

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

**California Independent System) Docket No. ER17-1432-000
Operator Corporation)**

ANSWER TO COMMENTS

The California Independent System Operator Corporation (“CAISO”) respectfully submits its answer to the comments filed by Southern California Edison Co. (“SCE”) in the above-identified docket, which proposes to allocate—in narrow circumstances—generator-interconnection-driven Local Transmission Facilities to the transmission owner’s Regional Transmission Revenue Requirement.¹ SCE’s comments ignore the fundamental cost allocation issue currently facing the Valley Electric Association (“VEA”), and simply argue to maintain the *status quo* with no support. SCE’s alternate proposals are barred under clear Commission precedent.

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

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 Generator Interconnection Driven Network Upgrade Cost Allocation Recovery Initiative, Docket No. ER17-1432-000 (April 18, 2017) (“Transmittal Letter”).

allocated all of the costs for network upgrades necessitated by other transmission owners' procurement efforts. VEA's Local Transmission Facilities present an ideal point of interconnection for load serving entities to meet renewable portfolio standards 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 in lieu of 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 (e.g., SCE's ratepayers).

To address this misalignment, 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 renewable portfolio standards; and

3. The transmission owner is not subject to a renewable portfolio standard or comparable directive.²

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

Nine parties submitted motions to intervene without comment to the CAISO's filing, including one party that submitted a motion to intervene out of time. The CAISO does not object to any of these interventions.

Three parties filed substantive comments to the CAISO's filing: VEA and GridLiance each submitted comments supporting the CAISO's proposal in its entirety. SCE filed enigmatic comments that "support[] the CAISO's proposed narrowly tailored approach" but that later state that SCE "does not believe that the cost allocation proposed by the CAISO is just and reasonable."⁴

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 and the false premise that cost allocation should depend on voltage and not beneficiaries.*

SCE states that "the current approach in the CAISO region to interconnection, payment, allocation of network upgrade costs, and the associated cost recovery is working as intended and is not materially flawed."⁵ SCE notes that the CAISO's cost allocation methodology "has been in place for more than a decade . . . and it has

² Proposed Section 26.7.1 of the CAISO tariff.

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

⁴ SCE Comments at pp. 4-5

⁵ SCE Comments at p. 3.

functioned well and helped support significant transmission additions.”⁶ SCE’s comments then summarily conclude that “[t]he system is by no means ‘broken.’”⁷

Although the CAISO’s existing cost allocation methodology has worked well for a very long time, an exceptional and unanticipated issue has arisen that must be addressed. SCE’s comments ignore the very real issue currently facing VEA. As the CAISO explained in detail in its Transmittal Letter, generation developers have identified the VEA low-voltage system as an ideal, cost-efficient point to interconnect photovoltaic solar resources, and other load-serving entities (perhaps SCE) have contracted with these developers for future generation capacity to meet renewable portfolio standards. VEA—a rural co-op with a small customer base—has not contracted with these resources and is not subject to a renewable portfolio standard. 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 fundamentally unfair.

The CAISO would not tinker with a cost allocation methodology that has worked well for over a decade without good cause. For this reason, the CAISO and its stakeholders developed a narrow proposal to remedy the exceptional issues facing VEA. Accordingly, the CAISO’s proposed amendment (1) avoids the need to request a tariff waiver, which neither the CAISO nor the Commission prefer; and (2) sets forth the criteria future transmission owners would need to meet in order to be considered similarly situated to receive comparable treatment to VEA. The CAISO agrees with

⁶ SCE Comments p. 4.

