

Stakeholder Comments Template

Transmission Access Charge Options

August 11, 2016 Stakeholder Working Group Meeting

| Submitted by | Company | Date Submitted |
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PG&E welcomes the opportunity to comment on the August 11, 2016 Working Group Meeting for Transmission Access Charge (TAC) Options. In prior comments, PG&E expressed concern with the CAISO's proposal that existing facility costs would not be shared on a regional basis despite the regional benefits provided by those facilities. In light of the significant difference in rates among sub-regions, there is concern that unintended market distortions may occur. Additionally PG&E believes that its customers will be adversely impacted by the loss of wheeling revenue that may occur as part of ISO expansion.

The CAISO's proposed methodologies for new facility cost allocation and the "Export Access Charge" (EAC) are in a formative stage, are as yet unclear, and have not included sufficient detail. PG&E is concerned that both elements have the potential to shift costs to California or to distribute benefits unequally. Further, ongoing uncertainty regarding the Western States Committee's (WSC) authority, function, and scope with respect to new facility cost allocation makes it very difficult for PG&E to support the current straw proposal and the ideas presented at the August 11 stakeholder meeting.

PG&E approaches this initiative with the following principles in mind:

- If existing facility costs will not be shared regionally, then spreading new facility costs regionally should be limited.
- The costs of a reliability project should first be allocated to the sub-region whose reliability need is satisfied by that project before allocating the costs associated with other attributes of a project (i.e., policy or economic).
- The process for identifying, approving, and allocating policy project costs needs to be more clearly defined and, for certain types of policy projects, should include concurrence from a sub-region's state representative(s) on the WSC or its state regulatory commission before allocating costs to that sub-region.
- The TPP has to be viewed holistically within the context of the TAC, not on a piecemeal basis, in order to allow for effective consideration. While PG&E agrees with CAISO's assumptions that the current structure (or the three phases) of the TPP may not change for the expanded BAA, PG&E stresses the need for the CAISO to reevaluate the details of the existing TPP and GIDAP

and the TEAM methodology to ensure that the existing processes do not require any change for the expanded region.

PG&E remains supportive of this initiative and looks forward to further refinement of the CAISO's proposal.

Topic 1. Default Cost Allocation Provisions for New Regional Transmission Facilities

As stated in previous comments, PG&E disagrees with CAISO's screening criteria for identifying projects subject to eligibility for cost allocation particularly with respect to the voltage-level criteria included in the CAISO proposal. The following recommendation for new transmission project cost allocation is dependent upon how eligibility/screening is performed in determining which projects are eligible for sharing across multiple sub-regions.

Summary of PG&E's Suggested Cost Allocation Provisions

Reliability-only projects (incidental benefits are irrelevant) → Allocated to sub-region(s) with reliability concerns, according to reliability benefits (*perhaps proportionate to the costs of separate sub-regional projects that address the reliability concerns in each of the sub-regions or as agreed to by the affected sub-regions*)

Economic-only projects (incidental benefits are irrelevant) → Allocated to sub-region(s) with economic benefits, according to benefits as determined through Transmission Economic Assessment Methodology (TEAM).

Reliability portion of combined projects → Portion of costs attributable to reliability concerns (i.e. the costs of a reliability-only project) allocated first to sub-region(s) with reliability concerns, according to reliability benefits; residual costs of combined project would be allocated to sub-region(s) receiving the non-reliability benefits proportionate to benefits received.

Economic portion of combined projects → Portion of costs attributable to economic goals allocated to sub-region(s) according to economic benefits as determined through TEAM. If a reliability project is expanded to have economic benefits, then the cost of the reliability portion should be allocated to the sub-region that created the need for the project.

For policy projects, PG&E requests that the process for identifying, approving, and allocating the costs for policy projects be more clearly defined before PG&E opines on the cost allocation methodology for policy projects. And, as stated above, PG&E believes that the cost allocation of certain policy-driven projects should have concurrence by the WSC representative or state regulatory commission for any states within the sub-region(s) that will have costs allocated to it.

