Stakeholder Comments Template

Transmission Access Charge Options

May 20, 2016 Revised Straw Proposal

Submitted by	Company	Date Submitted
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Introduction

PG&E appreciates the opportunity to comment on the May 20, 2016 Revised Straw Proposal for Transmission Access Charge ("TAC") Options ("Revised Proposal"). PG&E continues to see benefits in a larger, regional footprint for the ISO and remains committed to working collaboratively toward a balanced TAC framework. Given the uncertainty in critical aspects of the Revised Straw Proposal, as well as outstanding concerns about cost shifts to PG&E customers, PG&E cannot support the Revised Straw Proposal.

PG&E plans to continue working with the CAISO and other stakeholders to resolve our concerns so that we can arrive at a just and reasonable TAC proposal. It is imperative, however, that the potential cost impacts to PG&E's customers are fully understood and assessed. PG&E is concerned about the unknowns in this revised proposal and about some changes to the prior version, such as the new proposal for wheeling charges and the option for subsequent joining PTOs.

PG&E cannot evaluate the overall TAC proposal without additional clarity on key components that contribute to a fair and well-functioning TAC, including the following:

- The cost allocation methodology for new regional facilities;
- The grid-wide wheeling access charge calculation and revenue allocation; and
- The transmission planning process and generation interconnection procedures.

These concerns are primarily addressed in the responses to template questions 7, 10, and 13, below.

Moreover, based on several elements of the proposal that are defined, PG&E is concerned that PG&E's TAC rate will go up to the disadvantage of PG&E's customers and that some design features are unfair or create preferential treatment. PG&E's primary concerns include the following:

- Cost increase to PG&E's customers from the reduction or elimination of wheeling access charge revenues;
- Preferential treatment affording an option to new PTOs to create a new sub-region where that new PTO is currently embedded within or dependent on an existing PTO;
- An arbitrary voltage level criterion that may unfairly result in cost allocation of the same type of new facilities as existing facilities that are not to be shared; and
- New PTOs may receive preferential treatment by avoiding competitive solicitation if the new PTO is able to establish a single PTO sub-region.

These concerns are primarily addressed in the responses to template questions 1, 3, 4, 5, and 8, below.

In light of these outstanding uncertainties, presenting a TAC proposal to the CAISO Board on August 31, 2016 seems overly ambitious. PG&E recommends that the CAISO focus on resolving the governance issues for the expanded ISO and delay submission of a final TAC proposal to the CAISO Board until at least October, 2016, in order to develop a more robust TAC proposal with the necessary clarity.

1. <u>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.</u>

PG&E continues to have concerns with the proposed treatment of new PTOs that are embedded within, electrically integrated with, or leaning upon an existing sub-region. The Revised Proposal allows such PTOs a one-time election to either join the existing sub-region or form a new sub-region. As the new PTO will generally choose whichever option is most cost effective for it, this creates an imbalance of benefits for the new PTO and shifts costs to the existing PTO(s) in the existing sub-region. The table below compares how cost recovery may change when a non-PTO becomes a new PTO under the CAISO's current proposal.

Category	Non-PTO under the current TAC methodology	Joins existing Sub-Region under draft straw proposal	Forms Own Sub-Region under draft straw proposal
Wheeling Access Charges (WAC)	Pays WAC proportionate to use of ISO grid. WAC rate is equivalent to TAC.	New PTO Transmission Revenue Requirement (TRR) and gross load included in TAC. Pays TAC proportionate to use of ISO grid.	Pays no portion of the costs of other sub-regions' existing facilities.
Cost for Existing Facilities	Pays WAC proportionate to use of ISO grid including Existing Facilities.	New PTO TRR and gross load included in TAC. Pays TAC proportionate to use of ISO grid.	See above.
Cost for New Facilities	Pays WAC proportionate to use of ISO grid including New Facilities.	New PTO TRR and gross load included in TAC. Pays TAC proportionate to use of ISO grid.	Pays only for facilities that qualify for regional allocation; expected to be a subset of all new facilities.

