

Stakeholder Comments Template

Transmission Access Charge Options

February 10, 2016 Straw Proposal & March 9 Benefits Assessment Methodology Workshop

Submitted by	Company	Date Submitted
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At the March 1, 2016, Transmission Access Charge (TAC) meeting the CAISO informed attendees that there will be an implementation agreement between the CAISO and PacifiCorp that discusses the cost recovery of certain transmission facilities currently in the planning process by PacifiCorp and the application of any competition subject to FERC order 1000. This agreement may be related to the PacifiCorp Gateway projects D, E, F, and H that are still in PacifiCorp's planning and permitting process. However, the CAISO has not provided any specific details of the proposed bilateral agreement. SCE is concerned the agreement may apply exceptions to the TAC policies being developed in this initiative and ultimately adopted by the CAISO governing board. It is difficult to access the equity of the proposed TAC methodology should the CAISO grant exceptions to any new members that intend to join the CAISO.

Therefore the comments below address the specific elements of the proposal and are independent of the impact of any implementation agreement. Furthermore, it is SCE's understanding that the CAISO may take any bilateral agreement to its Board for approval. SCE believes that for this process to be meaningful, the CAISO should provide a stakeholder process which allows market participants to be aware of and comment on the efficacy of the proposed agreement. Such a process should include at a minimum the following details of the bilateral agreement: (a) whether the CAISO intends it to be an exemption from the outcome of the TAC methodology being developed in this stakeholder process, (b) the magnitude of the cost impact and how such a cost

impact will be allocated, and (c) any intent for an exemption from transmission competition process should the cost recovery occur from regional basis.

The TAC design is an interdependent string of elements. Without knowledge of the impact of each element, it is not possible for market participants to determine if the ultimate outcome is equitable and rational. The following comments address specific elements of the proposal; however, SCE notes that its final position will depend heavily on the overall balance of the straw proposal which now includes an element for which very little information has been made available. SCE therefore reserves the right to change its opinion should the balance of the proposal become offset by new elements in the future.

Section 1: Straw Proposal

1. The proposed cost allocation approach relies on the designation of “sub-regions,” such that the current CAISO BAA would be one sub-region and each new PTO with a load service territory that joins the expanded BAA would be another sub-region. Please comment on the proposal to designate sub-regions in this manner.

The current designation of a sub-region as each new PTO with load service territory that joins the CAISO could allow parties to unfairly avoid transmission charges that they are currently paying to neighboring regions. For example, consider a smaller transmission-owning load serving entity (LSE) that is surrounded by a larger transmission-owning LSE and utilizes the larger LSE's transmission to import fifty percent of their power requirement. Currently, the smaller LSE will pay transmission rates to the larger LSE. The smaller LSE by joining the CAISO after the larger LSE would be their own sub-region and would avoid paying any transmission costs from the larger LSE's sub-region. This is an inappropriate incentive to avoid justifiable transmission costs.

Moreover, a framework that requires a determination and an annual recalculation of benefits to each unique PTO outside of the current CAISO (under the proposal each such utility becomes a sub-region) will be administratively burdensome and will likely prove unworkable if each LSE with transmission in the WECC becomes its own sub-region.

For the above reasons, SCE does not support the current proposed definition of a sub-region. It also creates a fundamental difference between the proposed CAISO sub-regions which has multiple PTOs with load service territories and new sub-regions which contain only one PTO with a load serving area.

The CAISO should look at a geographic based definition of sub-regions where any new PTO joining the CAISO would be subject to a license plate transmission rate for all PTOs in the sub-region. Possible geographic based definitions could be State boundaries, FERC order 1000 transmission planning areas, or possibly other large geographic footprints which may or may not treat PacifiCorp as its own region. This would avoid the problems described above. However, it does create an issue of what to do with the costs of multiple participating transmission owners within a sub-region as they join the CAISO. The practice used in California could be the model, which would be a common TAC rate for the sub-region with a phase in period. The advantage of this mechanism is simplicity and that FERC has already approved this method.

2. The proposal defines “existing facilities” as transmission facilities that either are already in service or have been approved through separate planning processes and are under development at the time a new PTO joins the ISO, whereas “new facilities” are facilities that are approved under a new integrated transmission planning process for the expanded BAA that would commence when the first new PTO joins. Please comment on these definitions.