Discussion

For 100% reliability projects, costs should be fully allocated to the sub-region(s) for which the project is necessary to address reliability concerns, regardless of whether there are incidental benefits. 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.

Likewise for projects 100% justified on economic grounds, incidental benefits should not impact the allocation of costs. The costs should be allocated to the sub-regions benefitting economically from the

project on a pro rata basis according to the economic benefits derived using the TEAM methodology.

PG&E asks the CAISO to clarify the process for identifying, approving, and allocating the costs for policy projects before PG&E comments on the cost allocation methodology. And other critical items also need clarification for policy projects:

- First, where costs of an out-of-state project are allocated to a different state, the cost recovery by the PTOs within the cost-bearing state is dependent upon the state commission. But it is unclear how the state commission of the cost-bearing state would review the need (e.g., CPCN) of the out-of-state project.
- Second, the state commission should identify the policy need that drives a project, not the ISO nor the WSC.
- Third, sub-regional PTOs are not all defined geographically by states, so state policy will have to align with sub-regional PTO cost allocation.

Further, because policy needs are not primarily dependent on the technical operation of the grid in the same fashion as reliability projects, nor driven by economic justifications, an additional check is appropriate to ensure that the policy needs are fairly attributable to each sub-region. Especially for policy-driven projects that are located outside of the sub-region whose policy goals may give rise to the project. While conditioning approval of all projects on WSC or state regulatory commission would conflict with the Federal Power Act by pre-empting ISO authority, designing the transmission approval process to include, in limited circumstances, concurrence by the WSC representative for each state or the state regulatory commission responsible for a sub-region that is allocated costs for a policy project located outside of that state's borders 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. If the combined commitment of the representatives is less than 100% of the total costs, then the representatives could negotiate a re-allocation of costs. If the representatives cannot reach agreement on funding for 100% of the costs, the ISO could either cancel the project (if a policy-only project) or scale the project to fit within the WSC agreed-upon cost allocation. This would be fair and rational, as the policy portion of the project should not be built if the state(s) deemed to benefit does not find it worth funding.

1. **The working group presentation assumed we would use the current Transmission Economic Assessment Methodology (TEAM) to calculate a project's economic benefits to the BAA as a whole and to each of the sub-regions. Currently TEAM calculates the following types of benefits: efficiency of the economic dispatch, reduction of transmission line losses, and reduction of resource adequacy capacity costs. Are these economic benefit types sufficient for purposes of cost allocation, or should other types of benefits be included? Please describe any additional benefit types you would include in the benefits assessment and suggest how they could be quantified.**

Conceptually, the TEAM methodology offers a good approach for an economic benefit assessment. As CAISO pointed out during its March 9 meeting, there is a need to review the approach. The CAISO has stated plans to initiate a stakeholder process to review the TEAM methodology and to make any necessary changes based upon stakeholder feedback. PG&E supports this approach and will work with the CAISO to make the TEAM methodology robust for use in the benefits test for an expanded CAISO.

2. **The ISO's presentation suggested that a sub-region's avoided cost for a needed transmission project could be included among the benefits of a project with region-wide benefits. For**

example if project A with region-wide economic benefits enables sub-region 1 to avoid a reliability project B that would have cost \$40 m, then the \$40 m avoided cost should be included in the total benefits of project A for purposes of cost allocation to the sub-regions. Please comment on whether such avoided costs should be included in the benefits for cost allocation purposes.

In the above example, whether to include such avoided costs depends on whether the project is approved solely on an economic basis or if it is a combined project. If a combined project, then sub-region 1's avoided cost for reliability project B should be allocated to sub-region 1 before allocating the remaining costs among sub-regions receiving benefits from project A. Such an approach would avoid a cost shift from the reliability project B needed for sub-region 1 to other sub-regions that that would not benefit from the reliability portion of the project. Sub-region 1 should pay the reliability portion of the cost, and the remaining project costs should be allocated to each sub-region based upon a pro rata share of the remaining costs that is consistent with the economic benefits received by each sub-region.

