Stakeholder Comments Template

Generator Interconnection Driven Network Upgrade Cost Recovery Initiative

Submitted by	Company	Date Submitted
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Revised Straw Proposal

This template has been created for submission of stakeholder comments on the revised straw proposal for the Generator Interconnection Driven Network Upgrade Cost Recovery initiative that was posted on Sept 6, 2016. The proposal and other information related to this initiative may be found at: http://www.caiso.com/informed/Pages/StakeholderProcesses/GeneratorInterconnectionDrivenNetworkUpgradeCostRecovery.aspx .

Upon completion of this template, please submit it to initiativecomments@caiso.com. Submissions are requested by close of business on **Sept 20, 2016.**

If you are interested in providing written comments, please organize your comments into one or more of the categories listed below as well as state if you support, oppose, or have no comment on the proposal.

1. Option 1, Include the cost of generator-triggered low-voltage facilities in the PTO's high-voltage TRR for recovery through the high-voltage TAC. *Please state if you support (please list any conditions), oppose, or have no comment on the proposal.*

NCPA opposes Option 1 as presented by CAISO; see answer 3 below.

2. If the ISO moves forward with Option 1, should Option 1 apply on a going forward basis only, or also apply to RNUs and LDNUs that have already been built and whose cost have yet to be recovered from loads (e.g., undepreciated rate base for in-service RNU and LDNU costs that were reimbursed to an IC). *Please state if you support (please list any conditions), oppose, or have no comment on the proposal.*

See answer 3 below.

3. Other. *Please provide any other comments or suggestions you may have on this initiative.*

NCPA continues to oppose CAISO's proposal to change the cost allocation methodology for generator interconnection driven network upgrades. Although CAISO claims to be following cost causation principles, it picks and chooses among the principles to suit its ends, while ignoring those that do not serve its purpose. CAISO has failed to support a demonstrated need for its proposed methodology, and fails to address the implications of such a change in methodology for California ratepayers, if the principles are extended to the development of a regionalized TAC.

NCPA would not object to the development of individualized relief for VEA if CAISO can demonstrate that the current cost allocation methodology will create unjust and unreasonable results for VEA ratepayers. However, as other commenters have noted,[1] CAISO has not made a convincing demonstration that this is the case. Should it do so, NCPA believes that SCE's "Option 3" provides a potential avenue for relieving any rate shock to VEA ratepayers while otherwise preserving the assumptions and compromises that have been the foundation for CAISO's TAC cost allocation for many years. Given the present push for a broader, region wide grid, CAISO should be particularly cautious about changes to the existing TAC methodology that could increase future costs to California ratepayers if applied region wide.

The 200 kV dividing line between high-voltage and low-voltage transmission facilities has been enshrined in the CAISO Tariff and the TAC since CAISO proposed the two-tiered rate structure in 2000, after extensive stakeholder negotiations. The Commission endorsed the structure as reasonable at that time.[2] The methodology for allocating the costs of network upgrades triggered by generator interconnections is contained in the GIDAP provisions of the CAISO Tariff and has been in place since 2012.

CAISO now contends that its longstanding cost allocation principles, all previously accepted by FERC, may not comply with the Order 1000 principles of cost causation. It further claims that its existing methodology may not be just and reasonable for all market participants, not just for VEA. However, CAISO has not justified a fundamental change to its existing methodology.

CAISO now contends that interconnection of new generation, regardless of ownership or contractual status, benefits the entire grid because the CAISO market produces "the efficient, least-cost market operation cost-optimizing between the production of energy and ancillary services, and the new entry of additional resources puts downward pressure on the overall cost of energy and other services. New generation can provide lower cost and more efficient opportunities for accessing resource adequacy capacity as well."[3]

Leaving aside for a moment the cost implications for California ratepayers if this logic is applied regionally, NCPA notes that the CAISO has failed to demonstrate that the proposition it advances is even true. CAISO provides no information about the generators in the VEA interconnection queue, but experience suggests that they are solar facilities that almost certainly have power purchase agreements with particular loads. If they follow the typical pattern for solar PPAs, they may well have economic incentives to self-schedule their generation into the market, keeping it out of the CAISO optimization altogether. NCPA supports the use of self-scheduling by market participants as a tool to hedge certain market risks, but the fact remains that self-scheduled resources are not co-optimized. Thus, the primary beneficiaries of these PPA contracts are not

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[1] Six Cities Comments at 3, Santa Clara Comments at 2.
[2] *California Independent System Operator Corporation*, 91 FERC ¶61,205 at 61,722, 2000.
[3] Revised Straw Proposal at 5-6.

market participants in general, but rather the particular loads contracting with the new generators. Certainly any cost-benefit analysis, were one to be done, should start with the benefits received by only the contracting parties.

