Stakeholder Comments Template

Transmission Access Charge Options

September 30, 2016 Second Revised Straw Proposal

Submitted by	Company	Date Submitted
Lanette Kozlowski *(415) 973-2081*	*Pacific Gas and Electric Company*	*November 1, 2016*

Introduction

PG&E appreciates the opportunity to comment on the September 30, 2016 Second Revised Straw Proposal for Transmission Access Charge ("TAC") Options ("Second Revised Proposal"). PG&E continues to support regional expansion and looks forward to working with the CAISO and other stakeholders to develop a robust TAC methodology that reasonably allocates the costs of using the Regional ISO grid commensurate to the benefits that each sub-region receives.

PG&E appreciates the CAISO's Second Revised Proposal that considers a wide array of perspectives. PG&E continues to believe that in a Regional ISO, either all PTOs should fairly share the costs of all facilities from which they benefit, or only new regional projects that create a new or upgrade an existing intertie between sub-regions or balancing area authorities (BAA), should be considered for regional cost allocation.

In addition to these concerns raised in prior comments, PG&E has some general concerns regarding new aspects of the CAISO's Second Revised Proposal.

Role of WSC in Cost Allocation of Transmission Projects

In the Second Revised Proposal, the CAISO proposed that the Western States Committee (WSC) would have final authority for cost allocation of policy transmission projects. However, as stated in PG&E's comments on the Governance proposal, PG&E believes that the Regional ISO should maintain primary authority for allocation of all transmission costs, rather than separating out certain types of projects for the Western States Committee (WSC) to have final authority. The Regional ISO should maintain its ability to independently file rules for the allocation of transmission costs, and policies and procedures for transmission planning at FERC. In addition to participating in the Regional ISO transmission planning process (TPP), the WSC would be a resource for the Regional ISO to consult when considering allocating costs for a policy project to two or more states or to a state in which the project is not located. Otherwise, as with other interested parties, the WSC would have the ability to intervene and participate in related FERC proceedings.

To maintain the Regional ISO's authority over allocation of transmission costs, the CAISO's TAC Options Proposal should include a comprehensive cost allocation approach that would be codified in tariff language approved by FERC, rather than only a default approach subject to revision by the WSC. The CAISO should address all types of projects, including policy projects that serve multiple sub-regions and policy projects that are located in one state, but serve another state's policy needs. Any change to the cost allocation methodology would occur in a manner analogous to other tariff changes and be subject to board approval and a filing at FERC.

Treatment of Export Access Charge (EAC) Revenues

The CAISO also proposed to create a single region-wide EAC that would apply to all exports and wheel-through transactions out of the Regional ISO. PG&E is concerned that the CAISO has not provided sufficient analysis to determine the financial impact to California and PG&E from:

- a decrease in the California wheeling rate to a weighted average EAC rate (currently estimated at $11 and $8 respectively); and
- a decline in volumes from the loss of export points between California and new, adjacent sub-regions such as PAC, NV Energy, BANC, etc.; and
- a potential windfall for sub-regions, such as PAC, that today have a lower TRR and estimated wheeling rate ($4) than California and would end up with a higher EAC and possibly excess revenue.

In the Second Revised Proposal, the CAISO has not committed to a cost allocation methodology of the regional wheeling revenue under an EAC rate. Nor has the CAISO sufficiently analyzed the financial impacts from the formation of other sub-regions. It is therefore unclear what the effects will be on California and PG&E customers. Lower revenue under the EAC creates the risk of higher sub-regional TAC rates in California. For PG&E, who recently forecasted $140 million in wheeling access charge revenues in its 2017 Transmission Revenue Balancing Account Adjustment update filing at FERC, it is important understand how these wheeling revenues may change under the CAISO's proposed TAC Options proposal.

Second Revised Straw Proposal

1. The ISO previously proposed to allow a new PTO that is embedded within or electrically integrated with an existing sub-region to have a one-time choice to join that sub-region or become a separate sub-region. The ISO now proposes that an embedded or electrically integrated new PTO will become part of the relevant sub-region and will not have the choice to become a separate sub-region. This means that the new embedded/integrated PTO's transmission revenue requirements will be combined with those of the rest of its sub-region and its internal load will pay the same sub-regional TAC rate as the rest of the sub-region. Please comment on this element of the proposal.