- 3. In the example of Question 2 a specific project B was identified to meet a reliability need, and so its avoided cost could be viewed as a realistic estimate of the cost to sub-region 1 of mitigating its reliability need. In many instances in practice, however, cost-effective projects may be identified that provide economic, policy and reliability benefits without the planners ever identifying less costly but narrowly-scoped hypothetical alternative projects that could serve to provide concrete avoided cost estimates. Do you think it is important to perform additional studies to determine meaningful avoided cost estimates to use in cost allocation, perhaps by identifying hypothetical alternatives that would not ordinarily be considered in the TPP? Are there other approaches you would favor for estimating avoided costs to use in cost allocation? What other methods should the ISO consider for allocating reliability or policy “benefits” to a sub-region absent a well-defined project that can be avoided?**

The CAISO should allocate reliability-driven project costs to the sub-region(s) whose reliability need the project addresses. Therefore, it would be necessary to identify the costs associated with a project that would only address the reliability need, to allow cost allocation to follow this proposed cost allocation methodology.

- 4. The cost allocation approach presented at the working group for projects with benefit-cost ratio $BCR < 1$) started by first allocating cost shares equal to economic benefits, and only after that allocating remaining costs to the sub-region(s) driving the reliability or policy need. In the discussion, some parties suggested reversing this order, i.e., to start by allocating a cost share to the sub-region with the reliability or policy driver base on the avoided cost of the reliability or policy project it would have had to build, and only then allocating remaining costs based on economic benefit shares. Please state your views on these two approaches, or describe any other approach you would prefer and explain your reasons.**

PG&E was one of the parties that suggested that reliability-driven project costs be allocated first to the sub-regions with the reliability need before allocating residual costs associated with economic benefits to other sub-regions. With regards to assigning the cost of a policy project to the sub-region that is deemed to have the need to build a project to satisfy a policy, PG&E has concerns about how these costs would be assigned and approved. As stated above PG&E believes that the WSC representatives of the states or its state regulatory commission responsible for a sub-region would need to concur with the cost allocation to that sub-region.

- 5. The presentation at the working group suggested that all facilities > 200 kV planned through the expanded TPP would be assessed for potential region-wide economic benefits. Some parties**

suggested the ISO should apply threshold criteria to eliminate projects that clearly would not have region-wide benefits, rather than perform TEAM studies for all > 200 kV. Do you support the use of threshold criteria? If so, what criteria would you apply and why?

As stated in PG&E's June 10, 2016 comments on CAISO's Revised Straw Proposal, Question 5, PG&E disagrees with the criteria for cost allocation of new facilities. According to the CAISO's proposal, a "new" facility would be considered for regional cost allocation if at least one of the following criteria is met: (a) rated > 200 kV, (b) interconnects two or more sub-regions or upgrades an existing interconnection (regardless of voltage level), or (c) creates a new or upgrades an existing intertie with a BAA adjacent to the expanded ISO BAA (regardless of voltage level). These criteria are asymmetric to CAISO's proposed cost allocation methodology for existing facilities and will not help close the large gap between the current CAISO TAC and the TAC of other sub-regions that may join the expanded CAISO (e.g., \$4/MWh for PacifiCorp vs. \$11/MWh for the CAISO, today).

PG&E continues to recommend that the CAISO consider an alternative TAC methodology that adopts the straw proposal's treatment of new facilities but eliminates the voltage criterion. Specifically PG&E urges the CAISO to limit the facilities whose costs may be shared across the entire expanded ISO Region to those that (1) connect two or more sub-regions or upgrade an existing interconnection, regardless of voltage level; or (2) creates a new or upgrades an existing intertie with a BAA adjacent to the expanded ISO, regardless of voltage level.

