Stakeholder Comments Template

Transmission Access Charge Options

May 20, 2016 Revised Straw Proposal

Submitted by	Company	Date Submitted
Colin Rizzo, Esq. (415-703-1784)	*California Public Utilities Commission*	*June 10, 2016*

The ISO provides this template for submission of stakeholder comments on the May 20, 2016 revised straw proposal. The 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 **June 10, 2016.**

I. Overview

The Staff of the California Public Utilities Commission (CPUC Staff) appreciates the opportunity to comment on the California Independent System Operator Corporation's (CAISO) proposal to revise the structure of its Transmission Access Charge (TAC), which is intended to begin the process of integrating PacifiCorp (PAC) into the CAISO. CPUC Staff is committed to working productively with the CAISO and other stakeholders in this important initiative to ensure that changes to the existing TAC Structure result in a just and reasonable TAC rate for California ratepayers.

CPUC Staff recognizes that this is one of many concurrent initiatives running to complete the exploratory process of an expansion of the CAISO into a regional independent systemoperator . CPUC Staff reiterates from its prior comments, that the CAISO's plan to submit stand-alone tariff revisions for the Federal Energy Regulatory Commission's (FERC) approval before the CAISO has fully addressed other equally or more important issues (such as Governance) raised by the regional integration effort may delay or impact achievement of the regionalization process.[1] CPUC Staff further reiterates its recommendation that CAISO approach the regionalization effort in a holistic manner, to address governance, jurisdiction, transmission

[1] See CPUC Staff TAC February 10, 2016 Straw Proposal and March 9 Benefits Assessment Methodology Workshop.

planning, resource adequacy, and other important open issues BEFORE submitting to FERC any standalone element to implement the proposed expansion plan.

II. Synopsis of CAISO's Revised Straw Proposal

In the CAISO's May 20, 2016, revised TAC straw proposal (Revised Proposal), the CAISO proposes revisions to the TAC structure to apply to the "expanded" balancing authority area (BAA) formed when a new participating transmission owner (PTO) with a load service territory joins the CAISO. The proposal focuses on: (1) "regional" or high-voltage transmission revenue rights only, and assumes that <200 kV costs continue to be recovered through PTO specific rates; (2) adding a PTO with a load service obligation so that entities who build transmission but have no load service territory become PTOs under existing TAC structure, but have no load that pays the TAC; and (3) continuing to apply the TAC charge as a volumetric (per-MWh) rate to internal load and exports.[2]

The Revised Proposal modifies the prior proposals by reframing the definitions of what constitutes an "existing facility,"[3] a "new regional facility,"[4] and a "transmission upgrade." First, under the Revised Proposal, an existing facility is defined as a transmission facility that is in service or has been approved in a <u>separate</u> planning process and is under development at the time a new PTO joins the CAISO.[5] In other words, this definition applies to facilities that are not planned and approved under an integrated planning process for the expanded CAISO BAA that would commence once the first new PTO is integrated.[6] Second, under the Revised Straw Proposal, a new regional facility is any facility that is planned and approved under an <u>integrated transmission planning process</u> established for the CAISO BAA.[7] Finally, according to the

---

[2] See TAC Revised Straw Proposal, Stakeholder Meeting, June 1, 2016. Available at: https://www.caiso.com/Documents/Agenda-Presentation-TransmissionAccessChargeOptions-RevisedStrawProposal.pdf

[3] An existing facility is defined by the CAISO as a transmission asset in-service or planned in the entity's own planning process for its own service area or planning region, <u>**and has either begun construction or has committed funding**</u>. The Transmission Revenue Requirement (TRR) for existing facilities would be recovered on a sub-regional basis.
In the revised straw proposal the CAISO added that they will now allow a one-time choice for a new PTO that is embedded within or electrically integrated within an existing sub-region (prior to integration) to join that sub-region or become a separate sub-region.

[4] The CAISO proposes that a new facility be defined as a facility that is planned and approved through the integrated Transmission Planning Process (TPP) for the expanded BAA. To be considered for regional cost allocation the facility must meet <u>one</u> of the following three criteria: (a) is rated > **200 kV**, <u>or</u> (b) interconnects two or more sub-regions or upgrades an existing interconnection, regardless of voltage level, <u>or</u> (c) creates a new, or upgrades an existing, intertie with a BAA adjacent to the expanded CAISO BAA, regardless of voltage level. The CAISO also now proposes to remove <u>**reliability projects**</u> from consideration for regional cost allocation. For reliability projects approved solely to meet an identified reliability need within a sub-region, costs would be allocated entirely to that sub-region.