Even if the generators in question bid economically, it is disingenuous for CAISO to present this impact as an unalloyed market benefit. In other market initiatives currently under way, CAISO has been at some pains to demonstrate that self-scheduled intermittent renewable generation exacerbates the sharp ramps described in the infamous duck curve. CAISO is currently facing a complaint by La Paloma Generating Company, LLC, now pending before FERC,[4] alleging that low market prices prevent flexible gas-fired generation from earning sufficient revenues to cover costs. NCPA does not endorse La Paloma's complaint, nor does it agree with all of its characterizations, but it does note that CAISO's own pleading in that docket appears to concede that there are questions as to whether its markets provide sufficient compensation to conventional resources.[5]

CAISO further posits that socializing the cost of these low-voltage interconnections to the grid facilitates satisfaction of state renewable portfolio standards with the cheapest and most efficient renewables, even if they are located far from the contracting utility's service territory.[6] It should be noted, of course, that the benefits still primarily flow to the specific customer contracting for the generation, and that CAISO has not proposed to limit this change to interconnections of renewables. For example, many of NCPA's members, through responsible development, procurement and planning efforts implemented over many years, have already acquired sufficient renewable energy resources to meet their respective renewable energy targets, or in some cases amounts that far exceed their renewable energy targets, and will not directly benefit from additional renewable energy resources interconnecting to the grid. On the other hand, those utilities who have contracted with the VEA generators will receive most, if not all of the direct environmental benefits produced by the generators. Moreover, any interconnecting generator, regardless of carbon intensity, will have its upgrade costs socialized to the entire California grid. This would be a particularly disturbing outcome if applied on a region-wide basis.

However, NCPA's fundamental concern with propositions such as "new generation benefits everyone" and "more renewables help meet the RPS more cheaply, regardless of distance," is that CAISO has supplied no obvious limiting principle. Both, if applied regionally, could lead toward a cost allocation mechanism that would spread costs for generator interconnection upgrades in the West to California ratepayers, regardless of whether anyone in California contracts for the generation. In the most recent May 20, 2016 TAC Options paper, CAISO last indicated that "[t]his proposal applies only to high-voltage (>200 kV) transmission facilities. We assume that TRR for low voltage (<200 kV) facilities that become part of the expanded ISO controlled grid will be recovered on a PTO-specific basis, comparable to "local" facilities in the terminology of Order 1000 and the CAISO TAC structure today."[7]

[4] Docket No. EL16-88-000.
[5] CAISO July 20, 2016 Answer to Answers in Docket No. EL16-88-000 at 2.
[6] Revised Straw Proposal at 6.
[7] May 20, 2016 TAC Options Paper at 6.

Now, in this one-off initiative CAISO proposes to obliterate that distinction in the current CAISO BAA, by allowing the costs of new, low-voltage upgrades (and possibly the costs of existing low-voltage upgrades) to be allocated to the broader grid. While NCPA might see a short term low-voltage rate reduction under the proposal if the costs of existing facilities and future upgrades on the PG&E low-voltage system are shifted to other market participants in the south, it is far more concerned about the potential costs if the same principles are applied region-wide. FERC must ultimately accept a regional TAC methodology that is just, reasonable and not unduly discriminatory. Accordingly, any policy established here should be viewed through the lens of potential regional application.

CAISO makes copious reference to the Commission's principles of cost causation for new transmission projects under Order 1000, though it applies them only selectively to its new proposal. CAISO lists the principles set out in Order 1000, which focuses on the interregional allocation of facilities that are generally at a much higher voltage than those addressed by the current proposal.

