SDG&E's Comments on

the CAISO's November 21, 2016

Generator Interconnection Driven Network Upgrade Cost Recovery, Second Revised Straw Proposal

The CAISO's November 21, 2016 *Generator Interconnection Driven Network Upgrade Cost Recovery, Second Revised Straw Proposal*, indicates that the CAISO was "unable to observe where GIP-driven network upgrades provided any material benefit to the local consumers."

The CAISO's second straw proposal also indicates that a "significant number of generators connected to the low-voltage transmission systems of each load serving PTO were under contract with that utility, or with utility in the near vicinity." The CAISO did not define what it meant by "near vicinity." SDG&E would note, for example, that a generator connecting at low voltage on the southeastern side of SDG&E's transmission system is long way—electrically—from load centers in the Los Angeles area and from load centers in central and northern California.

Finally, the CAISO reaches the conclusion, without presenting the evidence, that for the larger PTOs, there has been "a reasonable balance of contracting in each other's transmission service areas." (page 7) As a threshold matter SDG&E notes that there are no statutorily defined "transmission service areas" so it is unclear exactly what the CAISO is referring to. Furthermore, it is not clear to SDG&E that the fact that different LSEs contract with different generators in many different areas, says much, if anything about whether the beneficiaries of low voltage Reliability Network Upgrades (RNUs) and Local Delivery Network Upgrades (LDNUs) are the local consumers who pay the costs of those RNUs and LDNUs.

SDG&E continues to believe that the Valley Electric Association (VEA) situation, has brought to light a potentially significant disconnect between the benefits local consumers receive from low voltage RNUs and LDNUs and the costs that those local consumers pay. This disconnect is not just a forward-looking issue, it applies equally to the unrecovered costs of already-built RNUs and LDNUs.

SDG&E does not agree with stakeholders who believe the "current cost allocation rules have been appropriate and continue to work for generator interconnections to the larger load serving entities['] low voltage transmission systems." While the VEA situation presents the issue in its starkest form -- because "VEA's load is relatively small in relation to the other ISO load serving PTOs" -- the *magnitude* of the low voltage transmission rates that emerge from the current cost recovery mechanism is not determinative of whether those transmission rates are "just and reasonable."

FERC's open access rules, which include the compulsory interconnection of new generation, are intended to facilitate competition among suppliers, thereby providing benefits to end-use consumers. In general, the addition of new supply benefits <u>all</u> consumers within the market footprint, in the instant case, within the CAISO Balancing Authority. Indeed, it is for this reason that FERC decided the costs of all high voltage facilities within the CAISO Balancing Authority should be allocated pro-rata across all consumers within the CAISO Balancing Authority.

SDG&E believes the same logic applies to low voltage RNUs and LDNUs: all consumers, not just local consumers, benefit from the added supply that is made possible by the construction of these transmission upgrades. Accordingly, all consumers should pay for these low voltage RNUs and LDNUs and it makes no difference whether these costs will be incurred and recovered in the future (for new RNUs and LDNUs) or whether they have already been incurred but have yet to be recovered (the undepreciated costs of already built RNUs and LDNUs). Implementing Option 1 in the CAISO's first straw proposal, which recovers the costs of all low voltage RNUs and LDNUs through the CAISO's high voltage Transmission Access Charge (TAC) mechanism, would accomplish the required realignment of costs among consumers within the CAISO Balancing Authority.

In "an effort to gain stronger consensus" among stakeholders, the CAISO's second straw proposal drops Option 1 from consideration, replacing it with Options A and B. Both option A and option B are narrowly construed such that it will only be in the most egregious circumstances that there would be a reallocation of low voltage RNU and LDNU costs to the high voltage TAC. SDG&E believes neither option A or option B addresses the fundamental inequity that exists with the current allocation of low voltage RNU and LDNU costs. While SDG&E appreciates the desirability of stakeholder "consensus," this should not be what drives the formulation and presentation of options – the driver should always be what is "just and reasonable."

SDG&E requests that Option 1 be put back on the table for consideration by the CAISO Board. Additionally, as suggested in SDG&E's comments on the first straw proposal, it should be made clear that Option 1 applies equally to the costs of new RNUs and LDNUs, as well as the unrecovered costs of existing RNUs and LDNUs.