

Stakeholder Comments Template

Transmission Access Charge Options

May 20, 2016 Revised Straw Proposal

Submitted by	Company	Date Submitted
<i>Joseph Abhulimen</i> <i>415-703-1552</i>	<i>Office of Ratepayer</i> <i>Advocates</i>	<i>June 10, 2016</i>

The Office of Ratepayer Advocates (ORA) is the independent consumer advocate within the California Public Utilities Commission with a statutory mandate to obtain the lowest possible rates for utility services consistent with reliable and safe service levels.¹ ORA also advocates for consumer protection related to utility service and for cost-effective approaches to achieving California's environmental goals. ORA appreciates the opportunity to comment on the revised straw proposal, but notes that the ability to comment on the straw proposal would be enhanced if more were known about the governance structure of the expanded ISO.

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 proposed exception 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 fails to address Pacific Gas & Electric Company's (PG&E) concern² (and similar concerns raised by Southern California Edison Company (SCE)³ and ORA⁴) that it would be inequitable to allow a

¹ Public Utilities Code Section 309.5.

² PG&E Straw Proposal Comments, March 23, 2016, p. 4.

³ SCE Straw Proposal Comments, March 23, 2016, p. 2.

⁴ ORA Straw Proposal Comments, March 23, 2016, p. 2.

new PTO that currently uses transmission facilities that are part of an existing CAISO sub-region (i.e., the new PTO meets the majority of its energy needs from wheeling) to become a new sub-region and be relieved of paying the costs of the existing transmission system from which they are benefitting. PG&E points out that in that situation, the new PTO would turn over transmission facilities consisting primarily of transmission level substations that may not provide a substantial benefit to the existing sub-region's grid. This result appears inequitable and inconsistent with the premise that each PTO provides benefits to the expanded ISO.

The requirement that the new PTO make a one-time decision would prevent the potential for a new PTO to enter or exit the existing sub-region whenever it chooses, thereby unjustly and unreasonably impacting the regional resource management and TAC rate for the PTO(s) in the existing sub-region. However, allowing a transmission-dependent PTO to make a one-time decision to join the existing sub-region fails to address the inequity in which the newly entering PTO's existing transmission facilities provide little or no benefit to the existing sub-region. ORA therefore continues to recommend against the adoption of a one-size fits all definition of a sub-region that fails to consider the relative size, geography and prior operating relationships between the new PTO and the existing sub-region.

2. 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.

ORA supports a refinement of the definition of "existing facilities" that would clarify the status of transmission assets that have been approved in an entity's separate planning process but are not yet in service. This approach, which would leverage the Internal Revenue Service definition used to determine the eligibility of a renewable generation project for investment tax credits, seems reasonable, as long as the construction process currently utilized for renewable generation projects serves as an appropriate proxy for the construction process utilized for transmission assets.

3. 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.

ORA agrees that projects that are under review in an entity's separate planning process as potential "inter-regional" projects prior to the new PTO joining should be evaluated under the new integrated TPP for the entire expanded BAA. If the former inter-regional project is identified as a cost-effective transmission solution in the expanded TPP, it would be eligible for consideration for regional cost allocation using the additional three

criteria for regional cost allocation. This analysis will enable the determination of whether the potential “inter regional project” benefits the entire expanded BAA. This approach would be consistent with the revised straw proposal’s treatment of cost allocation of new regional facilities to new PTOs, even if those new facilities were approved before the new PTO joined the expanded BAA.

4. 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.

ORA continues to recommend that the costs of existing transmission should be allocated to all of the sub-regions, based upon the benefits accrued from existing facilities. Initially this allocation would apply to the California Independent System Operator Corporation (CAISO) and PacifiCorp (PAC), but a cost allocation analysis should be repeated or updated anytime a new PTO with a substantial footprint joins the regional ISO. The CAISO’s claim that this policy mitigates the risk that PTOs would build costly high voltage (HV) transmission prior to joining the expanded BAA in the hopes that some of the costs would be transferred to other members of the expanded ISO upon joining fails to recognize: (1) the value of the extensive transmission facilities that current CAISO customers have already funded without any expectation that the costs would be shared; and (2) the potentially significant increases in the TAC they face under the proposed TAC methodology.

While CAISO ratepayers have already funded extensive transmission projects and hence currently pay a HV TAC rate of \$11.22 per MWh for all internal load and exports, PacifiCorp ratepayers pay a high voltage TAC that is approximately \$4.5 per MWh.

Allocation of the TAC rates of each sub-region’s existing facilities entirely to that sub-region fails to acknowledge the potential benefits that a sub-region may provide to another sub-region. This approach has the potential to provide benefits to customers of the first new PTO to join an expanded ISO at no cost, and would be inconsistent with FERC Order 1000’s requirement that costs must be allocated “roughly commensurate” with benefits. Accordingly, it is necessary to develop a methodology for evaluating the benefits and costs from existing facilities.

5. “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.”

ORA finds this approach reasonable, because the first step would allow the integrated TPP to identify transmission solutions for the expanded BAA, including solutions that

may be less costly than high voltage transmission facilities. Only after that analysis had been completed would consideration of potential regional cost allocation take place.

