public policy). Thus, CPUC staff requests that CAISO explain how cost allocations would work if projects are not purely one type or another. CPUC staff also requests that CAISO explain whether there would be an ability of a load serving entity (LSE) to question any analysis that says they benefit from a project and consequently, the allocated costs. For example, SB 350 requires a 50 percent RPS for certain California utilities by 2030. The integration of PacifiCorp may provide, as discussed above, an opportunity to bring Wyoming wind to California. However, there is a risk that the distance involved and the transfer capacity of the intermediary transmission lines will not allow a complete transfer of wind-driven (i.e., renewable) energy to California. Other sources of PacifiCorp electric generation (i.e., fossil fuel turbines or coal generators) might be added into the resource mix to support the final transfer. An LSE, for example, may argue through the public policy criterion that this has the potential to dilute California's RPS and undermine California's overall greenhouse gas reduction efforts, and consequently, contest paying for the transmission project in part or in full. Consequently, CPUC staff recommends that CAISO develop a mechanism that demonstrates the project sponsor and

[12]According to the Issue Paper, these are the two alternative thresholds above which transmission costs would be recovered across the entire expanded (including new PTO) CAISO footprint.

presumed beneficiary jointly support the transmission addition to mitigate the potential for contest.

5. Please comment on the merits of using the in-service date as a criterion for cost allocation; e.g., whether and how cost allocation should differ for transmission facilities that are in service at the time a new PTO joins versus transmission facilities that are energized after a new PTO joins.

The Issue Paper's proposed Baseline and Alternative TAC structures appear to assume that all existing and future assets would be treated the same for whatever TAC model is ultimately applied.[13] As stated under Topic 1, CPUC staff recommends that CAISO consider and examine information scenarios for an alternative approach where existing assets remain under their current, respective TAC structures and new assets are folded into the ultimately adopted new TAC structure. Additionally, CPUC staff recommends that CAISO consider cutoff points to distinguish what assets are categorized as "existing" and what assets are considered "new."[14] Additionally, CPUC staff requests that CAISO clarify when PacifiCorp will become subject to the CAISO's Transmission Planning Process (TPP).

6. The examples in section 7 illustrate the idea of using two "sub-regional" TAC rates that apply, respectively, to the existing ISO BAA and to a new PTO's service territory. Please comment on the merits of this approach and explain the reasoning for your comments.

CPUC staff recommends that this approach be further explored, including examination of the cost allocation under a wider range of scenarios regarding "existing" versus "new" cutoff points and regarding illustrative but realistic major transmission additions as recommended above in Topics 1 and 5.[15]

7. Please offer any other comments or suggestions on this initiative.

As described under various topics above, informed and constructive consideration of TAC alternatives requires example allocations across a ***broader range*** of realistic conditions regarding the TAC methodology. Therefore, CPUC staff observes that the Baseline 1, Baseline 2, Alternative 1, and Alternative 2 cost scenarios could benefit from a sensitivity test. For example, CPUC staff would like to see how the TAC costs illustrated on pages 12 and 13 of the Issue Paper change if the inputs were adjusted to account for large, incremental transmission projects that could potentially come online. CPUC staff requests CAISO run sensitivities on each cost scenario with a $3 billion (500 kV) transmission project added outside the current CAISO footprint, and again run with a similar $3 billion (500 kV) transmission project added within the current CAISO footprint.

[13] See, generally, TAC Issue Paper, October 23, 2015.

[14] For example, cut off points could be determined by whether the asset is in-service, under construction, or in planning.

[15] For example, this approach should balance the potential consequences of treating existing and new assets differently against plausible ***future*** transmission additions to access Wyoming wind or maintaining reliability for load centers.