If a non-PTO had (a) a utility-specific transmission access charge higher than the existing sub-region's TAC and/or (b) planned future transmission development that would raise its own transmission access charge to be higher than that of the existing sub-region, then the non-PTO would be economically advantaged by joining that sub-region. The existing sub-region may be assigned higher transmission costs without any clear benefit. On the other hand, if the non-PTO had a lower transmission revenue requirement than the existing sub-region, then the non-PTO would have incentive to form a new sub-region to escape paying TAC or WAC and could spread its own new transmission system development costs regionally. The PTOs in the existing sub-region that interconnect to the new PTO would lose wheeling revenue and would be at risk of assuming costs for the new PTO's transmission development. Under either scenario, the existing sub-region PTOs are disadvantaged while the new PTO is given preferential treatment for joining the ISO. Absent sufficient justification to the contrary, a new PTO should join an existing sub-region that it is embedded within, electrically integrated with, or leaning upon.

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>

While PG&E understands that sharing the costs of CAISO existing facilities is an impediment to new PTOs joining and expanding the CAISO footprint, PG&E believes that the current transmission access charge disparity between the CAISO and potential new PTOs must be mitigated. One way to minimize the disparity is to have strict limitations on what facilities can be considered New Facilities.

The CAISO's definition of Existing Facilities fails to thoroughly define what qualifies as existing, resulting in potential ambiguities between what constitutes an Existing or a New Facility. First, a subpart of the definition states that a facility must have either begun construction or prove that it has committed (significant) funding to the project. The qualification relies upon U.S. Internal Revenue Service eligibility criteria for renewable projects to obtain favored tax treatment. In contrast to renewable projects that affirmatively seek eligibility under the tax regulations, because the CAISO proposes not to share the costs of Existing Facilities, a project sponsor may not want the project to be considered "existing." Thus, the criterion has an inherent weakness in relying on the project sponsor proving the status through submission of documents and affidavits. PG&E would appreciate additional information on the CAISO's suggestion at the June 1st stakeholder meeting that each project sponsor be required to declare the financial status of each proposed project under penalty of perjury, regardless of the project sponsor's preferred project categorization, and how the CAISO proposes to validate that declaration.

Another weakness of the Existing Facilities definition is the ambiguity concerning the "separate planning process." For example, would approval through the CAISO's (pre-expansion) processes or by an external group that includes the entity (*e.g.*, Northern Tier Transmission Group) qualify? The CAISO should clearly define when a project has been approved by an entity's separate planning process before seeking stakeholder comment on whether the definition is reasonable.

Further, there is a gap in the definitions of Existing Facilities and New Facilities. It is possible for a project to be neither Existing nor New. If a project has been approved by an entity other than the project sponsor (*e.g.*, the CAISO or NTTG), but the sponsor has not committed significant funds or commenced construction, then it appears to be neither Existing nor New. Instead of seeking to define Existing Facilities, the CAISO could consider developing a robust definition of New Facilities and then classify everything else as Existing.

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>

To be fair, in order for a project to be included as a New Facility and eligible for regional cost allocation, then that project must have been approved through the expanded ISO transmission planning process, regardless of whether the project does not meet the Existing Facility criteria. In addition, all such greenfield projects must be subject to competition, with no advantage given to any one potential project sponsor. Failure to satisfy these requirements would be unfair and unduly preferential and encourage entities to delay joining an ISO/RTO in order to leverage its status to obtain unwarranted inducements to join at a later date. This would penalize those entities that joined an ISO/RTO earlier and dedicated resources to developing the ISO/RTO as encouraged by FERC.

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>

A license plate rate methodology for Existing Facilities results in no cost sharing of facilities even if there is a benefit across sub-regions. PG&E believes that such an approach is only appropriate if new facilities are treated in a similar manner, except for facilities that (1) increase interchange capacity between sub-regions or (2) increase intertie capacity between the expanded BAA and an adjacent BAA.

As stated in PG&E's comments dated March 31, 2016, and in response to item 2, above, PG&E has concerns with the disparity in sub-regional rates that may occur under the straw proposal and would support a proposal for the same allocation methods for the costs of Existing Facilities and New Facilities. PG&E understands that such a proposition may be an impediment to new PTOs joining the CAISO, but PG&E's concern is based in part on the risk of significant additional costs being allocated to PG&E's customers if the remaining PacifiCorp Gateway segments are built. (Though, as discussed below, the exact magnitude of the cost shift is impossible to determine given the undefined cost allocation methodology.) PG&E understands the rationale for not allocating costs of the existing CAISO system to new PTOs. Given the CAISO's position, PG&E has to be even more diligent in scrutinizing all other costs because the proposal may result in an even more unlevel playing field for existing CAISO customers.