6. Do the details of TEAM, e.g., financial parameters, period over which present values are determined, etc., need to be pre-determined to maximize consistency of methodology and criteria across all projects, or should case-by-case considerations be taken into account?

This question attempts to address a small portion of CAISO's existing TEAM methodology. As stated above, PG&E recommends that the CAISO evaluate the entire TEAM methodology instead of addressing individual specific elements of the methodology piecemeal through these questions.

7. Should incidental benefits to a sub-region cause a cost allocation share for that sub-region even though the project would not have been built but for a reliability or policy need in another sub-region?

Until more detail is available on the proposed cost allocation methodology for policy projects, PG&E would like to reserve comments on the appropriate cost allocation methodology for policy projects.

For reliability-only projects, costs should be fully allocated to the sub-region(s) driving the need for the reliability project, regardless of whether there are incidental benefits. This reduces the complexity and controversy that would otherwise be required to allocate costs for the project. For example, allocating all costs to the sub-region with reliability needs avoids the need to ascertain the quantity of costs that should be allocated to reliability benefits versus incidental benefits. In addition, if the project would be developed regardless of the benefits to other sub-regions, allocating costs for incidental benefits to CAISO sub-regions could deter entities from joining the expanded CAISO.

8. Please offer any additional comments, suggestions or proposals that were not covered in the previous questions.

PG&E has no further comments at this time.

Topic 2. Region-wide "Export Access Charge" (EAC) Rate for Exports and Wheel-throughs

PG&E's General Comments on EAC

- Moving to an Access Charge methodology with differing rates among sub-regions may create unintended market distortions arising from different rates for exporting from the ISO-controlled grid.
- To help mitigate some of the distortions, a single Export Access Charge rate has been proposed by CAISO to remove the difference in rates that would exist if the EAC were tied to individual sub-regional TAC/WAC rates.
- An EAC calculated as a load-weighted average of the sub-regional license plate rates will 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 an EAC calculated as a load-weighted average of the sub-regional license plate rates 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 WAC rate.
- In order to help avoid a shortfall in wheeling revenue from exports as new PTO's join the CAISO and to mitigate the incentive to create new or join other non-ISO balancing authorities, the most appropriate EAC may be one based on the highest sub-regional TAC rate.

PG&E Comments on Cost Allocation of EAC Revenues

- Presumably the proposed new EAC rate is intended to recover costs associated with access to the entire ISO-controlled grid. Therefore the allocation of EAC revenues needs to be made relative to the costs of the various sub-regions.
 - Sub-regions where the TAC/WAC rate is lower than the EAC will stand to earn higher revenues, based on the higher sub-regional rates of another sub-region, without incurring the expense of the higher sub-regions' costs.
 - Sub-regions where the TAC/WAC rate is higher than the EAC will stand to earn fewer revenues, based on the lower sub-regional rates of another sub-region, but will continue to incur the higher unshared expense of its own sub-region.
- It would be more appropriate to allocate total EAC revenues based on a pro rata share using each sub-region's transmission revenue requirement (TRR) rather than the volumes of exports within each sub-region. Otherwise, sub-regions that have a lower TAC rate but a higher EAC may receive a windfall in revenues without incurring the related expense for which EAC is meant to be a revenue credit (i.e., returned to the PTO's customers through the Transmission Revenue Balancing Account Adjustment).
- The current proposal provides for significantly differentiated sub-regional TAC/WAC rates. A single region-wide EAC rate, regardless of design, will necessarily be different from the sub-regional TAC/WAC of at least one or all sub-regions. Further, depending on the EAC rate design, the rate will be higher or lower than the export rate of PTOs that will form the expanded ISO. As such, there are fundamental complications in the use of a single region-wide EAC in conjunction with the large differential in sub-regional TAC/WAC rates.