⁷ *Id.*

SCE that this narrow treatment should “apply only to exceptions while [the] current tariff remains the rule.”⁸

Although SCE states that it supports the CAISO’s proposed narrowly tailored approach—including establishing eligibility criteria—SCE states that the CAISO’s proposal is not just and reasonable because it “would permit a transmission owner that qualifies for rate treatment as a CSPTO to recover the cost of generator interconnection driven, *low-voltage network upgrades* though the CAISO’s *high voltage/regional* transmission access charge.”⁹ SCE then reiterates its preference for the *status quo*, arguing repeatedly that the existing tariff provisions have been in place for many years. SCE’s argument is circular. SCE is effectively stating that a new rate is not just and reasonable because it is not the old rate. The CAISO understands SCE’s reticence to disturb existing tariff provisions, but the existing tariff provisions themselves cannot preclude amendment. It’s because the existing tariff only uses voltage levels to determine beneficiaries that the CAISO must amend the tariff to avoid a disproportionate cost on transmission owners like VEA (and to the disproportionate benefit of other load serving entities that would not bear the transmission costs).

SCE’s argument that the CAISO cannot allocate Local Transmission Facilities to the Regional Transmission Revenue Requirement also falls flat. These lines are not sacrosanct, and have merely been a useful tool in allocating costs to beneficiaries. As the Commission itself has stated: “Our decisions regarding transmission cost allocation reflect the premise that allocation of costs *is not a matter for the slide-rule*. It involves

⁸ SCE Comments a p. 5.

⁹ SCE Comments at pp. 5-6.

judgment on a myriad of facts. It has no claim to an exact science. We therefore allow regional flexibility in cost allocation and, when considering a dispute over cost allocation, exercise our judgment by weighing several factors.”¹⁰ SCE’s argument is that voltage should be the slide-rule. But that slide-rule does not work in the case of generator-interconnection-driven upgrades on VEA’s Local Transmission Facilities. Reliance on voltage alone results in an unfair and significant cost allocation on VEA ratepayers disproportionate to any benefit in this case.

In Order No. 890, the Commission enumerated the following factors to consider in allocating transmission costs:

1. Whether a cost allocation proposal fairly assigns costs among participants, including those who cause them to be incurred and those who otherwise benefit from them;
2. Whether a cost allocation proposal provides adequate incentives to construct new transmission; and
3. Whether the proposal is generally supported by state authorities and participants across the region.¹¹

These factors support the CAISO’s efforts to properly align costs to beneficiaries and to maintain proper incentives to construct new generation in the most cost-efficient locations for ratepayers.

¹⁰ *Preventing Undue Discrimination and Preference in Transmission Service*, Order No. 890, FERC Stats. & Regs. ¶ 31,241 at P 559 (emphasis added) (quoting *Colorado Interstate Gas Co. v. FPC*, 324 U.S. 581, 589 (1945)), order on reh’g, Order No. 890-A, FERC Stats. & Regs. ¶ 31,261 (2007), order on reh’g, Order No. 890-B, 123 FERC ¶ 61,299 (2008), order on reh’g, Order No. 890-C, 126 FERC ¶ 61,228, order on clarification, Order No. 890-D, 129 FERC ¶ 61,126 (2009).

¹¹ *Id.*

SCE notes that the CAISO explained in its Order No. 1000 compliance filing that its cost allocation methodology complied with Order No. 1000.¹² SCE ignores that Order No. 1000 applied to transmission projects approved in regional and interregional planning process and not to network upgrades approved in the generator interconnection process.¹³ In any event, the fact that the CAISO's transmission cost allocation methodology is consistent with Order No. 1000 does not mean that any enhancement to that methodology is unjust and unreasonable. As explained above, the CAISO has found an exceptional case where costs and benefits misalign under the existing methodology. The CAISO's proposed enhancements are also consistent with the cost allocation principles enumerated in Order No. 1000, particularly the principle that costs be allocated in a way that is roughly commensurate with benefits.¹⁴

For these reasons the CAISO has narrowly tailored a solution for exceptional cases like VEA's. As the CAISO stated in its Transmittal Letter, the CAISO has no intention of eroding the lines between Regional and Local Transmission Facilities.¹⁵ The CAISO and its stakeholders were determined to (1) maintain the CAISO's overall rate design and generator interconnection procedures—the cost caps and other fundamentals of which are largely premised on that rate design; and (2) avoid significant cost shifts among the various CAISO transmission owners. The CAISO's proposal achieves these goals and should be approved as just and reasonable.

