

**Comments of  
Southern California Edison Company**

**Revised CAISO Proposal to Remove Barriers to Efficient Transmission Investment  
(dated September 21, 2006)**

Southern California Edison Company (SCE) appreciates the opportunity to provide comments on the revised California Independent System Operator (CAISO) Proposal to Remove Barriers to Efficient Transmission Investment, dated September 21, 2006 (Revised Trunkline Proposal). SCE continues to support the CAISO's proposal for a third category of transmission facilities for high voltage bulk transfer transmission facilities to serve multiple RPS-eligible generators. Furthermore, SCE supports the cost recovery principles outlined in CAISO's Revised Trunkline Proposal, although SCE is concerned about how these conceptual policies and processes will eventually be implemented. SCE respectfully submits comments on specific concepts outlined in the Revised Trunkline Proposal.

***Section 2 – Introduction***

High Voltage facilities under the ISO Tariff include facilities greater than 220kV the discussion in the third paragraph should be made consistent with the definition.

The statement regarding voltage of generation interconnection for fossil fuel plants is not true for SCE's system where the radial lines tend to be high voltage (greater than 115kV).

***Section 5 – Current Treatment of New Transmission Facilities***

SCE is concerned with footnote 6 regarding the ISO Tariff. It would be better to amend the ISO Tariff to explicitly provide for this policy. Tariff interpretation change over time and PTOs should not be at risk for future cost recovery if the ISO changes its mind. This is particularly the case given the language in Section 6.2 regarding "initially spread". These are long life assets and the cost will always remain with PTO and should be includable in the TAC with revenue offset from generator use of the facilities. The ISO's proposed Tariff interpretation is inconsistent with the FERC's 7-Factor test applied to determine if facilities are net work transmission or not. The footnote should be deleted and the ISO must commit to a tariff change.

***Item 6.1 - Key Principles for Eligibility***

*Sub-item 1 - The transmission project would not otherwise be eligible for rate treatment that allows costs to be incorporated into the Transmission Access Charge (TAC).*

SCE suggests removing the third paragraph that discusses Antelope Segment 3. As stated in the second sentence of this paragraph, the current plan of service for Tehachapi (pending approval by CAISO Board of Governors), when fully

constructed, will include all network facilities. Segment 3 will start out as a radial facility but when all of Tehachapi is built out it will be part of a larger networked facility. Since sentence 1 and 2 of this paragraph are contradictory and confusing, SCE suggests removing the entire paragraph.

*Sub-item 2 - The transmission project would permit wholesale transmission access to an area not currently accessible where there is a significant energy resource that is not transportable.*

Edit the second sentence of the first paragraph to read “The *effect* of existing FERC policy is that the developer pays up-front transmission costs for generation tie lines, which creates a barrier to entry for generators that must be sited in remote areas due to the nature of their energy resource.”

Discussion: FERC policy does not *require* developers to up-front fund. Although industry practice is that generally developers up-front fund gen-tie lines, PTOs retain the option to up-front fund such facilities if they so desire.

*Sub-item 3 – delete word “expected” in paragraph one. The facilities, if approved and constructed, will be turned over to ISO operational control and recovered in TAC.*

*Sub-item 4 - The transmission project is designed to serve multiple power plants in areas where the energy resource is non-transportable.*

Replace “bulk-transfer” with “high voltage bulk-transfer” in sentence one. Replace “renewable” in sentence two with “energy”.

*Sub-item 6 - The transmission project would not increase the annual revenue requirement (TAC rates) by more than 5% annually over a 10-year period.*

SCE suggests the "cap" provision use a different mechanism than the one contained in the Revised Trunkline Proposal. Using a percentage of the TAC rate to cap the magnitude of projects receiving this treatment would depend on a number of variable factors that may not be ascertainable, especially given that many PTO's TRR Rate Cases are resolved by Black-Box Settlement. We suggest instead that the cap calculation be based on the amount of Gross Plant as reflected in the TAC. We believe using this measurement accomplishes the same purpose (providing a baseline amount of cost recovery from projects subject to this proposal while limiting the overall impact to the TAC rate). And since the Gross Plant value is readily accessible, unambiguous, and publicly available, it should be an easier mechanism to calculate and administer.

If the new cap mechanism is adopted, SCE suggests reworking paragraph two (the Antelope/Tehachapi Segment 3 example) based on the 5% of Gross Plant test. (e.g., At the end of 2005, CAISO Gross Plant was \$X billion. Five percent of this amount would be \$X million. SCE's 2005 proposal for Antelope/Tehachapi Segment 3

involved an aggregate cost of \$75 million, which is well below 5% of CAISO Gross Plant at the end of 2005).

*Sub-item 7 – The transmission project would be able to demonstrate adequate commercial interest among multiple generation developers.*

Discussion: SCE is uncertain how the “open season” proposal discussed in this section would work in practice. Procedures would have to be implemented with substantial stakeholder input.