1. Costs must be allocated in a way that is roughly commensurate with benefits.
2. Costs may not be allocated involuntarily to those who do not benefit.
3. A benefit to cost threshold may not exceed 1.25.
4. Costs may not be allocated involuntarily to a region outside of the facility's location.
5. The process for determining benefits and beneficiaries must be transparent.
6. A planning region may choose to use different allocation methods for different types of projects.

CAISO claims that the first two principles support CAISO-wide allocation of these costs, on the expansive ground that new generation benefits the market and so benefits all. No attention is given to the entities that benefit most from the interconnection of new generation—the generators and the customers with whom the generators have contracted. As discussed above, the extent to which such interconnections actually benefit anyone else is speculative at best. Much would depend on whether the new generation is economically bid into the markets, how the specific generator impacts flows and congestion on the system, if the generator is deliverable, and the extent to which load has hedged against market prices. Meanwhile, CAISO ignores the third principle altogether and dismisses the very idea of a needing a cost-benefit study for anyone. It also discounts principle 4, that cost should not be allocated to an area outside a facility's location.

Interestingly, the CAISO makes no reference to its own principles of cost causation, which it adopted in 2012. As recently as March of 2016, CAISO reported to FERC (footnotes omitted, emphasis supplied) in the Price Formation docket (AD14-14) that:

> In 2012, the CAISO worked with stakeholders to develop a set of guiding principles to help shape cost allocation decisions and **the CAISO follows these principles in developing cost allocation rules** for its market modifications. Since developing these principles**, the CAISO has applied them in developing new cost allocation procedures and in considering the need to change any existing cost allocation procedures** . . .. With respect to uplift allocation, **the CAISO**

discusses and considers these guiding principles through stakeholder initiatives on an ongoing basis.

The CAISO's own cost causation principles cover similar ground, but there are some key differences. The principles are:

1. Causation: Costs will be charged to resources that benefit from the service being procured or to resources that drive the procurement decision.
2. Comparable treatment: Market participants with similarly situated resources should receive similar allocation of costs and not be unduly discriminated against.
3. Accurate price signals: The cost allocation design supports the economically efficient achievement of state and federal policy goals by providing accurate price signals from the CAISO market.
4. Incentivize behavior: Cost allocation design should provide appropriate incentives for market participants to take action to reduce costs.
5. Manageable: Market participants should have the ability to manage exposure to the cost allocation.
6. Synchronized: Cost allocation is aligned with the timing and quantity of the service procured.
7. Rational: Implementation costs and complexity should not exceed the benefits that are intended to be achieved by allocating costs.

The first principle establishes, contrary to CAISO's contention, that the concept of allocating some costs to generation or the load specific generation serves is not an idea which has never been implemented in the CAISO markets. Similarly, there is no way for market participants to hedge or manage exposure to uplift costs attributable to the interconnection of generators to which they have no relation, thus violating principles 4 and 5. The CAISO states that "the significant amount of proposed renewable generation in the VEA service territory that is reflected in the ISO queue constitutes multiples of the entire VEA load."[8] This seems to suggest that VEA load has not contracted for the output of these generators; therefore, the load in VEA is not benefiting from the additional amounts of generation to be interconnected. On the other hand, CAISO also seems to claim that all other load in the CAISO will directly benefit from this generation, whether such load has or has not directly contracted for the output, but as described herein CAISO provides absolutely no direct evidence of its claims. This truly appears to be an issue of "ability to pay" rather than an issue of direct or indirect beneficiaries. If the issue at hand is truly the "ability to pay" and not "who really benefits", again NCPA is open to considering individual relief to VEA, including further consideration of the alternative proposed by SCE. NCPA believes it is a non-starter to assume that the generators involved, or the loads that have contracted for the output of the generators involved, should not be allocated any of these costs (or be impacted in any other way), and any such approach seems to be in direct contradiction to many of the CAISO established cost allocation principles.

Given the potential disruption and confusion in the TAC Options process that a change of this magnitude in CAISO's existing cost allocation methodologies would cause, NCPA believes that CAISO has not made the case for this change, especially on an expedited basis. NCPA could

[8] Revised Straw Proposal at 6.

support limited relief for VEA along the lines suggested by SCE. Wholesale change to the existing cost structure is not warranted for this reason.