¹² SCE Comments at p. 6 n. 5.

¹³ *Transmission Planning and Cost Allocation by Transmission Owning and Operating Public Utilities*, Order No. 1000, 76 FR 49842 (Aug. 11, 2011), FERC Stats. & Regs. ¶ 31,323 at PP 1-2 *et seq.* (2011).

¹⁴ *Id.* at P 622.

¹⁵ Transmittal Letter at pp. 6-7.

B. Commission precedent is clear that SCE's alternative proposals should not be considered.

SCE's comments propose two alternative cost allocation treatments for a CSPTO: (1) extending the refund period to generators from 5 years to 20 years to mitigate "rate shock;" or (2) some sort of cost cap for low-voltage network upgrades.¹⁶ The Commission should disregard SCE's alternate proposals. The Commission has made clear in numerous cases that, pursuant to Section 205 of the Federal Power Act, "the Commission limits its evaluation of a utility's proposed tariff revisions to an inquiry into 'whether the rates proposed by a utility are reasonable—and not to extend to determining whether a proposed rate schedule is more or less reasonable to alternative rate designs.'"¹⁷ As such, "there is no need to consider in any detail the alternative plans proposed by" SCE.¹⁸

SCE's alternate proposals demonstrate that the CAISO's proposal is just and reasonable. SCE's first proposal—extending the refund period to 20 years—merely spreads the pain to the same ratepayers but over a longer period of time. It does nothing to cure the disproportionate cost/benefit misalignment that would harm VEA ratepayers in the near future (and to the benefit of SCE ratepayers). Further, SCE ignores that transmission owners must pay interest on these reimbursements, and the interest over 20 years would only exacerbate the undue costs to VEA ratepayers.¹⁹

¹⁶ SCE Comments at pp. 6-7.

¹⁷ *California Independent System Operator Corp.*, 141 FERC ¶ 61,135 at P 44 n. 43 (quoting *City of Bethany v. FERC*, 727 F.2d 1131, 1136 (D.C. Cir. 1984)).

¹⁸ *Id.*

¹⁹ See Section 14.3.2.3 of Appendix EE to the CAISO tariff.

SCE's second proposal is more problematic. SCE proposes to apply the "same cap" for Reliability Network Upgrades—\$60,000 per MW of generating capacity—to generators interconnecting on low-voltage systems. The CAISO does not understand this proposal because that cap *already applies* and does not distinguish between voltage levels.²⁰ As such, applying the cap would do nothing for VEA ratepayers. In fact, the disproportionate costs VEA ratepayers face are costs for Reliability Network Upgrades *within the cap* because the solar generators proposing to interconnect to VEA are large, easily exceeding the entire peak load of the VEA system. These facts demonstrate that the beneficiaries of the new generation interconnecting to the VEA system cannot be VEA ratepayers alone and must be regional ratepayers. For this reason, the CAISO proposes to allocate the costs of these network upgrades regionally, and VEA and other utility distribution companies would be assessed their share of the costs to the extent that they use Regional Transmission Facilities.²¹ In other words, a CSPTO like VEA will not "free-ride" on these network upgrades; its utility distribution company will pay its proportionate share of the network upgrades costs to the extent that it incurs Regional Transmission Access Charges just as all utility distribution companies do.

Perhaps more problematically, if SCE is proposing some type of different cap to avoid rate shock, then that cap would only discourage developers from interconnecting at the most cost-efficient locations. The CAISO's proposal, on the other hand, maintains appropriate incentives and keeps costs and benefits aligned.

²⁰ See Section 14.3.2.1 of Appendix DD to the CAISO tariff; Section 11.4.2 of Appendix EE to the CAISO tariff.

²¹ See Transmittal Letter at p. 14.

III. Conclusion

For the reasons explained above and in the CAISO's April 18, 2017 filing in this docket, the CAISO respectfully requests that the Commission should accept the proposed tariff revisions as filed and without condition.

Respectfully submitted,

By: /s/ William H. Weaver

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

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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 23rd day of May, 2017.

/s/ Grace Clark
Grace Clark