[5] CAISO TAC Options, Revised Straw Proposal, May 20, 2016.

[6] CPUC Staff understands that the Revised Proposal recommends that the costs of existing facilities will be recovered on a "sub-regional" basis, where the current CAISO BAA is considered one sub-region and the new PTO is another. Thus, both sub regions would continue to pay the same costs for existing facilities under an expanded CAISO BAA that they would have paid if they remained separate.

[7] CPUC Staff understands that the Revised Straw Proposal recommends that the costs of the new regional facilities would be allocated to multiple sub-regions of the expanded CAISO *in accordance* with the decisions of a new body of state regulators, formed as part of a new CAISO governance structure.

Revised Proposal, transmission upgrades approved for the region-wide cost allocation, or whose costs would be recovered from multiple PTO service territories within a sub-region, will be subject to competitive solicitation.

III. CPUC Staff Observations of CAISO's Revised Proposal

CPUC Staff finds that CAISO, through its Revised Proposal, has made a meaningful effort to improve upon its prior TAC proposals. CPUC Staff appreciates CAISO's effort and its stratification of the TAC schedule to account for the array of concerns and issues presented by various stakeholders. However, the Revised Proposal still presents significant issues because there is a lack of data, information, and facts to clearly determine what costs California ratepayers will bear.

CPUC Staff makes the following observations about issues that should inform the CAISO's next steps:

- Recognize that CAISO's existing system and California ratepayer investment into the existing system is fundamental to the majority of benefits PAC will receive as a result of more efficient over-generation management, renewable procurement savings, and access to California's existing transmission system;
- Resolve ambiguities and concerns between the definitions of "existing" and "new facilities," as discussed at the June 1, 2016 Portland TAC Stakeholder meeting and as discussed below;
- Mitigate unreasonable cost shifting between the existing CAISO system, PAC, and future CAISO participants;
- Design a regional TAC structure through the lens that costs must be commensurate with benefits and that the benefits of the expanded ISO are distributed fairly among the expanded regional participants;
- Produce more analysis to support the proposal for recalibrating the Wheeling Access Charge (by providing a cost impact analysis on lost revenue; and
- Develop a process for how a CAISO governing body would reach decisions and resolve disputes regarding construction, cost and benefit allocation.

With these observations, in mind, CPUC Staff addresses them in more detail below.

Revised Straw Proposal

1. In the previous straw proposal the ISO proposed to define sub-regions, with the current ISO footprint as one sub-region and each PTO that subsequently joins as another sub-region. Now the ISO is proposing an exception to allow a new 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. Please comment on whether such an embedded/integrated new PTO should become a new sub-region, be given a one-time choice, or whether another approach would be preferable.

The Revised Proposal states that an embedded entity within an existing BAA or integrated within an existing CAISO sub-region (i.e., Silicon Valley Power and Pacific Gas and Electric (PG&E)) would have a one-time choice prior to the integration date to either become part of the sub-region with which it is integrating or become a new sub-region. The Revised Proposal states that this one-time choice allows an entity to fully consider cost allocations and cost impact to lessen the barrier of joining the expanded BAA.

CPUC Staff recommends that CAISO perform further analysis on the cost impact for California PTOs and their ratepayers for situations where a new entity is integrated with and primarily dependent on transmission facilities that are part of an existing CAISO sub-region (i.e., Silicon Valley Power and PG&E, or Southern California Edison (SCE) and Imperial Irrigation District or Turlock Irrigation District). CPUC Staff also recommends that CAISO clarify the length of time this one-time choice would be available. The objective of this consideration is to ensure that parties do not unfairly avoid transmission charges they are currently paying by avoiding accepting or declining an unlimited time offer.

For example, if a smaller load serving entity (LSE) is surrounded by a larger transmission-owning load serving entity and utilizes the larger LSE's transmission to import its power, the smaller LSE pays transmission rates to the larger LSE. The Revised Proposal is unclear whether it prevents the small LSE from paying any transmission costs to the large LSE. Ultimately, if the small LSE avoids paying some or all of these transmission costs, ratepayers (i.e., current CAISO PTO customers) of the large LSE are adversely affected. This would result in entities not paying their fair share of transmission costs. Additionally, most of these small LSEs meet their energy needs from wheeling across the CAISO grid, for which they pay a wheeling access charge. CPUC Staff would like clarification if, under the Revised Proposal's above rule, the small LSEs would be relieved of paying wheeling costs or be enabled to pay less wheeling costs than they do now.