For example, since the CAISO commenced operation, PTOs have forecasted and received significant wheeling access charge revenues from non-PTOs utilizing the CAISO grid. But the current straw proposal threatens to eliminate or significantly reduce those revenues, imposing more costs on the customers of current PTOs. The costs of the Existing Facilities have always been partially offset by additional revenues from wheeling access charges. Wheeling access charge revenues are applied to a PTO's Transmission Revenue Balancing Adjustment Account (TRBAA), thereby reducing the PTO's TAC. But under the CAISO's proposal, new PTOs will no longer pay wheeling access charges. With the loss of the expected wheeling revenue, the existing PTOs' customers will in fact be paying ***more*** for Existing Facilities under the proposal than they do currently. This impact from the loss of wheeling on the TAC rate may be significant: PG&E's wheeling revenue generally ranges from $90-$120 million/year.

In fact, the amount of lost wheeling revenue may be even higher than historical levels. As the CAISO's studies show, much of the benefit of grid expansion accruing to new PTOs is access to lower cost over-generation in California. If a non-PTO entity does not join the CAISO, the non-PTO would pay wheeling access charges to access the over-generation, increasing expected wheeling access charge revenues – and reducing the existing PTOs' TAC even further. In contrast, under the CAISO proposal, a new PTO would benefit from accessing the existing CAISO grid but would only pay the costs of its own existing facilities, and only share in the costs of new transmission development deemed to have region-wide benefits.

One possible way to offset the loss of the wheeling revenues is to impose a "surcharge" on a PTO's schedules that use another sub-region's grid. Without some compensation for the loss of wheeling revenues, the existing PTOs' TAC rates will increase, even without considering the impacts of shared costs for New Facilities.

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>

PG&E does not object to structure of the two-step process, but PG&E does have concerns about the criteria used in the second step. In the revised straw proposal, CAISO has updated the screening criteria for policy or economic projects eligible for cost allocation. According to the revised straw proposal, a “new” facility will be considered for regional cost allocation if at least one of the following criteria is met: (a) rated > 200 kV, (b) interconnects two or more sub-regions or upgrades an existing interconnection (regardless of voltage level), or (c) creates a new or upgrades an existing intertie with a BAA adjacent to the expanded ISO BAA (regardless of voltage level).

As discussed above, PG&E disagrees with the screening criteria, which are not consistent with CAISO’s proposed cost allocation methodology for Existing Facilities and will not help close the major gap between the current CAISO TAC and the TAC of other sub-regions that may join the expanded CAISO (*e.g.*, $4/MWh for PacifiCorp vs. $11/MWh for the CAISO, today).

PG&E continues to recommend that the CAISO consider an alternative TAC methodology that adopts the straw proposal’s treatment of New Facilities but eliminates the voltage criterion. Specifically PG&E urges the CAISO to limit the facilities whose costs may be shared across the entire expanded ISO Region to those that (1) connect two or more sub-regions or upgrade an existing interconnection, regardless of voltage level; or (2) create a new or upgrade an existing intertie with a BAA adjacent to the expanded ISO, regardless of voltage level.

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>

PG&E has no comment at this time except to observe that the straw proposal should also address the situation where an identified reliability project need affects more than one sub-region.

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>

An expanded CAISO footprint needs a cogent and fair methodology to determine whether to build regional economic and policy facilities and the cost allocation for these New Facilities. This methodology should be transparent and inclusive of input from all relevant stakeholders.

The CAISO has deferred establishing a cost allocation mechanism for New Facilities to a future time, suggesting that a body of state regulators would approve new economic or policy (including those combined with reliability goals) facilities and determine cost allocation. The proposal fails, however, to provide any substantive details on how the body of state regulators would be selected, would vote or reach consensus, would approve projects, or would allocate costs. Moreover, there is no assurance that stakeholders would have the opportunity to provide input into the development of these critical procedures. At the June 1st stakeholder meeting, the CAISO stated that it might provide the new state regulatory body with "guidelines," but there have been no specifics on the substance of those guidelines or whether the body of state regulators would be bound by them.