   PG&E agrees with the CAISO that an embedded or electrically integrated new PTO should become part of the relevant sub-region and not have the choice to become a separate sub-region. Otherwise, new PTOs would avoid cost allocation for existing projects for which they have the same benefits as existing PTOs.

Likewise, new PTOs and new sub-regions should share in the cost of all new facilities approved since the expansion of the ISO and under the expanded TPP to avoid providing a perverse incentive to PTOs to delay joining the ISO to avoid cost allocation but then having full "free" access to those facilities.

2. <u>An embedded PTO is defined as one that cannot import sufficient power into its service territory to meet its load without relying on the system of the existing sub-region. Whether a new PTO is considered electrically integrated will be determined by a case-by-case basis, subject to Board approval, based on criteria specified in the tariff. Please comment on these provisions of the proposal.</u>

   A new PTO should join an existing sub-region that it is embedded within, electrically integrated with, or leaning upon. However, if the CAISO is to determine whether a new PTO may form a new sub-region on a case-by-case basis, then the CAISO should define specific criteria before seeking board approval. This criteria should include requiring a new PTO to own or have entitlement to sufficient transmission facilities to import the energy needed to serve its load not served by resources internal to its service area in order for the PTO to be eligible to form a new sub-region.

3. <u>The proposal defines “new facilities” as transmission projects planned and approved in an expanded TPP for the expanded ISO BAA. The integrated TPP will begin in the first full calendar year that the first new PTO is fully integrated into expanded ISO BAA. Projects that are under review as potential “inter-regional” projects prior to the new PTO joining may be considered as “new” if they meet needs identified in the integrated TPP. Please comment on these provisions.</u>

   It would be helpful if the CAISO would apply the principles it proposes in defining “new facilities” to the remaining planned Gateway segments to illustrate how their proposal would apply.

4. <u>The ISO previously defined “existing facilities” as transmission assets planned in each entity’s own planning process for its own service area or planning region, and those that are in service, or have either begun construction or have committed funding to construct. The ISO is now simplifying the proposal to define “existing facilities” as all those placed under operation control of the expanded ISO that are not “new.” Please comment on the ISO’s proposed new definition of “existing facilities.”</u>

   While PG&E understands that sharing the costs of CAISO existing facilities may be an impediment to new PTOs joining and expanding the ISO footprint, PG&E believes that the current TAC rate disparity between the CAISO and potential new PTOs must be mitigated. The CAISO’s proposal does nothing to mitigate the current TAC rate disparity and could exacerbate the current rate differential.

5. <u>Consistent with the previous revised straw proposal, the ISO proposes to recover the costs of existing facilities through sub-regional “license plate” TAC rates. The ISO has proposed that each sub-region’s existing facilities comprise “legacy” facilities for which subsequent new sub-regions have no cost responsibility. Please comment on this aspect of the proposal.</u>

   See the response to question 4.

6. The ISO proposes to use the Transmission Economic Assessment Methodology (TEAM) to determine economic benefits of certain new facilities to the expanded ISO region as a whole and to each sub-region. Please comment on these uses of the TEAM.

   PG&E agrees with CAISO's proposal of identifying the economic benefits of certain new facilities to the expanded ISO region as a whole and to each sub-region. However, as stated in prior comments, the TEAM methodology needs to be re-evaluated to ensure that the methodology is robust for use for the expanded ISO. The energy industry has and is expected to continue to undergo significant policy, economic, and technology changes. Impacts to market fundamentals can greatly impact the need, use and value of transmission.

   PG&E believes that the CAISO should assess the robustness of the TEAM methodology for use in future economic assessments. Please see response to question 18 for additional details on areas for TEAM methodology improvement.

7. For a reliability project that is narrowly specified as the more efficient or cost-effective solution to a reliability need within a sub-region, and has not been expanded or enhanced in any way to achieve additional benefits, the ISO proposes to allocate the project cost entirely to the sub-region with the driving reliability need, regardless of any incidental benefits that may accrue to other sub-regions. Please comment on this provision.