To the extent a new facility brings benefit only to limited number of sub-regions, but not to all the sub-regions of the expanded ISO, the other sub-regions that do not benefit from the transmission project should not be allocated the associated cost.

6. 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.

This approach appears reasonable. The cost of transmission projects that are approved as reliability projects should not be eligible for cost allocation across different sub-regions, because maintaining reliability within a sub region would be required even in the absence of joining an expanded ISO. However, the Revised Straw Proposal states the following.

“An economic or policy-driven transmission project that also has reliability benefits to a sub-region or that offsets an otherwise needed reliability project would be treated as an economic or policy-driven project per point 8 in this section.”⁵

This proposal implies that even if a certain sub-region is driving the reliability need for a given project, the sub-region will avoid paying exclusively for that transmission project and will benefit from having the project classified as an economic or policy-driven project, and in turn, having its cost paid by region-wide ratepayers. For example, although the PacifiCorp’s (PAC) Gateway Segments D, E, F (and more so for H) form backbone facilities within PAC providing reliability value to its internal load, costs would be allocated pursuant to-an economic/policy-driven project methodology that is not yet determined. The CAISO should consider a methodology that allocates the cost of the reliability benefits of a project exclusively to the sub-region that receives the reliability benefits.

7. 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.

Currently, transmission development process from concept to cost allocation consists of the following steps:

1. The CAISO and PTOs coordinate during the annual transmission planning phase and the CAISO board and CAISO management approve transmission solutions in solving reliability problems, mitigating transmission congestions, and meeting policy needs.
2. PTOs submit applications to their local regulatory authorities (LRA) such as California Public Utilities Commission (CPUC) for the construction of the transmission projects.

⁵ Revised Straw Proposal, p.8, footnote 8.

3. PTOs file applications at FERC for approval of their Transmission Revenue Requirement (TRR).
4. The CAISO updates the Transmission Access Charge and Wheeling Access Charge rates based on FERC-approved formula rate and approved TRRs of the PTOs.

The Revised Straw Proposal contains no information regarding how the body of regulators will be developed, its exact role, how it relates to the rest of the expanded ISO'S governing bodies or any other relevant detail. The proposal states that the details of expanded TPP will be developed in 2017 and will be designed to align with and support cost allocation provisions developed in this TAC initiative. However, the Revised Straw Proposal contains no information on how would the new proposed body of state regulators be integrated into the TPP. While it appears reasonable for the proposed body of state regulators to approve the cost allocation proposals for new economic and policy-driven facilities, it is difficult to comment on the role of the body of state regulators in making decisions to build and decide allocation of costs for new economic and policy-driven facilities in the absence of these details.⁶

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.

ORA supports this proposal. Ratepayers should have the benefit of robust competitive solicitations to select projects for which they are allocated costs. ORA agrees with TURN that special exceptions to the competitive solicitation requirement (such the one previously contemplated for PacifiCorp's uncompleted Gateway segments and discussed at the March 1, 2016 stakeholder meeting) undermine the integrity of the TAC allocation policy and encourage new PTOs to seek special deals relating to their entry into the regional ISO.⁷ In contrast, the revised competitive solicitation policy that would apply to all economic and policy-driven transmission projects approved for regional cost allocation by the body of state regulators, and new projects whose costs are paid for by the ratepayers of more than one PTO within a sub-region, promotes transparency and supports the claim that an expanded ISO will benefit customers.

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

⁶ The CAISO's *Proposed Principles for Governance of a Regional ISO*, released June 9, 2016, contains useful considerations for the development of governance, including the role of the body of state regulators, but at this stage details regarding transmission cost allocation have yet to be developed.

⁷ TURN Straw Proposal Comments, March 23, 2016, p. 15.

for this initiative. Please offer comments and your suggestions for what such provisions should be.

ORA looks forward to evaluating and providing comments on the “back-stop” provisions provided in the next proposal for this initiative.

10. The proposal indicated that the ISO would establish a formula for a single export rate (wheeling access charge or WAC) 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.

ORA seeks clarification on the rationale for the region-wide postage stamp rate under the current proposal. Given the large footprint of the expanded ISO, a region-wide postage stamp rate may not be just and reasonable. ORA recommends that the CAISO provide a proposed formula and example calculations in the next proposal for this initiative, and looks forward on commenting on such a proposal.

11. 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.

Requiring that new PTOs 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, is consistent with FERC Order 1000’s requirement that costs must be allocated “roughly commensurate” with benefits. ORA also agrees with the CAISO’s stated rationale that such a requirement would provide no incentive for new PTOs to delay joining the expanded ISO until after the completion of new transmission facilities

12. 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.

ORA agrees with the revised proposal. Recalculating sub-regional benefit shares for new regional facilities every year appears administratively burdensome. Recalculating sub-regional benefit shares every time a new PTO joins the expanded BAA and creates a new sub-region (but at least once every five years) appears more likely to produce benefits commensurate with the resources of both the staff and stakeholders of the expanded ISO in undertaking and monitoring the recalculation of sub-regional benefit shares. In addition, as PG&E pointed out, a PTO could request a re-calculation through a Section 206 filing at FERC in the event that the PTO believes that the benefits and costs become unjustly out of balance.⁸

⁸ PG&E Straw Proposal Comments, March 23, 2016, p. 6.