Stakeholder Comments Template

Transmission Access Charge Options

September 30, 2016 Second Revised Straw Proposal

Submitted by	Company	Date Submitted
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The ISO provides this template for submission of stakeholder comments on the September 30, 2016 second revised straw proposal. The second revised straw proposal, presentations and other information related to this initiative may be found at: http://www.caiso.com/informed/Pages/StakeholderProcesses/TransmissionAccessChargeOptions.aspx

Upon completion of this template please submit it to initiativecomments@caiso.com. Submissions are requested by close of business on **October 28, 2016.**

Second Revised Straw Proposal

1. The ISO previously proposed to allow a new Participating Transmission Owner ("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 transmission access charge ("TAC") rate as the rest of the sub-region. Please comment on this element of the proposal.

   SDG&E's Position: SDG&E believes that transmission owners whose loads are "embedded within…an existing sub-region" should have the option of (i) seeking load-based majority approval of the sub-region PTOs to join that sub-region (i.e., where each PTO within the sub-region would have a load-weighted vote), or (ii) becoming their own sub-region. This approach provides all transmission owners with load, regardless of size, comparable rights to become a sub-region, but recognizes that there may be administrative efficiencies associated with merging "embedded" transmission owners.

   Assuming the CAISO's annual Transmission Planning Process ("TPP") determines that it would be beneficial for a transmission owner without load to join an expanded ISO, the transmission owner could join (i) a sub-region if the termini of the transmission facilities are “embedded within” the same sub-region, or (ii) multiple sub-regions if the termini of the transmission facilities are located in two or more sub-regions (in which case the expanded ISO would need to apportion the cost of the transmission facilities between the sub-regions).

2. 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.

   SDG&E Position: All transmission owners are electrically “integrated” with the grid, so SDG&E does not believe it makes sense to task the expanded Independent System Operator (“ ISO”) Board with distinguishing between an “embedded” transmission owner and an “integrated” transmission owner. Instead, SDG&E recommends defining “embedded” transmission owners on the basis of the electrical location of the transmission owner’s loads relative to the electrical boundaries of existing sub-regions. There is no need to define an “integrated” transmission owner.

3. 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.

   SDG&E’s position: *New* transmission facilities would be those facilities whose need was identified through the expanded ISO’s Transmission Planning Process. All other transmission facilities would be treated as *existing* transmission facilities. SDG&E supports this definitional construct.

4. 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 that is 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.”

   SDG&E’s Position: SDG&E supports the simplified definition of “existing” transmission facilities. The second revised TAC proposal preserves the cost allocation approach currently used for all existing transmission facilities. The costs of existing transmission facilities would therefore not be shared across the sub-regions of an expanded ISO (e.g., the current CAISO and PacifiCorp balancing authorities). SDG&E believes the CAISO’s proposal to allocate the costs of all *existing* transmission facilities to the sub-region in which the facilities are located, is the only allocation mechanism that most stakeholders would be willing to accept.

5. 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.

   SDG&E Position: SDG&E agrees with this approach. Requiring new sub-regions to assume cost responsibility for legacy facilities will almost certainly discourage some entities from joining an expanded ISO. 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. SDG&E Comment: The TEAM approach has been thoughtfully and constructively used for years to serve the public interest and form an analytic basis for stakeholder consensus. Using TEAM to identify economically preferred alternatives for meeting identified transmission needs at the sub-regional and regional levels is a good idea. However, the TEAM is data and computationally intensive and SDG&E believes that for transmission needs of small scale and scope, simpler economic evaluation approaches can be used.

   With respect to the details of the TEAM, the CAISO needs to review its criteria for determining which generating resources’ producer surplus (the difference between a generator’s market revenues and its variable operating costs) should be treated as accruing to the benefit of Load Serving Entities (“LSEs”) within the expanded ISO Balancing Authority. For example, the producer surplus from generators owned by an expanded ISO should be credited against the gross consumer costs within the expanded ISO (where gross consumer costs are determined multiplying hourly loads times applicable Locational Marginal Prices (“LMPs”)). Similarly, where a generator is, or is likely to be, contracted with an expanded ISO LSE, the producer surplus associated with such generators should be credited against gross consumer costs within the expanded ISO. SDG&E believes it is likely that most existing and new renewable generators will be contracted to LSEs.

   Another dimension of the TEAM which is important to consider, is life-cycle analysis. The potential solutions that may be evaluated with the TEAM include transmission projects, generation projects and other alternatives with significantly different economic lifetimes. The differences in the lifetimes and the projected costs and performance of replacement assets at different points in time (e.g., technology improvements), needs to be accounted for.

6. 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.

SDG&E's Position: SDG&E is disappointed that the CAISO has decided not to allow the costs of all new reliability projects to be allocated on the basis of sub-regional benefits. All network transmission provides some level of "benefit" to all sub-regions and these benefits can be estimated through the use of the CAISO's TEAM or equivalent evaluation process. Nevertheless, SDG&E believes that the benefits of most new reliability projects are likely to be quite localized such that cost allocation to a single sub-region will usually provide an acceptable alignment of costs and benefits.