The proposal is not clear about a transmission project that is undergoing the approval and permitting process when a PTO joins the CAISO. Can the PTO choose to move it into the integrated transmission planning process? If yes, would this require it to be under the regional cost allocation process and subject to competition under FERC order 1000? If no, would the costs then remain within the sub-region? The CAISO needs to provide more details on transmission projects that are in the planning or permitting process when the PTO states their intent to join the CAISO.

SCE is supportive of the principle in the straw proposal that:

The costs associated with existing facilities – defined here to mean transmission facilities that are in service or have been approved by independent planning processes and are under development at the time a new PTO joins the ISO, i.e., any facilities that were not planned and

approved under an integrated planning process for the expanded ISO BAA – will be recovered on a sub-regional basis, where the current ISO BAA is considered one sub-region and the new PTO is another. This means that both sub-regions would continue to pay the same costs for existing facilities under an expanded ISO that they would have paid if they remained separate.”¹

3. Using the above definitions, the straw proposal would allocate the transmission revenue requirements (TRR) of each sub-region’s existing facilities entirely to that sub-region. Please comment on this proposal.

Assuming the changes to the definition of the sub-region as described in question 1, the proposal to allocate existing facilities costs to that sub-region does simplify the cost allocation. In this outcome the sub-region’s transmission costs associated with existing facilities remain generally unchanged if another sub-region joins the CAISO. However, the definition of a sub-region as a geographic area would result in some cost sharing if an LSE within the defined region joins the sub-region.

4. If you believe that some portion of the TRR of existing facilities should be allocated in a shared manner across sub-regions, please offer your suggestions for how this should be done. For example, explain what methods or principles you would use to determine how much of the existing facility TRRs, or which specific facilities’ costs, should be shared across sub-regions, and how you would determine each sub-region’s cost share.

SCE does not have comments on this issue at this time.

5. The straw proposal would limit “regional” cost allocation – i.e., to multiple sub-regions of the expanded BAA – to “new regional facilities,” defined as facilities that are planned and approved under a new integrated transmission planning process for the entire expanded BAA and meet at least one of three threshold criteria: (a) rating > 300 kV, or (b) increases interchange capacity between sub-regions, or (c) increases intertie capacity between the expanded BAA and an adjacent BAA. Please comment on these criteria for considering regional allocation of the cost of a new facility. Please suggest alternative criteria or approaches that would be preferable to this approach.

Clause (c) in the definition above is between balancing authorities and is covered under inter-regional costs recovery under the FERC Order 1000 planning regions. The

¹ Transmission Access Charge Options for Integrating New Participating Transmission Owners-Straw Proposal dated February 10, 2016, page 4.

proposal should be focused on new regional facilities, not inter-regional; therefore clause (c) should be removed. In addition, while the proposed definition is reasonable for higher level voltages it would create unnecessary complexity over the cost recovery of what is considered local transmission currently defined as less than 200kV.

SCE recommends the definition of “new regional facilities” which would be subject to regional cost recovery as the following:

- a) Transmission facilities with a voltage rating above 300kv (i.e., 345 kV or 500kv) or
 - b) Transmission facilities with a voltage rating above 200 kV that: interconnects or increases interconnection capacity above 200 kV between two sub-regions.
6. For a new regional facility that meets the above criteria, the straw proposal would then determine each sub-region’s benefits from the facility and allocate cost shares to align with each sub-region’s relative benefits. Without getting into specific methodologies for determining benefits (see Section 2 below), please comment on the proposal to base the cost allocation on calculated benefit shares for each new regional facility, in contrast to, for example, using a postage stamp or simple load-ratio share approach as used by some of the other ISOs.

SCE supports the primary allocation of transmission costs using a benefits test that measures benefits to consumers and producers. See SCE additional comments under Section 2.

7. The straw proposal says that when a subsequent new PTO joins the expanded BAA, it may be allocated shares of the costs of any new regional facilities that were previously approved in the integrated TPP that was established when the first new PTO joined. Please comment on this provision of the proposal.

SCE supports this element of the proposal, provided the benefits test is applied as discussed in response to question 6.

8. The straw proposal says that sub-regional benefit shares – and hence cost shares – for the new regional facilities would be re-calculated annually to reflect changes in benefits that could result from changes to the transmission network topology or the membership of the expanded BAA. Please comment on this provision of the proposal.