   Reliability-only projects should be allocated to the sub-region with reliability concerns addressed by the project. This reduces the complexity and controversy that would otherwise be required to allocate costs for the project. For example, there would be no need to ascertain the quantity of costs to allocate to reliability benefits versus incidental benefits when allocating all costs to the sub-region with reliability needs.

8. For a policy-driven project that is connected entirely within the same sub-region in which the policy driver originated, the ISO proposes to allocate the project cost entirely to the sub-region with the driving policy need, regardless of any incidental benefits that may accrue to other sub-regions. Please comment on this provision.

   Generally, PG&E does not take issue with this proposal. However, to the extent the policy-driven project provides economic benefits to other sub-regions, costs of the project, up to the economic benefit received by each sub-region, should be allocated before assigning the remaining costs to the sub-region with the policy driver.

   Additionally, PG&E has concerns regarding the procedures to identify policy projects. First, the state commissions should identify the policy need that drives a project, not the ISO or the WSC. The CAISO's proposal assumes that transmission needs will be driven in a manner analogous to the CPUC's provision on renewable energy procurement portfolios to the ISO today. However, PG&E does not believe this process can easily be applied in an expanded TPP, and the CAISO should address this directly. PG&E requests that the ISO describe how it will ensure that policy projects identified in the expanded TPP will only reflect the policy needs identified by the relevant state commission. Second, sub-regional PTOs are not all defined geographically by a single state, so a policy may be necessary to address cost allocation among various states within a single sub-region.

9. For a purely economic project with benefit-cost ratio (BCR) > 1, cost shares will be allocated to sub-regions in proportion to their benefits, and because BCR > 1 this completely covers the costs. A purely economic project is one that is selected on the basis of the TPP economic studies following the selection of reliability and policy projects, and is a distinct new project, not an enhancement of a previously selected reliability or policy project.

   PG&E does not take issue with this proposal. However as stated in PG&E's response to question 6, PG&E believes that the CAISO should assess the robustness of the TEAM for use in future economic assessment. Please see response to question 18 for additional details on areas for TEAM methodology improvement.

10. For an economic project that results from modifying a reliability or policy-driven project to obtain economic benefits greater than incremental project cost, the ISO proposes to first, allocate avoided cost of original reliability or policy-driven project to the relevant sub-region, then allocate incremental project cost to sub-regions in proportion to their economic benefits determined by TEAM. This is called the "driver first" approach to cost allocation. The proposal also illustrated an alternative "total benefits" approach. Please comment on your preferences for either of these approaches.

    PG&E favors the "driver first" approach and disfavors the "total benefits" approach. PG&E supports the portion of costs attributable to reliability concerns (i.e., the costs of a reliability-only project) being first allocated to sub-region(s) with reliability concerns, according to reliability benefits. Any residual costs of multi-purpose projects would be allocated to the sub-region(s) proportionate to the economic benefits received.

11. The proposal outlined two scenarios for policy-driven projects involving more than one sub-region. In scenario 1, where a project built within one sub-region meets the policy needs of another sub-region, costs would be allocated to sub-regions up to the amount of their economic benefits (per TEAM) and the remaining costs would be allocated to the sub-region that was the policy-driver. Please comment on this cost allocation approach for scenario 1.

    Noting the concerns above for question 8 about a state commission driving the identified need, PG&E believes that an additional check is appropriate to ensure that the policy needs are fairly attributable to each sub-region.

    The CAISO should consider how the approval process by state regulatory bodies for estimated and actual transmission costs will work, particularly for projects located in one state, but with costs allocated to another state. PG&E notes that the actual costs for transmission projects may be different than the estimated costs approved in the original TPP for various reasons. For projects where a state regulatory body is approving actual costs for ratepayers in another state (i.e., policy projects located in one state serving the policy needs of another state), PG&E suggests the CAISO consider how the WSC or other state bodies may play a role in cost approval and allocation after the TPP.