Questions

- 1. For an expanded BAA do you agree that a single region-wide access charge rate for exports and wheel-throughs is appropriate? Please explain your reasons. NOTE: This question is only about whether a single rate is appropriate, not about how that rate should be determined; the latter is covered in question 3 below.**

Yes, however the benefits of a single regional-wide EAC is undermined by the disparity in the sub-regional TAC/WAC rates and may create market distortions and provide undesirable incentives to transmission owners in decisions to join the expanded ISO.

- 2. If you answered YES to question 1, do you favor the load-weighted average rate the ISO presented at the meeting, or another method for determining the single rate? Please explain the reasons for your preference.**

In order to avoid a shortfall in wheeling revenue from exports as new PTOs join the CAISO as either part of a sub-region or a new sub-region, the most appropriate EAC may be one based on the highest sub-regional TAC rate.

- 3. To distribute the revenues collected via the EAC, the ISO's presentation suggested giving each sub-region an amount of money equal to the MWh volume of exports and wheels from the sub-region times the sub-regional TAC rate. Please indicate whether you would support this approach or would prefer a different approach for distributing EAC revenues to the sub-regions.**

PG&E does not support the aforementioned proposal for distributing EAC revenues. See the response to question 4 below.

- 4. The working group presentation illustrated how the method of distributing EAC revenues to sub-regions would most likely produce "unadjusted" sub-regional shares that do not add up exactly to the amount of EAC revenues collected from exports and wheels. The presentation offered one approach for distributing any excess EAC revenues to the sub-regions. Do you support that approach, or would you prefer a different approach? Please explain.**

Setting aside the other issues PG&E has identified with the current proposal for a blended EAC, PG&E believes that the revenue allocation of the EAC proceeds proposed at the August 11 working group meeting would result in inequitable revenue crediting among sub-regions. These comments are based on a presumption that a blended EAC is intended to allocate a portion of all sub-regions' transmission costs to parties that export power from the expanded CAISO grid. Sub-regions where the TAC rate is lower than the EAC will stand to earn much higher revenues, based on the higher sub-regional rates of another sub-region, without incurring the expense of the higher sub-regions' costs. Therefore, it would be more appropriate to allocate the proceeds based on a pro rata share of the EAC revenues using each sub-region TRR rather than the volumes of exports. Otherwise, sub-regions that have the lower TRR but a relatively higher EAC may receive a windfall in revenues without incurring the related expense for which EAC is meant to be a revenue credit (i.e. returned to the PTO's customers through the Transmission Revenue Balancing Account Adjustment). To avoid this inequity, PG&E proposes that the revenue generated from the EAC be allocated to sub-regions proportionate to their TRR.

- 5. Suppose that in a given year the EAC revenues are not sufficient to cover a distribution to sub-regions that aligns with sub-regional TAC rates, as described in question 3. How would you propose the ISO deal with that situation? I.e., should the ISO ensure that each sub-region receives export revenues equal to its sub-regional internal TAC rate times the volume of exports**

from its facilities, drawing upon other TAC revenues if necessary, or should the ISO only return EAC revenues to sub-regions until the EAC revenues are used up?

It is difficult to evaluate this proposal as being adequate to replace revenues that a particular PTO might have received but for regional expansion because many details are not provided. In order to comment on this proposal, PG&E would need to know, specifically, how the CAISO would 1) deal with revenues that cease to accrue when a current export point is subsumed in the expanded ISO and 2) intends to reallocate TAC revenues to make up for the shortfall of EAC revenues.

6. If you answered NO to question 1, please explain what rules or principles you would prefer be applied to exports and wheel-throughs. Please discuss both (a) how you would propose to charge exports and wheel-throughs, and (b) how you would distribute the revenues collected to the sub-regions.

Not applicable.

7. Please offer any additional comments, suggestions or proposals that were not covered in the previous questions.

PG&E has no further comments at this time.