Consequently, CPUC Staff recommends that CAISO perform further analysis on entities that are embedded within or substantially integrated with an existing sub-region to ensure that parties pay their fair share of transmission charges under the proposed CAISO. CPUC Staff also recommends that CAISO refine its Revised Proposal to set a time limit on the offer for an entity to join a sub-region or become its own sub-region so the offer is not an unlimited opportunity. Finally, CPUC Staff asks CAISO to provide a dispute resolution process for the small LSE and the large TLSE to follow if they cannot agree on how to join with each other. These recommendations will mitigate unreasonable cost shifting between the existing CAISO system and future CAISO participants.

2. <u>The proposal defines "existing facilities" as transmission assets in-service or planned in the entity's own planning process for its own service area or planning region, and that have either begun construction or have committed funding. The ISO proposed criteria for what constitutes a facility having "begun construction" and "committed funding" and for how these criteria would be demonstrated. Please comment on these criteria and their use for this purpose.</u>

As stated above, the Revised Proposal defines an existing facility as a transmission facility that is in service or has been approved in a separate planning process and is under development at the time a new PTO joins the CAISO. Alternatively, the Revised Proposal defines a new regional facility as one that is planned and approved under an integrated transmission planning process under the expanded CAISO. At the June 1, 2016 Portland Workshop, CAISO representatives stated that January 2019 would commence the first integrated transmission planning process for the CAISO and where "new facilities" would be considered under the integrated process.

CPUC Staff believes that these definitions improve upon prior iterations of the TAC proposals. However, the definitions still do not distinguish and acknowledge the significant existing transmission upgrades California ratepayers have borne nor do they resolve the confusion around the status of PAC's Gateway projects. CPUC Staff also finds that these definitions are vague and overbroad, leaving stakeholders with more questions than answers. Indeed, at the June 1, 2016 TAC Portland Workshop, CAISO representatives were asked to apply the Revised Proposal's definitions of "existing" and "new regional facilities" to the PAC Gateway projects. In response, CAISO representatives said they could not definitively categorize the PAC Gateway projects when applying the revised definitions. CPUC Staff finds this uncertainty perplexing.

California ratepayers, PG&E, SCE, and San Diego Gas and Electric (SD&E) have made significant investments in transmission, including multi-billion expenditures over the past decade on high voltage lines to deliver renewables to the grid both in and outside of California. To the extent PAC states have RPS requirements, carbon emission reduction obligations (either now or in the future), or merely desire access to low cost renewable power, those states may benefit from this transmission infrastructure that will facilitate the delivery of California renewables to their states.

The project that is most relevant to demonstrate the definitional concerns is the Gateway project. PAC's 2007 Energy Gateway transmission plan adds approximately 2,000 miles of new transmission lines across the West.[8] The cost of Energy Gateway is approximately $6 billion.[9] Currently, PAC has completed: (1) the $832 million Populus to Terminal Line; and (2) the $364 million Mona to Oquirrh project.[10] However, outreach, siting, and permitting efforts continue for several other segments of Energy Gateway – including Gateway West.[11] Thus, approximately $4.9 billion in transmissions costs have not been incurred, which could result in

[8]See Edison Electric Institute, Transmission Projects *At a Glance*, March 2015.
[9] Id.
[10] Id.
[11] Id. PAC and CAISO have determined that the Gateway West project can deliver large amounts of wind to California.

future socialized costs of PAC transmission upgrades that will be borne by California ratepayers. The current definitions in the Revised Proposal still allow for considerable confusion and uncertainty around the status of these Gateway projects – will they be considered "existing" or will they be considered "new regional facilities"? Which ratepayers bear the cost of PAC's Gateway?

CPUC Staff recommends that CAISO continue to refine and establish clear boundaries within the proposed definitions so stakeholders clearly understand what is "existing" and what is a "new regional facility," in particular, when the terms are applied to PAC's Gateway projects. Refinements to these definitions will enable stakeholders to apply the terms to projects, such as Gateway, to determine who will bear what costs and who will benefit from the existing multi-billion dollar investments made by California ratepayers and PTOs in the California transmission infrastructure.

