# 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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| *Jan Stack 858-650-6179* | *SDG&E* | *3-23-2016* |

The ISO provides this template for submission of stakeholder comments on the February 10, 2016 Straw Proposal and the March 9, 2016 stakeholder working group meeting. Section 1 of the template is for comments on the overall concepts and structure of the straw proposal. Section 2 is for comments on the benefits assessment methodologies. As stated at the March 9 meeting, the ISO would like stakeholders to offer their suggestions for how to improve upon the ISO's straw proposal, and emphasizes that ideas put forward by stakeholders at this time may be considered in the spirit of brainstorming rather than as formal statements of a position on this initiative.

The 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 **March 23, 2016.**

## 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.

   *SDG&E understands that the CAISO as currently constituted would be a sub-region and that future members (transmission owners with load) would become separate sub-regions upon joining as full Participating Transmission Owners (PTOs).*

   *SDG&E is open to discussing and analyzing variations on defining sub-regions in non-CAISO PTO's BA's but for existing CAISO PTO's the load ratio share cost methodology* *should continue for both existing and future high voltage TRR cost sharing within the CAISO sub-region regardless of whether the costs benefit only the CAISO sub-region or are subject to cost allocation across BA's under regional planning.*

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.

   *This nomenclature is reasonable and clear. However, it may be helpful to point out that an "existing facility" that was approved through a separate planning process but is not yet constructed, could be approved under the new integrated transmission planning process for the expanded BAA. Upon approval in the new integrated transmission planning process for the expanded BAA, a facility that was initially designated as an "existing facility" would become a "new facility."*

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.

   *SDG&E supports this allocation scheme. Based on stakeholder comments, SDG&E believes any other proposed allocation scheme for the costs of existing facilities will be opposed by many stakeholders and would discourage some PTOs from joining an expanded BAA. Additionally, this allocation scheme for the costs of existing facilities has already been found just and reasonable by the FERC.*

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.

   *As noted in SDG&E's responses to questions 1 and 3, SDG&E does not support allocating the costs of existing facilities in a shared manner across sub-regions.*

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.

*SDG&E supports the CAISO's proposed criteria for determining when the costs of new regional facilities are to be allocated among the sub-regions of the expanded BAA.*

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.

   *SDG&E supports allocating the costs of new facilities on calculated benefit shares for consumers within each sub-region. Other cost allocation approaches, such as postage stamp or simple load-ratio share, have the advantage of simplicity, but SDG&E does not believe there is sufficient stakeholder support to move forward with these simpler approaches.*

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.

   *SDG&E appreciates the logic behind the CAISO's proposal: Reallocating costs of new facilities among subsequent joining PTOs helps to ensure all PTOs pay a "fair share" of the costs of new facilities. At the same time, however, this approach may discourage PTOs from joining the expanded BAA. A PTO that is considering joining the expanded BAA could legitimately conclude that FERC has already determined that it is reasonable for consumers within the expanded BAA to pay for 100% of the costs of the new facilities.*

   *Additionally, if a new facility actually did benefit a prospective PTO, SDG&E would expect that fact to have been known when the new facility was approved in the expanded BAA's integrated transmission planning process. If known, there would have been a basis for pursuing interregional cost allocation under the provisions of FERC Order 1000. The CAISO's proposal could be interpreted as an end-run around the interregional cost allocation provisions of FERC Order 1000 since a subsequent PTO that chooses to join the expanded BAA would be obligated to accept an allocation of costs.*

*SDG&E believes it is more likely that subsequent PTOs will join the expanded BAA if the costs of all existing and new facilities remain with the sub-regions that existed when each subsequent PTO joins. The costs of new facilities that are approved within the expanded BAAs integrated transmission planning process* <u>*after*</u> *a subsequent PTO joins would be allocated among all sub-regions in proportion to each sub-region's benefits.*

8. <u>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.</u>

   *Benefit shares no doubt change over time as system conditions and network topography change. However, requiring that benefit shares be recalculated annually may be undesirable in practice, especially considering the time and resources required to perform the studies and the roughness of resulting benefit determinations. Also, redetermining benefits on an annual basis introduces cost uncertainty for consumers within each sub-region.*

   *Consistent with SDG&E's response to question 7, SDG&E recommends that sub-regional benefit shares be fixed at the time new facilities are approved through the integrated transmission planning process of the expanded BAA. This will provide long-term cost certainty for consumers within all sub-regions of the expanded BAA.*

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

## <u>Section 2: Benefits Assessment Methodologies</u>

10. <u>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.</u>

    *The categories of, "reliability," "economic," and "public policy" are consistent with a taxonomy created for determining which entities have the right to build and own new facilities. However, this taxonomy is not useful for estimating the benefits that consumers within different sub-regions of an expanded BAA will receive from new facilities.*

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.

    *See SDG&E's response to question 6.*

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.

