Decision on generator interconnection driven network upgrade cost recovery proposal

Stephen Rutty
Director, Grid Assets

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Experience with Valley Electric Association (VEA) identified a problem with generator-driven low-voltage network upgrade cost allocation for small PTOs.

- ISO tariff requires PTOs to reimburse interconnection customers for reliability and deliverability network upgrades.
- PTOs include these costs in their rate bases as either local low-voltage (LV) below 200 kV or regional high-voltage (HV) 200 kV and above.
  - HV costs collected via regional TAC
  - LV costs collected via local TAC (i.e., that PTO only)

Generator-driven LV network upgrades can have a large impact on small PTO's local TAC, such as VEA.

Proposal utilizes three criteria to narrowly address small PTOs facing large generator-driven local TAC increases:

1. Small PTOs, where the PTO's filed annual gross load is 2,000 GWh or less (which currently is approximately 2.2% of the largest PTO's filed annual gross load);

2. The small PTO is in a renewable resource-rich area that is leading to generator regional procurement interest within the area; and

3. The small PTO is not under a Renewable Portfolio Standard requirement or, if under an RPS requirement, does not have a need for the new interconnecting generation to meet that requirement.

PTOs meeting the criteria will receive different low-voltage transmission rate treatment.

- PTOs evaluated and approved on a case-by-case basis.
- Cost of network upgrades to serve generators on the PTO's low-voltage system will be put into the PTO's high-voltage transmission revenue requirement.
  – Unless the generator is being built to serve load within that PTO's service area in some manner.
- Once approved, a PTO must continue to meet all three criteria, and certify to that effect annually, to continue to receive the separate TAC rate treatment.

Approved PTOs that no longer meet any one of the criteria, would no longer receive separate rate treatment.

At that time:

- any low-voltage network costs stemming from new generator interconnections would be applied to the PTO's low-voltage TAC rates.
- any as-yet unrecovered low-voltage costs, e.g. undepreciated value, associated with previously-approved interconnections, would be applied to the PTO's low-voltage TAC rates.

Proposal addresses rate shock for small PTOs and has de minimus rate impact on large PTOs.

- Under current rules, a generator driving $10 million in low-voltage network upgrades would increase VEA's combined (HV + LV) transmission revenue requirements by approximately 14%.

- Under this proposal, VEAs combined transmission revenue requirements would increase by approximately .04%, and larger PTOs by a similar de minimus amount.

Majority of stakeholders support or do not oppose this proposal.

- The Large-Scale Solar Association, California Wind Energy Association, Independent Energy Producers Association, and sPower strongly support the proposal.
- VEA and GridLiance support the proposal with qualification.
- Pacific Gas and Electric, Southern California Edison and Six Cities do not oppose the proposal.
- San Diego Gas & Electric, Silicon Valley Power, and the Office of Ratepayer Advocates oppose the proposal.

Management recommends the Board approve this proposal and also approve that VEA meets the criteria for separate rate treatment.

- VEA is a small PTO with a filed annual gross load of 545 GWh or 0.6% of the largest PTO.
- VEA is in an area with valuable solar capability and competitive costs for generator interconnections.
- VEA is not obligated to meet any RPS requirements.

Absent this change, VEA and any future similarly situated PTO's ratepayers risk incurring significant transmission rate increases for generators being developed in their service territories that do not serve the needs of those ratepayers.