    While conditioning approval of all projects on WSC or a state regulatory commission may conflict with the Federal Power Act by pre-empting ISO authority, designing the transmission approval process to include, in limited circumstances, concurrence by a state's WSC representative or the state regulatory commission responsible for a sub-region that is allocated costs for a policy project located outside that state may be appropriate. This limited exception would allow the WSC representative or state regulatory commission to concur with the portion of policy-driven costs allocable to their individual sub-region based upon their appreciation of that state's individual policy benefits, when that state would not otherwise directly benefit.

12. <u>In scenario 2, where a policy project meets the policy needs of more than one sub-region, costs would be allocated to sub-regions up to the amount of their economic benefits (per TEAM) and the remaining costs would be allocated to the relevant sub-regions in proportion to their internal load for project in-service year. Please comment on this cost allocation approach for scenario 2.</u>

    Please see PG&E's comments on the Governance proposal and PG&E's response to questions 8 and 11 regarding the role of the WSC in determining the cost allocation of policy driven projects. PG&E also notes that the proposed approach of treating policy projects that meet the policy needs of more than one sub-region differently is potentially difficult to implement and the justification for different treatment is unclear.

    Concerning the proposal that the remaining costs should be allocated to the relevant sub-regions in proportion to their internal load for project in-service year, PG&E suggests that a better alternative would be to allocate the remaining costs (after allocation for reliability and economic purposes) of a project that addresses policy needs in more than one sub-region based on defined criteria in Phase 1 of the TPP. A defined process in Phase 1 should allow the state regulatory bodies and WSC to specify their specific policy needs. In this way, the Regional ISO and TPP participants could identify the share of remaining policy costs attributed to each sub-region. PG&E believes the TPP is thus an appropriate place for the WSC to be actively involved, but that a robust process needs to be determined for the TPP and how policy needs will be identified and met. As described below in Question 18, PG&E thus requests that the CAISO address how the TPP will identify and attribute policy needs, the role the WSC or other state bodies will play in the TPP, and consider how the WSC or other state bodies may play a role in cost approval and allocation of actual costs after the TPP.

13. <u>Competitive solicitation to select the entity to build and own a new transmission project would apply to all new transmission projects rated 200 kV or greater, of any category, regardless of whether their costs are allocated to only one or more than one sub-region, with exceptions only for upgrades to existing facilities as stated in ISO tariff section 24.5.1. Please comment on this proposal.</u>

    For a project to be included as a new facility and eligible for regional cost allocation, then in addition to the project being approved through the expanded ISO transmission planning process, all such "greenfield" projects must be subject to competition, with no advantage given to any one potential project sponsor. Failure to satisfy this additional requirement would be unfair and unduly preferential.

14. <u>The ISO proposes to drop the earlier proposal to recalculate benefit and cost shares for sub-regions and the proposal to allocate cost shares to a new PTO for a new facility that</u>

was planned and approved through the integrated TPP but before that new PTO joined the expanded ISO. Please comment on the elimination of these proposal elements.

While PG&E is generally opposed to an annual re-calculation of benefits, PG&E supports the recalculating benefits of "new" facilities as additional PTOs join as part of an existing sub-region or by creating a new sub-region. Furthermore, new PTOs should share in the costs of facilities that have been approved since the expansion of the ISO. Although a PTO could request a re-calculation through a Section 206 filing at FERC if the PTO believes that the benefits and costs become unjust, a tariff change that requires at least an assessment of the benefit calculation may sufficiently serve to properly reallocate benefits and avoid a Section 206 filing at FERC.

15. The ISO proposes to establish a single region-wide export rate ("export access charge" or EAC) for the expanded region, defined as the load-weighted average of the sub-regional TAC rates. Please comment on this proposal.

    PG&E supports a single region-wide export rate. However, an EAC calculated as a load-weighted average of the sub-regional license plate rates may result in lower EAC revenues for PTOs with higher sub-regional TAC/WAC rates than would exist prior to the blending of access charge rates. Additionally, such an EAC may create incentives for non-PTOs to create their own balancing authority or to join another non-ISO balancing authority to take advantage of an EAC rate that is lower than the otherwise applicable TAC rate if they join the Regional ISO.

16. Under the EAC proposal, non-PTO entities within a sub-region would pay the same sub-regional TAC rate paid by other loads in the same sub-region, rather than the wheeling access charge (WAC) they pay today. Please comment on this proposal.