    *A "benefit" exists only in comparison to something else; i.e., what would have been done were the new facilities at issue not built (the reference case[1]); and only to the extent the new facility provides tangible value to consumers. The use of DFAX is premised on the proposition that flows on a network can be used as a proxy for benefits. Such a relationship is conjectural at best.*

    *In the case of new "reliability" facilities, it is possible to determine how the new facility would change the distribution of power flows as compared to the reference case. However, the change in the distribution of power flows (what the DFAX methodology is attempting to capture) by itself, provides no tangible value to consumers. Tangible consumer value arises when, for example, the cost of the new "reliability" facility is less than the cost of the actions that would be taken in the reference case to address the reliability requirement. Determining the magnitude of the change in the distribution of power flows is not a measure of consumer value.*

    *Elements of the DFAX methodology are inherent in economic grid simulation modeling (e.g., the GridView production cost model). Economic grid simulation modeling—which is at the heart to the CAISO's Transmission Economic Assessment Methodology (TEAM) --in combination with other direct measures of consumer welfare, provide direct measures of consumer benefits and should be used to allocate the costs of new "reliability" facilities across the sub-regions of the expanded BAA.*

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

[1] *The choice of reference case—what would have been done were the new facilities at issue not built—is important because it can change the locational distribution of estimated benefits for the new facilities. Creating a reference case to predict what would have been done for the sixty year life of the new facilities is necessary, but an exercise involving significant judgement. This is one reason why SDG&E recommends against redetermining sub-regional benefits every year – benefit estimates are decidedly rough. (See SDG&E's response to question 8.)*

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.

*A transmission-constrained production cost-based tool supporting an extended TEAM methodology is appropriate for calculating relative benefits among sub-regions and thus benefits-based allocators. The TEAM, as described in existing CAISO documentation, should be extended to include:*

- *A dependable capacity evaluation to capture differences in capacity benefits (i.e., Resource Adequacy benefits) between the reference case and the case including the new facility. This would capture, for example, the difference in capacity contributions from different mixes of renewable resources located in different areas of the grid.*
- *Accounting for system and, where applicable, local Resource Adequacy prices.*
- *Accounting for the difference in installed capital and fixed O&M costs for the resource mixes in the reference case and in the case with the new transmission facility. (The CAISO performed this type of analysis in its recent assessment of the potential benefits of PacifiCorp joining an expanded BAA.)*
- *Counting the producer surplus(the difference between the CAISO's Locational Marginal Price (LMP) and the generating unit's variable operating cost) from conventional tolling contracts and other Power Purchase Agreements (PPAs) for which LSEs within the expanded BAA are the counter-party, as a credit against the LMP-based costs consumers within the sub-regions of the expanded BAA incur. The existing TEAM appears to only credit the producer surplus that is associated with utility-owned resources.*

  *The producer surplus associated with non-utility owned generators, including renewable generators, is currently treated as accruing to the benefit of the generation owners. While this approach may have had merit when the majority of non-utility owned generation was competing in PX and CAISO markets without PPAs, this is now the exception rather than the rule. Most of the generation in the CAISO's markets is subject to PPAs and these contracts, in exchange for a fixed price, typically give the LSE the right to sell the energy into the CAISO's markets and retain the resulting revenues. The LSEs, in turn, credit these revenues less any variable costs (such as the costs of acquiring gas under tolling contracts) to consumers.*

  *Effectively, the producer surplus associated with PPAs accrues to the benefit of consumers and should be treated that way in the TEAM. SDG&E believes it is unlikely that much new generation will get built without PPAs. Accordingly, any generic generation modeled in the reference case and in the case with the new transmission facility should be assumed to be under a PPA and the produce surplus treated in the TEAM as accruing to the benefit of consumers in the sub-regions of the expanded BAA.*

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 concept is not incompatible with capacity benefits that might be revealed when the resource composition of the reference case and the case with the new transmission facility is investigated. See SDG&E's response to question 13.*

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.

    *While public policy projects may be associated with requirements of one sub-region of the expanded BAA, it is inappropriate to assume up-front that those projects do not confer benefits on other sub-regions. Moreover, application of an extended TEAM would reveal the extent to which other sub-regions are benefitted and costs of the new "Public Policy" project would be allocated accordingly. This would prevent "free-riding" by sub-regions who may have different public policy requirements.*

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.

    *SDG&E supports this approach. Consumer value is best measured by the distribution of dollar savings across the different sub-regions. Applying an extended TEAM methodology to all types of new facilities ("reliability," "economic," or "public policy") will reveal the relative economic benefits and provide an objective basis for allocating the costs of the new facility.*

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.

    *SDG&E does not support the BAMx proposal for allocating the costs of new "public policy" facilities. As a threshold matter, the BAMx proposal would allocate transmission* *costs to generators and loads, a fundamental change to FERC's existing policy for allocating transmission costs within the CAISO BAA. While SDG&E finds merit in the idea that both generators and loads should share responsibility for fixed transmission costs since both benefit, such a change needs to be considered more comprehensively and should not be restricted to new "public policy" facilities.*

*Further, the BAMx proposal would require a determination of which LSEs are "relying on" the new "public policy" facilities and by how much. This resurrects the contract-path dinosaur within the expanded BAA. SDG&E does not believe there is any practical way of figuring out which LSEs use which network facilities and the amount of such use. Indeed, in an integrated network, all LSEs use all transmission facilities to some degree.*

*Finally, BAMx's condition that a new "public policy" facility would only be approved after reaching a threshold level of LSE PPAs and merchant generator financial commitments is flawed. This threshold would require that (i) LSEs' PPAs somehow be linked to the new "public policy" facility, and (ii) merchant generators somehow be obligated to fund the new "public policy" facility before it is determined which entity has won the right, through the CAISO's competitive transmission process, to build and own the new "public policy" facility. Moreover, BAMx's proposed threshold for approval precludes consideration of the broad range of potential economic benefits that may justify the approval of a new "public policy" facility in the expanded BAA's integrated transmission planning process.*

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