SCE does not agree that a certain percentage of the line’s capacity needs to be subscribed by contracts, interconnection study deposits, or other demonstrations of commercial interest prior to advancement of funds to interconnect. Similar to the CPUC’s decision on Section 399.25, the existence of one approved PPA between the generator and a PTO should be a minimum requirement to show commercial interest. CAISO should also rely on studies by CPUC, CEC, or other state agencies that have identified renewable resource areas for further development as evidence of commercial interest.

*Add proposed new sub-item 8 – PTOs will seek CAISO determination that a proposed multi-generator transmission facility is eligible for this alternative cost recovery treatment before proceeding to construct the project.*

CAISO will determine that a project is eligible for this alternative cost recovery treatment before expenditure of substantial funds to construct the project. The logical venue for CAISO approval of alternative cost recovery would be the Board of Governors meeting where the proposed project is approved or disapproved.

### ***Item 6.2 – Proposed Cost Recovery Treatment***

*Fifth paragraph on page 16, last sentence should read: “In these circumstances, the CAISO suggest that it’s appropriate that costs for transmission facilities that facilitate the efficient development of renewable energy resources to meet State and regional requirements be initially spread to all transmission customers.”*

*Second bullet point – Upon interconnection, generators begin to pay their “pro-rata share” (capacity ratio) of the going forward costs over the life of the facility.*

Edit second sentence to read: “This would include depreciation expense, *return on the investment, income taxes, other taxes, operations & maintenance, administrative & general expenses*, and *all other costs associated with a transmission facility that typically reflected in (with FERC approval) the annual revenue requirement.*”

Discussion: The revenue requirement for the transmission facilities consists of more than just depreciation and interest expense. The table on page 17 is misleading in its

simplified form. SCE suggests deleting the table on page 17 and replacing it with a different example, along the lines of the following:

ILLUSTRATIVE EXAMPLE: Assume a trunkline has an initial investment of \$100 million and an annual revenue requirement of \$15 million. In year one, generator one subscribes to 33% of the capacity on the trunkline and begins to pay 33% of the revenue requirement ( $\$15\text{M} \times 0.33 = \$4.95\text{M}$ ). In year one, the unsubscribed amount that is applied to the TAC is \$10.05M ( $\$15\text{M} - \$4.95\text{M}$ ). In year two, generator two subscribes to 25% of the trunkline capacity and begins to pay 25% of the revenue requirement ( $\$15\text{M} \times 0.25 = \$3.75\text{M}$ ). Generator one continues to pay \$4.95M. As a result, the unsubscribed amount that is applied to the TAC is \$6.3M ( $\$15\text{M} - \$4.95\text{M} - \$3.75\text{M}$ ).

Discussion: The exact details of the ratemaking remain to be developed, with substantial stakeholder input. SCE's position is that this trunkline proposal must not proscribe the ratemaking for PTO's. Treating qualifying trunkline assets as a base rate item (i.e. through rate base) and treatment of generator revenues through the TRBA are inconsistent concepts. The ratemaking should be a choice of the PTO, as long as the PTO passes both the costs and revenues through its TRR to customers. The ISO should not dictate test-year ratemaking or other alternative (such as levelized ratemaking) for determining trunkline rates to interconnecting generators.

*Fourth bullet point – PTOs would retain ownership of the facilities, regardless of whether the transmission line remains radial in nature or evolves into a network facility at a later time.*

Edit final sentence of third paragraph to read “Transmission rights for the radial facility would expire *upon conversion to a network facility*, so that transmission rights to the newly *established* network line would be available *within established* CAISO allocation procedures.”

Add a proposed new bullet point after the last bullet point

- *Transmission capacity of a qualifying transmission facility will be available to generators according to FERC LGIA procedures*

Transmission capacity on a qualifying transmission facility can be secured by a generator after submitting an interconnection application and entering the CAISO interconnection queue. Contract provisions in the interconnection facilities agreement (IFA) will specify the “revenue requirement” payment conditions as well as the generator's expected online date. The generator receives physical rights to transmission over the eligible transmission facilities on its expected online date (assumes the transmission facilities are already constructed). Such transmission rights are subject to suspension under the following conditions:

- The generator does not begin delivery over the transmission facility within X months of its expected online date (The grace period to be determined by stakeholder input)
- The CAISO finds that the delay in delivery is for reasons under control of the generator
- The CAISO knows or learns of other generators in the vicinity of the delayed generator that can transmit energy over the unused capacity of the transmission facilities

Any such suspended transmission capacity opens to other generators on a first-come/first-connected basis.

Discussion:

Such a provision would avoid the potential situation where a generator could tie up capacity on eligible trunkline transmission facilities without actually delivering energy over the facilities and paying its proportionate share of the revenue requirement on the facilities. It is clearly not in the best interests of all parties involved to have facilities sitting idle while other generators in the vicinity (but lower in the queue) that have built generation cannot gain access to transmission.

In addition, a subscriber/generator should be responsible to pay the full amount of its contracted “revenue requirement” regardless of whether the generator uses its full capacity over the trunkline. Generators can “resell” its subscribed capacity but the responsibility to collect and pay the revenue requirement remains with the original contracted party. SCE is uncomfortable with the development of a secondary market for transmission capacity over a trunkline, as it would not be clear who would control such a market, or how it would be controlled.