7. 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

SDG&E Position: SDG&E is disappointed that the CAISO has decided not to allow the costs of all new public policy projects to be allocated on the basis of sub-regional benefits. All network transmission provides some level of "benefit" to all sub-regions and these benefits can be estimated through the use of the CAISO's TEAM or equivalent evaluation process. However, SDG&E recognizes that transmission cost allocation is as much art as science and trusts that the expanded ISO's Transmission Planning Process will provide the information necessary for expanded ISO management to make sensible recommendations as to how the costs of public policy projects should be allocated.

8. 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.

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.

SDG&E Position: SDG&E does not believe there is a meaningful distinction between "reliability" and "policy-driven" projects. As long as there is more than one way to meet an identified "reliability need" or identified "policy need" – and there almost always is – there is an economic decision to be made. Hence, SDG&E believes all potential solutions for meeting needs identified in the expanded ISO's transmission planning process should be evaluated using the TEAM or equivalent economic assessment approach.

9. Assuming, however, that the CAISO maintains the proposed distinction between "reliability" and "policy" projects, the "total benefits" approach provides a better alignment of costs and benefits across the sub-regions. This is because the "total benefits" include the cost of the avoided reliability project in one of the sub-regions.

   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.

   SDG&E Position: While it may seem logical to assign costs on the basis of the sub-region that was the "policy-driver," SDG&E believes such an approach fails FERC's basic requirement that there be a reasonable alignment of benefits and costs across the sub-regions. "Benefits" are measured in terms of the economic savings accruing to the different sub-regions if one alternative is implemented instead of a different alternative.

   The CAISO argues that a "credible avoided cost for an alternative pure policy project may not be achievable." SDG&E believes this is not the real difficulty; with some creative thinking, alternatives that satisfy the policy requirement can be identified. The real difficulty is determining which sub-region or sub-regions should be assumed to absorb the costs of the alternative; i.e., for purposes of computing sub-regional benefits, which sub-region or sub-regions should be assumed to pay for the alternative pure policy project. In the example provided in footnote 9 of the September 30, 2016 "*Transmission Access Charge Options for Integrating New Participating Transmission Owners, Second Revised Straw Proposal*," the CAISO assumes the cost of the avoided reliability project would be absorbed by sub-region A. This allows for a straight-forward calculation of sub-regional benefits.

   Unfortunately, it is not so obvious how the costs of an avoided policy project should be assigned. It is tempting to assign the costs of the avoided policy project to the sub-region with the policy requirement. This could be the default approach and it would allow application of the "total benefits" method.

10. 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.

    SDG&E Position: As suggested by SDG&E's comment above, the "total benefits" method could be used if the costs of the alternative pure policy project were distributed in some fashion between the sub-regions. Perhaps, as the CAISO suggests, the amount of internal load within each sub-region good be used as the basis for allocating the costs of the avoided policy project between the sub-regions.

11. 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.

    SDG&E Position: Competitive solicitation is a theme in the major FERC orders for market reform and planning. Assuming the term “upgrades” is construed to include all transmission elements (transformers, breakers, cables, towers, etc.) we support this approach for exceptions.

12. 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 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.

    SDG&E Position: SDG&E supports this proposal.

13. 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.

    SDG&E Position: As SDG&E has argued since before CAISO start-up, in efficient markets transactional signals should be based on the incremental cost of engaging in the transaction. Since exporting an additional megawatthour of energy from the expanded ISO balancing authority creates no incremental transmission cost (other than the impact on energy prices, losses and congestion which are already captured in LMPs), the export fee should be $0/MWh.

    SDG&E notes that there is no charge for importing power into the expanded ISO. An “export access charge” puts generators within the expanded ISO Balancing Authority at a competitive disadvantage to generators outside the expanded ISO Balancing Authority. The “export access charge” will prove especially onerous during time periods when the expanded ISO faces over-generation conditions.

14. 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.

    SDG&E Position: CAISO proposes to charge all users within a sub-regional grid the same rate whether or not they are PTO entities. This is reasonable.

15. 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.

SDG&E Position: If such revenues are created then they should not be computed or allocated based on PTO aggregate revenue requirements but based on sub regional TAC rates and traffic volumes.

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

SDG&E Position: SDG&E objects to the Western States Committee (WSC) having "primary authority" over transmission cost allocation. SDG&E believes that the WSC's role should be advisory only.

In the CAISO's latest governance proposal, a WSC decision as to how the costs of a public policy project are allocated among sub-regions would require a vote in which members representing at least 75% of load within the expanded ISO are in agreement. Such a supermajority voting rule would provide some assurance that California would not be allocated more costs from public policy projects than benefits warrant. However, SDG&E is concerned that this supermajority voting rule will be unacceptable to the other states since it effectively gives California veto authority. If the other states do, in fact, object to the supermajority of load voting rule – and the current indications are that they do -- SDG&E believes the only path forward is to make the WSC advisory, at least for those matters over which FERC has clear jurisdiction (i.e., transmission cost allocation).