Moreover, PG&E is concerned about a process in which a body of state regulators would approve new facilities to be built and determine cost allocation. The body of state regulators would have to submit to FERC oversight of its decisions. To satisfy FERC's jurisdiction over electric transmission planning, the development, creation, and procedures of the body of state regulators would be subject to FERC review, including the bylaws, internal procedures, methodology, and decisions. PG&E agrees that states should have a major role in forming an independent CAISO governance model, but the CAISO's proposal to defer to a body of state regulators on an ongoing basis does not appear to be reasonable or workable. The CAISO appears to be exploring a governance process for transmission planning and TAC allocation that is not independent and likely unworkable due to state interests on a project-by project basis.

PG&E and other stakeholders cannot evaluate the overall TAC proposal with no indication on how cost allocation would function. PG&E cannot assess the effect of this proposal on its customers and the rates that they would pay. It is impossible to fairly evaluate the reasonableness of the CAISO's TAC proposal without these critical details.

To allow stakeholders to assess the CAISO's Revised TAC Proposal and provide meaningful feedback, CAISO must provide more detail and allow for additional input on the treatment of New Facilities, including delineating the decision-making process the body of state regulators charged with determining cost allocation will apply. It is premature to reach a decision on the TAC proposal without that information. In order to allow stakeholders to adequately assess the TAC methodology, the CAISO should issue a Second Revised Straw

Proposal that provides the necessary details of the body making project determination and cost allocation decisions.

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.

This approach creates preferential treatment for new PTOs. Projects in the CAISO's current footprint are subject to competition because costs are allocated to more than one PTO under the CAISO's current TAC provisions. But, in the expanded ISO, a new sub-region may be exempt from competitive solicitation if costs are allocated to only one PTO. While exempting a project from competitive solicitation if costs are allocated to only one PTO may be consistent with FERC Order 1000, this provision exacerbates the discrepancies between the treatment of the existing CAISO grid and new sub-regions. This is especially problematic given the straw proposal provision that would allow a new PTO to choose whether it will join an existing sub-region or create its own sub-region. This proposal could undermine the structure of the CAISO by encouraging non- PTOs to seek to form new sub-regions to obtain the favorable treatment extended only to later-joining PTOs.

Also, the definition of a New Facility would also include upgrades to existing sub-regional interconnections or interties, which creates a risk of a re-conductoring project within an existing right-of-way being designated for competitive solicitation. The CAISO should clarify that only the new regional ***greenfield*** facilities should be eligible for competitive solicitation, consistent with the CAISO's current TPP.

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.

Please refer to PG&E's March 31, 2016 comments on the CAISO's Straw Proposal, Question 9.

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.

The CAISO's proposal regarding the development of a regional wheeling access charge attempts to mirror the current methodology in that it suggests a weighted rate that is in part load-ratio based. However, while the current TAC methodology returns 100% of the wheeling revenue to the PTO owners of a particular takeout point, the CAISO has stated that under the new TAC proposal the revenue will be allocated on a sub-regional basis. The CAISO has not adequately supported this proposed change to the WAC calculation and cost allocation. PG&E believes that the WAC rate at a particular take-out point should continue to be equivalent to the TAC rate paid by the PTO that owns the take-out point and that revenue generated at that take-out point be allocated to the take-out point owning PTO.

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.

Please refer to PG&E's March 31, 2016 comments on the CAISO's Straw Proposal, Question 7.

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.

PG&E does not currently object to a proposal to recalculate benefit shares every five years or whenever a new PTO joins the expanded ISO.

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

(a) Similarly to the CAISO's postponement of cost allocation methodologies, the CAISO has postponed development of the expanded Transmission Planning Process (TPP) and generation interconnection procedures until a future separate stakeholder process. Because the CAISO seeks approval of the Revised Proposal before this and other critical issues are resolved, there is still uncertainty regarding: (1) how the transmission projects would be approved; (2)

how the benefits from these New Facilities would be ascertained; (3) and how the costs would be allocated. To ensure a fair and equitable revised TAC, there first needs to be agreement on the role and procedures of the state regulatory body and the expanded TPP.

(b) The CAISO has suggested that if a project is approved as a combined reliability and economic/policy project, then the project would be treated entirely as an economic/policy project for cost allocation purposes. PG&E disagrees with this approach. If a project is justified both by a sub-region's reliability need and a policy need or economic benefits, the CAISO should develop a methodology for appropriate project cost allocation to the sub-region triggering the reliability project, with allocation of remaining costs based on an economic benefits test.