Stakeholder Comments Template

Transmission Access Charge Options

Second Revised Straw Proposal – September 30, 2016

Submitted by	Company	Date Submitted
Paul Nelson Eric Little	Southern California Edison	October 28, 2016

SCE appreciates the opportunity to provide comments on the second CAISO Transmission Access Charge (TAC) straw proposal[1]. Developing a proposal that results in changes to the allocation of transmission costs to new Participating Transmission Owner (PTO) members of the CAISO, and other CAISO transmission users, is challenging and SCE appreciates the CAISO's efforts to develop a proposal. The current straw proposal is well-conceived and has a good general foundation. SCE appreciates that the CAISO addressed many of SCE's concerns from the prior draft.

1. <u>The 200 kV threshold is a reasonable proxy for identifying transmission facilities that are regional in nature and therefore subject to a cost allocation based upon benefits and subject to competition</u>

   SCE supports the proposal to subject all new facilities over 200 kV to cost allocation analyses based upon benefits and competition. The 200 kV threshold has worked well as a division between High Voltage (which are more regional in nature) and Low Voltage (which are more local in nature). This threshold should also work well for an expanded ISO. The document should clarify that the 200 kV threshold represents a convenient screen for the majority of transmission projects to classify them as either

[1] Proposal dated September 30, 2016, http://www.caiso.com/Documents/SecondRevisedStrawProposal-TransmissionAccessChargeOptions.pdf

regional or local. In the event there is a >200 kV project that does not offer significant regional benefits, then the benefits test would have their costs allocated to the sub-region.

SCE supports the CAISO's proposal that all regional facilities shall be subject to competitive solicitation. Doing so would meet the requirements of FERC Order 1000 and create a level playing field between sub-regions with a single transmission owner and sub-regions with multiple owners.

2. <u>The proposed definitions of existing and new transmission facilities are appropriate</u>

The current proposal defines new transmission facilities, which may be subject to regional cost allocation, as those approved through the CAISO's expanded regional transmission planning process after the first transmission owner joins and creates the expanded ISO.[2] Existing facilities are any projects that do not meet the definition of new facility. SCE supports this treatment, as it provides a clear distinction of what is new and what is existing transmission.

3. <u>Any transmission project classified as new should be allocated to members if they receive benefits</u>

The CAISO proposes to remove the requirement that subsequent transmission owners who join the expanded ISO be subject to cost allocation of any transmission facility classified as new.[3] This would create various categories of what is considered new and complicate cost allocation. As the CAISO acknowledged, this would also create an incentive for potential members to delay joining the ISO until after a large transmission project is approved or built so they could avoid the cost allocation but receive the project's benefits.

SCE supports the prior proposal that new PTOs would immediately be responsible for the costs of prior transmission projects classified as new facilities even if they were built prior to that PTO joining. This treatment is appropriate as they would receive their share of costs commensurate to the benefits they receive. This reduces the incentive for a utility to delay joining until after a large new transmission project is

---

[2] Proposal page 6.
[3] Proposal page 15

completed and avoid paying a fair share. By joining earlier, the rate impact is likely to be moderate because few new transmission projects would have been completed when the expanded ISO is created. If significant rate shock would occur, then a phase-in over a limited time period could mitigate concerns. However, this treatment should be done on a limited basis and only when it can be documented that the rate impact is significant.

In a related issue, the CAISO now proposes to allocate costs of a new transmission project only once.[4] This would create another incentive to join later rather than sooner when large transmission projects are being considered. In the case of policy projects, this allows free-ridership, shifting cost to those that are first-adopters. One state should not be responsible to pick-up all the costs of a policy project that enable other states to adopt similar policies at a later date without paying any share of the transmission cost. As described above, this is unjustified because if the new member receives benefits, they should be assigned costs commensurate with the benefits received.

Therefore, SCE recommends that any time a new PTO joins the CAISO or a state adopts a new policy (which would impact transmission need or use), the allocation of transmission investment (classified as new) should be re-evaluated. This would avoid parties delaying joining the CAISO and/or free-riding on first-adopters.