SCE does not support an annual re-calculation of the share of transmission costs as it is unneeded complexity and will result in continual re-litigation of cost allocation. Instead, the reallocation of benefit shares to sub-regions should be done when a subsequent new PTO joins the CAISO or when a subsequent new transmission project occurs (and benefits would be considered just for the new project). In general, the benefits methodology should be performed and “locked in” to the extent practical.

9. Please offer any other comments or suggestions on the design and the specific provisions of the straw proposal (other than the benefits assessment methodologies).

The general framework of each sub-region (properly defined) being responsible for its existing costs has merit. Further, subjecting new regional facilities to both the CAISO’s transmission planning process and Order 1000 competition should be a foundational component of any proposal. As noted in our introductory comments, these principles are called into question if the CAISO negotiates bilateral deals which exempt specific participants or projects from these processes.

Section 2: Benefits Assessment Methodologies

10. The straw proposal would apply different benefits assessment methods to the three main categories of transmission projects: reliability, economic, and public policy. Please comment on this provision of the proposal.

SCE notes that the ultimate details of a benefits test are important, and to some extent any proposal can only be evaluated in light of all details. SCE offers principles below but notes this should not be read as an endorsement of any specific proposal.

SCE believes benefits for all categories of new regional transmission projects (Economic, Reliability, and Public Policy) should first be based on an economic production cost analysis, with any costs of projects in excess of expected economic benefits being assessed in a manner relating to the driving reason for incurring costs in

excess of purely economic benefits.² Economic projects by definition have economic benefits in excess of costs, so Economic project benefits would only need to be assessed using an economic production cost method. However, Reliability and Public purpose projects may have expected economic benefits less than expected costs, and so should have benefits assessed partly on economic production cost method and partly on another method.

For Reliability projects, SCE proposes splitting the benefits assessment between an economic production cost method and load-based in the case where economic benefits are less than the projected costs of the project. Specifically, an economic production cost method should be applied up to the amount of the expected economic benefits (measured under an “expected” case), and the remainder of costs should be assessed on an equal per MWh rate based upon voltage. For facilities above 300 kV the remainder would be allocated over the entire grid and facilities between 200-300 kV would be allocated to the sub-regions where the facilities are located.

For example, if the projected costs of the 500 kV Reliability project are \$100 million and the expected economic benefits are determined to be \$70 million, then the \$70 million would be allocated on the economic production cost method and \$30 million on a per MWh assessment. If a Reliability project actually has economic benefits in excess of projected costs, then all of the project costs would be allocated based on the economic production cost method. As discussed in more detail below (#12), SCE is not convinced that the power flow method will provide a good measure of reliability benefits, and so would prefer that reliability costs in excess of economic benefits be assessed to all load. Ultimately load receives benefits of reliable grid operation and so it is reasonable that all load pay equally for these costs.

The determination of benefits for Public Policy projects should be based on the same principle. Any costs of a Public Policy project up to the expected economic benefits should be determined using an economic production cost method. SCE is still evaluating the appropriate treatment of residual costs. In fact, the remaining allocation may depend, in part, on how comprehensively the original economic test captures

² See response to question 14 on the valuation of economic benefits.

benefits to the regions both driving the policy line and the regions receiving economic benefit as a result of the policy.

11. The straw proposal would use the benefits calculation to allocate 100 percent of the cost of each new regional facility, rather than allocating a share of the cost using a simpler postage stamp or load-ratio share basis as some of the other ISOs do. Please comment on this provision of the proposal.

SCE is in favor of assessing the portion of the project costs up to the economic benefits of the project based on benefits rather than a postage stamp or load-ratio share, as described in the response to #10 above.

12. Please comment on the DFAX method for determining benefit shares. In particular, indicate whether you think it is appropriate for reliability projects or for other types of projects. Also indicate whether the methodology described at the March 9 meeting is good as is or should be modified, and if the latter, how you would want to modify it.

At this time, SCE is not supportive of using the DFAX method of determining benefits for assessing any transmission costs. SCE is not convinced that the DFAX power flow method provides a good measure of reliability benefits to a sub-region of a new transmission line. The DFAX method just determines of incremental power flows over a transmission upgrade attributable to incremental load in a specific sub-region, which is not the same thing as the reliability benefits that a sub-region would receive from that line. The reliability benefits that load in a sub-region receive from a transmission upgrade is related to a higher likelihood of uninterrupted service for all load in that sub-region. A higher likelihood of uninterrupted service for all load within a sub-region is not necessarily related to which lines incremental amounts of the sub-region power will flow under peak load conditions. Rather, it is more likely related to how the sub-region may avoid interruptions during all hours of the year under unusual operating conditions (N-1, etc.) as a result of the new line being in service. Thus, at this point in time, SCE would prefer that the DFAX not be used.