3. <u>The proposal defines "new facilities" as transmission projects planned and approved in an expanded TPP for the expanded BAA. Projects that are under review as potential "inter-regional" projects prior to the new PTO joining may be considered as "new" as long as the "existing" criteria are not met. Please comment on the potential inclusion of candidate inter-regional projects in the new facilities category.</u>

See CPUC Staff response to Question 2. CPUC Staff recommends that CAISO continue to refine the definitions of "existing" and "new facilities" so stakeholders can reasonably determine what status PAC's Gateway Projects have under these definitions. CPUC Staff further recommends that these definitions reflect principles of equity, to avoid a situation where the current CAISO grid could be allocated a significant portion of the costs for new transmission in PAC's territory (i.e., Gateway), while PAC could pay little for new facilities and nothing (see CPUC Staff Comments below) for existing facilities in the existing CAISO grid.

4. <u>Consistent with the previous straw proposal, the ISO proposes to recover the costs of existing facilities through sub-regional "license plate" TAC rates. The ISO's decision to retain the previous proposal, rather than develop a new proposal for allocating some costs of existing facilities across the sub-regions, was based on the importance of retaining the principle that only new facilities planned through the expanded TPP should be eligible for region-wide cost allocation. Please comment on the license plate approach and the logic for retaining that approach, as explained here and in the revised straw proposal.</u>

The Revised Proposal suggests that cost recovery of existing facilities should occur through a sub-region license plate rate. CAISO's decision to retain the sub-region "license plate rate" rather than develop a new proposal for allocating some costs of the existing facilities across the sub-regions may not be just and reasonable.

The "license plate rate" keeps cost recovery of existing facilities the same while there is no restriction on the use of that sub-region's transmission facilities by other PTOs who are not sharing in the costs of those facilities. The Revised Proposal continues to provide reciprocal rights to PTOs to use the existing facilities of another sub-region while paying only the costs associated with their own sub-regional existing facilities. The cost difference between the existing CAISO system and PAC is more than double: ($11/MWh v. $4/MWh). The Revised Proposal does not offer any assurance that this rate differential will be recalibrated in the future.

To the extent PAC states have RPS requirements, carbon emission reduction obligations (either now or in the future), or merely desire access to low cost renewable power, those states may benefit from this transmission infrastructure that will facilitate the delivery of California renewables to their states. CPUC Staff recommends that the Revised Proposal create an acceptable balance of benefits and burdens so that cost allocation and benefit allocations are more equitable.

5. <u>"New facilities" will undergo a two-step process to determine eligibility for regional cost allocation. First, the project must be planned and approved through the integrated TPP for the expanded BAA. Second, the project must meet at least one of three criteria to be a "new regional facility" eligible for region-wide cost allocation. Please comment on the two-step process to determine "new facilities."</u>

See CPUC Staff responses to Questions 1 and 2. CPUC Staff recommends that CAISO continue to refine the definitions of "existing" and "new facilities" so stakeholders can reasonably determine what status PAC's Gateway Projects have under these definitions.

However, CPUC Staff recommends that the Revised Proposal eliminate the >200kV requirement and focus on whether the project interconnects two sub-regional areas. If the project interconnects two sub-regional areas, cost allocation should apply.

6. <u>The proposal would allocate the cost of new reliability projects approved solely to meet an identified reliability need within a sub-region entirely to that sub-region. Please comment on the proposed cost allocation for new reliability projects.</u>

CPUC Staff has no comment on this issue at this time but reserves the right to comment in the future.

7. <u>The ISO proposes that a body of state regulators, to be established as part of the new regional governance structure, would make decisions to build and decide allocation of costs for new economic and policy-driven facilities. Please comment on this proposal.</u>

CPUC Staff has no comment on this issue at this time but reserves the right to comment in the future.

8. Competitive solicitation to select the entity to build and own a new transmission project would apply to: (a) economic and policy-driven transmission projects approved by the body of state regulators for regional cost allocation, and (b) new projects whose costs are allocated entirely to one sub-region but are paid for by the ratepayers of more than one PTO within that sub-region. The ISO has determined that this policy is consistent with FERC Order 1000 regarding competitive solicitation. Please comment on this proposal.

CPUC Staff recommends that all projects be subject to competitive solicitation. The Revised Proposal contemplates that competitive solicitation occur where a new transmission project is an economic and policy driven transmission project approved by the state body of regulators and paid for by ratepayers of more than one PTO within that sub-region.