4. Economic-based cost allocation and Policy project treatment still need refinement to measure societal benefits to sub-regions

For economic benefit cost allocation between sub-regions, the CAISO proposes to use the existing Transmission Economic Assessment Methodology (TEAM) to measure sub-region economic benefits. The TEAM methodology is a measurement of electric consumer benefits and does not examine macroeconomic benefits to the sub-regions, such as income, economic growth, and job creation. The current TEAM is appropriate as a first step to determine whether or not a project should get built, as it measures if there are positive benefits for electric consumers. However, the macroeconomic benefits for each sub-region should also be considered for determining regional cost allocation. Impacts to the local economy in terms of job growth and resulting income impacts are substantial factors that should be considered when determining regional cost allocation,

[4] Proposal page 14

but they are not considered with the existing TEAM. This second step will recognize that benefits can accrue to a sub-region both through energy prices and economic growth.

Moreover, Policy projects in a multistate environment create additional challenges. It is not clear to SCE how projects will be proposed, approved, how costs will be allocated among entities, or how changes in State polices will be addressed (per above). SCE encourages the CAISO to dedicate additional time to discuss the proposed process, include any need for changes in current processes, for Policy projects in the context of a multistate ISO.

5. <u>Use of a single export access charge will avoid market and system distortions</u>

As SCE mentioned previously, SCE supports a single High-voltage[5] export access charge. This has the advantage of not creating market and system distortions by external parties attempting to exploit locations with cheaper transmission charges. The alternative of charging a sub-region based export rate could create congestion as parties attempt to take advantage of nodes with the lower transmission cost. Such congestion would be solely due to rate design which would create an improper price signal to expand transmission at that location. Instead, such congestion should be resolved by a proper rate design as opposed to transmission investment.

The proposal has the allocation revenue of the export charge allocated to transmission owners based upon their transmission revenue requirement.[6] This is a change from the prior proposal that had revenue allocated to owners of the interconnection points of exports; as is currently done in the existing CAISO. As the ISO grows, the export boundaries will change. It is possible that there will no longer be exports from existing California scheduling points. However, the California transmission system is still being utilized to support those exports, and therefore California transmission owners should be entitled to export revenues. This is not solely a California PTO concern; it could occur elsewhere as the ISO expands.

SCE believes that since load pays for the transmission facilities, the allocation of export revenue should be limited to only load-serving PTOs. Alternatively, export

[5] High voltage would be above 200 Kv. If the export is at a low voltage interconnection, then the total charge would be the export access charge and the specific PTO's low voltage rate.
[6] Proposal page 16.

revenues could be allocated to all PTOs, as long as those without load were required to return their allocation in their rates. For example, their share of export revenue would be credited to their Transmission Revenue Balance Account. Furthermore, it should only be credited to high-voltage transmission revenue requirement or rates.

With the above clarifications on load receiving the export revenue, SCE supports the allocation of revenues based upon the transmission revenue requirement.

6. Determination of a sub-region needs additional development

SCE appreciates the removal of the option allowing new PTOs to decide whether to create their own sub-region or join a neighboring sub-region; this removes the opportunity for transmission owners to unfairly avoid or to shift costs.[7] The case to include an embedded transmission owner which is dependent on transmission facilities in an existing sub-region is clear, since they currently pay for transmission service and they will continue to pay for transmission assets in the future.

The example of "integrated" or electrically-connected PTO is less clear, which is acknowledged in the proposal, and it is left to a future ISO board to determine if they should be considered their own sub-region or be added to an existing sub-region. This is not an unreasonable outcome as each case may have different circumstances which dictate different outcomes.

SCE recommends that a stakeholder process which involves the existing participating transmission owners should be held before any decision by the CAISO to add a new member to an existing sub-region.

7. Defining a default cost allocation methodology is appropriate

The proposal states that these provisions would become the default tariff provisions that would apply, unless the WSC—and FERC approve—a revision or exception to the default provisions. SCE is supportive of this element of the proposal.

[7] Proposal page 7.

Conclusion

In closing, SCE appreciates the opportunity to provide comments on the second CAISO Transmission Access Charge (TAC) straw proposal and thanks the CAISO for its consideration of the Company's comments.