SCE is also concerned about increased administrative burden as this would create a new process for the CAISO to administer and would be subject to methodology and assumption controversy by participants.

13. Please comment on the use of an economic production cost approach such as TEAM for determining benefit shares. In particular, indicate whether you think it is appropriate for economic projects or for other types of projects. Also indicate whether the methodology described at the March 9 meeting is good as is or should be modified, and if the latter, how you would want to modify it.

SCE is supportive of using an economic production cost approach such as the TEAM method, with modifications described in question 14, for determining the benefits of economic projects, as well as the portion of costs of Reliability and Public Policy projects up to the economic benefits of the project.

14. At the March 9 meeting some parties noted that the ISO's TEAM approach allows for the inclusion of "other" benefits that might not be revealed through a production cost study. Please comment on whether some other benefits should be incorporated into the TEAM for purposes of this TAC Options initiative, and if so, please indicate the specific benefits that should be incorporated and how these benefits might be measured.

The TEAM methodology was designed to determine if an economic project should be completed. In the CAISO, only load and exports pay for transmission projects so the TEAM methodology only looks at benefits from a customer perspective and excludes the benefits to producers from additional sales from the transmission project. While a customer-only benefits test perspective is appropriate to determine if a project should be built, it is not appropriate for cost allocation between sub-regions. Assume a transmission line is built to transmit power from Region A to Region B, therefore Region A receives economic benefits³ from increased power sales and Region B benefits from access to cheaper power sources. As both areas benefit, both areas should pay for the cost. While it may seem unusual to charge the load customers in area A for the cost of the line, it is frequently done in society. For example, owners of economic development projects have their local taxes reduced because of benefits to society that are created from the project. The loss of tax revenue is paid by others. The argument for waving taxes is the benefit to the community from the project is greater than their avoided taxes. This treatment is no different.

³ Examples of economic benefits include increased jobs and income to the region as well as additional tax revenue. Income is transferred from Region B to Region A for the purchase of power.

For the above reasons the TEAM methodology should include total benefits to both consumers and producers to achieve the correct benefits assignment. This can be done by adding the value of increased sales from a region that is due to the new line to the TEAM methodology. Since benefits cost allocation methodology impacts rates, it should be included in the tariff.

15. Regarding public policy projects, the straw proposal stated that the ISO does not support an approach that would allocate 100 percent of a project's costs to the state whose policy was the initial driver of the need for the project. Please indicate whether you agree with this statement. If you do agree, please comment on how costs of public policy projects should be allocated; for example, comment on which benefits should be included in the assessment and how these benefits might be measured.

SCE agrees with the ISO's statement. The benefits proposal that SCE has outlined in the response to #10 above sets forth a method of allocating Public Policy Projects on the basis of economic benefits up to the economic benefits of the project.

16. At the March 9 and previous meetings some parties suggested that a single methodology such as TEAM, possibly enhanced by incorporating other benefits, should be applied for assessing benefits of all types of new regional facilities. Please indicate whether you support such an approach.

SCE is in favor of applying a single methodology for assessing all economic benefits of all categories of projects (Economic, Reliability, and Public Policy). As described in the response to #10 above, both Reliability and Public Policy projects in general can be expected to provide economic benefits as well as meet reliability or public policy requirements. The portion of the projected costs of these Reliability and Public Policy projects that provide economic benefits should be assessed on an economic projection cost basis, using a model such as TEAM with the modifications described in question 14.

17. Please offer comments on the BAMx proposal for cost allocation for public policy projects, which was presented at the March 9 meeting. For reference the presentation is posted at the link on page 1 of this template.

BAMx's proposal states that generation projects without a contract would be allocated a share of transmission costs. This would place them at a disadvantage to other generators as they would have to include transmission costs in their energy bids. One of the purposes of a market is to achieve the least variable cost dispatch of resource, and the inclusion of fixed costs would distort optimal dispatch. The BAMx proposal may violate FERC policy on providing transmission service on a non-discriminatory basis.

18. Please offer any other comments or suggestions regarding methodologies for assessing the sub-regional benefits of a transmission facility.

The proposal needs to include what happens is a PTO departs from the CAISO. How would sub-region and regional transmission cost recovery change?