The Revised Proposal has the potential to facilitate uneven treatment between sub-regions (i.e., California and PAC). For example, in California, there are multiple PTOs and projects are bid competitively. Under the Revised Proposal, projects in PAC's sub-region would not be subject to competitive solicitation because there is only one PTO (i.e., PAC). Thus, PAC's Gateway Projects would not be subject to competitive solicitation under the Revised Proposal; this would lead to uneven treatment between California PTOs and PAC. Therefore, CPUC Staff recommends that CAISO refine its proposal for competitive solicitation to reflect the spirit of FERC Order 1000 and subject all projects to competitive solicitation.

9. FERC Order 1000 requires that the ISO establish in its tariff "back-stop" provisions for approving and determining cost allocation for needed transmission projects, in the event that the body of state regulators is unable to decide on a needed project. The revised straw proposal indicated that the ISO would propose such provisions in the next proposal for this initiative. Please offer comments and your suggestions for what such provisions should be.

CPUC Staff has no comment on this issue at this time but reserves the right to comment in the future.

10. The proposal indicated that the ISO would establish a formula for a single export rate wheeling access charge for the expanded region, and this rate would be a load-weighted average of all sub-regional license plate rates plus any region-wide postage stamp rate. Please comment on this proposal.

The Revised Proposal intends to create a single wheeling access charge rate for all exports on any high-voltage transmission facility (i.e., >200kV) connecting the expanded BAA with an adjacent BAA. The Revised Proposal further states that the single wheeling access charge rate would be a load-weighted average of all the sub-regional TAC rates plus any region-wide postage stamp TAC rate if such a rate is created to recover costs of particular new facilities.

CPUC Staff recommends that CAISO perform a cost impact analysis on the affected California PTOs to determine what revenue impact the recalibrated, single wheeling access charge formula will have on those PTOs. CPUC Staff would like to learn if and how much wheeling access charge revenue would be collected, reduced, or not collected by the CAISO at California PTO interties, such as PG&E's intertie with PAC, once the expanded CAISO commences. But for PAC joining the CAISO, it appears that wheeling access charge revenues could grow considerably, given the potential over-generation of renewables that is expected to be exported to outside entities like PAC. This revenue growth would contribute to the benefit of California ratepayers. CPUC Staff understands that California PTOs collect between $50 and $120 million per year in wheeling revenues for the offset of the high voltage TAC. Depending on how the Revised Proposal implements, configures, or recalibrates the single wheeling access charge rate, revenues could be progressively lost as new PTOs join the CAISO while the cost of transmission to current CAISO PTOs and ratepayers increases.

11. <u>The ISO proposed to retain the provision that once the BAA was expanded and a new TPP instituted for the expanded BAA, any subsequent PTO joining at a later date could be responsible for a cost share of new regional facilities approved in the expanded TPP, based on the benefits the new PTO receives from each such facility. Please comment on this proposal.</u>

CPUC Staff recommends that CAISO provide more information on the expanded TPP. CPUC Staff is aware that CAISO has agreed to develop the expanded TPP through a future, separate stakeholder process. However, uncertainty remains in the present initiative with regard to how benefits from these projects would be ascertained and costs allocated. CPUC Staff supports an equitable allocation of costs and benefits of a new regional facility so that costs are commensurate with benefits and that the benefits of an expanded BAA are distributed fairly among all regional participants.

12. <u>The ISO dropped the proposal to recalculate sub-regional benefit shares for new regional facilities every year, and instead proposed to recalculate only when a new PTO joins the expanded BAA and creates a new sub-region, but at least once every five years. Please comment on this proposal.</u>

The Revised Proposal intends to recalculate cost and benefits distribution only when a new PTO joins and creates a new sub-region, or at least every five years. The Revised Proposal also states that, "questions of whether to do this at all, and if so, how and how often, should be aligned with the approach to cost allocation developed by the new body of state regulators."

CPUC Staff finds that this proposal is an improvement from the prior TAC proposals that proposed to recalculate the costs and benefits annually. That said, CPUC Staff find that this discussion of when and how to recalculate costs and benefits may add increased confusion and complexity to an already unclear regional TAC process. Additionally, and more importantly, this portion of the Revised Proposal may result in continual litigation and re-litigation of settled issues and cost allocation. Consequently, California ratepayers could be exposed to excessive and unanticipated rate changes and, thus, be exposed to an uncertain market.

13. <u>Please provide any additional comments on topics that were not covered in the questions above.</u>

CPUC Staff has no further comments.