    PG&E supports non-PTO entities within a sub-region paying TAC since today TAC is the same rate as WAC.

17. The ISO proposes to allocate EAC revenues to each sub-region in proportion to their transmission revenue requirements. In the August 11 working group meeting the ISO presented the idea of allocating EAC revenues to each sub-region in proportion to its quantity of exports times its sub-regional TAC rate. Please comment on these two approaches for EAC revenue allocation, and suggest other approaches you think would be better and explain why.

    PG&E supports allocating total EAC revenues based upon a sub-regions' transmission revenue requirement because it is reflective of how the rate was designed and for the service for which it pays. First, it is consistent with the rate design which is based on the costs of all sub-regions, which wheel-through users potentially use. Sub-regions with a more substantial transmission system will likely be used for the wheeling transaction, have a higher TRR, and should receive a larger proportion of the EAC revenue to support their system. Second, using the revenue requirement allocation method avoids a scenario in which a sub-region that has a lower TAC rate, but a higher EAC, receives a windfall in revenues without incurring the related expense for which EAC is meant to be a revenue credit.

18. Please provide any additional comments on topics that were not covered in the questions above.

CAISO's TPP Economic Assessment Process

The energy industry has undergone, and is expected to continue to undergo, significant policy, economic, and technology changes, and uncertainty. These market fundamentals can affect the need for and use and value of transmission. Therefore, a more comprehensive integrated planning approach is needed to evaluate and incorporate cutting-edge innovations, including evolving Energy Imbalance Markets, Balancing Authority consolidation, the interface between the bulk power system and distribution systems, electrification, high penetration of roof-top solar, the many alternatives between system solutions and planning objectives (e.g. moving from RPS targets to GHG reduction goals), inter-regional coordination, and the effects of climate change.

PG&E recommends that the CAISO enhance TEAM and the TPP process to assess economic benefits. In determining economic benefits, PG&E requests the CAISO to update the TEAM to

- Better consider the value to producers, consumers, and society by region.
    - **Example**: For out-of-state wind resources, the economic value to the state producing the energy and associated impact on local economy should be considered.
- Better capture the value of transmission in light of transporting system variability and/or operational flexibility.
- Better assess how changes in greenhouse gas (GHG) emissions and GHG reduction credits are economically considered and allocated to/between regions.

In addition, PG&E requests that the CAISO expand the economic assessment process to include expanded alternatives assessments. The potential alternatives could include different transmission upgrades or resource alternatives.

Other Issues That Should Be Considered With TAC Options

- Formation of an Expanded Transmission Planning Process (TPP) Working Group. The initial focus of this Working Group would be to examine the role of state regulatory bodies and the WSC in Phase 1 of the TPP. The current TPP identifies policy projects based on providing deliverability for the RPS portfolios as provided from the California Public Utility Commission (CPUC) via the Long-Term Planning Process (LTPP) and RPS Calculator. Thus, the state commission identifies the policy need that drives a project, not the ISO or the WSC. The CAISO's proposal assumes that transmission needs will be driven in a manner analogous to the CPUC's provision of renewable energy procurement portfolios to the ISO today. However, PG&E does not believe this process will work on a regional basis without refinement. Instead, the Working Group should define the process for identifying policy needs, based on direction from state regulatory bodies and the WSC. This process within the TPP would allocate the costs of policy projects based on those policy needs and allow the state regulatory bodies and WSC to ensure cost allocation is consistent with policy needs.
- Formation of a GIDAP Working Group. This working group should resolve whether any substantial changes are needed across the Regional ISO.

- Approval process by state regulatory bodies for estimated and actual transmission costs. PG&E notes that the actual costs for transmission projects may be different than the estimated costs approved in the original TPP for various reasons. Clarifying the approval process is particularly important for projects located in one state but with costs allocated to another state. For projects where a state regulatory body is approving actual costs for ratepayers in another state (i.e., policy projects located in one state serving the policy needs of another state), PG&E suggests that the CAISO consider how the WSC or other state bodies may play a role in cost approval and allocation.