Comments of Powerex Corp. on
Transmission Access Charge Options Straw Proposal

Submitted by	Company	Date Submitted
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Powerex appreciates the opportunity to submit comments on CAISO's February 10, 2016 Transmission Access Charge ("TAC") Options for Integrating New Participating Transmission Owners Straw Proposal ("Straw Proposal"). In the Straw Proposal, CAISO sets out an initial framework for recovering the cost of transmission facilities in the event that PacifiCorp (or other transmission providers located outside of the current CAISO balancing authority area ("BAA")) joins the CAISO as a Participating Transmission Owner ("PTO"). Under this proposed framework:

- The costs of transmission facilities that are already in service or under development at the time that a new PTO joins the CAISO will be recovered on a sub-regional, "license plate" basis. In other words, the costs of existing transmission facilities on the PTO's system will be recovered from load and exports from the PTO's region. Similarly, the costs of existing transmission facilities within the pre-existing CAISO footprint will be recovered from load and exports from the current CAISO BAA.
- The costs of new "regional" transmission facilities approved through the transmission planning process for the expanded RTO and meeting certain threshold criteria would be allocated across the RTO footprint based on an assessment of the benefits derived from each sub-region.
- The method for assessing benefits and assigning the costs of new regional transmission facilities to each sub-region would vary upon whether the project was developed to meet reliability, economic, or public policy needs.

Powerex supports CAISO's proposal to maintain separate sub-regional rates for recovering the costs of existing transmission facilities within the existing CAISO footprint and the footprint of those transmission providers that elect to integrate into the CAISO as PTOs. In particular, CAISO's proposed use of sub-regional rates will avoid subjecting the customers of PacifiCorp to the transmission rate shock that would have resulted from adoption of a single rate reflecting the combined costs of the CAISO and PacifiCorp systems.

Powerex submits these comments to address two discrete aspects of CAISO's Straw Proposal. In particular, Powerex requests that CAISO:

- Provide further clarification regarding the process that will be used for studying and assigning the costs of new regional transmission facilities; and

- Convene a separate stakeholder process to further consider the issue of eliminating the TAC for certain classes of economic export or other storage-like activity.

A. Transmission Cost Allocation

Powerex generally supports CAISO's proposal to assign the costs of new transmission facilities based on an analysis of the benefits derived from each sub-region within the expanded CAISO footprint. Assigning the costs of new transmission facilities on this basis will help ensure consistency with cost causation principles, which require that the costs of transmission facilities allocated to customers be at least roughly commensurate with the benefits received by those customers.

At the same time, it is important to recognize that transmission project cost allocation is not easily reduced to a single methodology that can be applied in formulaic fashion. To the contrary, the assessment of benefits and assignment of costs often involve the exercise of judgment based on numerous facts and assumptions. Even if CAISO adopts a single methodology for evaluating the benefits for a particular class of projects, as CAISO proposes here, the estimate of benefits derived by a particular sub-region from a transmission facility can vary significantly based upon the manner in which that methodology is applied, including the assumptions employed in studying the facility.[1]

For that reason, Powerex believes that it is critical that any procedural framework used for studying the benefits and assigning the costs of new facilities include meaningful safeguards that prevent stakeholders in each sub-region from being assigned costs for new transmission facilities from which they derive only trivial or speculative benefits. Powerex requests that CAISO further develop and clarify how it proposes to ensure ratepayers are protected against such outcomes, including clarifying:

- What procedural protections, if any, will be in place to allow stakeholders to participate meaningfully in the process of studying and assigning the costs of a new transmission facility?

- What recourse or remedy, if any, will be available to a sub-region in the event that it believes that it is being assigned costs for a facility that does not confer material benefits on the sub-region (or if the costs are not commensurate with benefits)?

- Under what circumstances, if any, will a sub-region be permitted to "veto" moving forward with a new regional transmission facility if it believes that its assigned costs will exceed the benefits received from the facility at issue?

[1] *See, e.g., Delaware Pub. Serv. Comm'n v. PJM Interconnection, L.L.C.*, Complaint of the Delaware Public Service Commission and Maryland Public Service Commission, Docket No. EL15-95-000 at 3 (filed Aug. 28, 2015) (explaining that application of DFAX methodology had resulted in 90 percent of the costs of a project being assigned to a particular zone whereas other analyses indicated that the zone would only receive 10 percent of the benefits).

B. Elimination Of The TAC On Exports

In the Straw Proposal, CAISO states that it does not plan to consider any possible changes to the allocation of TAC to exports within the context of this current stakeholder initiative. While the Straw Proposal recognizes that the issue of modifying the application of TAC to exports "was raised last year in the context of possible market incentives to help relieve excess supply or over-generation," it declares, without explanation, that this issue "is no longer being considered."[2]

The potential benefits to CAISO of refining the application of the TAC have been raised in a number of different stakeholder proceedings. For instance, at an October 6, 2015 workshop on intertie liquidity, CAISO stated that it planned to consider whether limiting application of the TAC and uplift charges to exports would help address the lack of liquidity that CAISO has experienced at its interties in the Fifteen Minute Market.[3] Similarly, in a December 11, 2015 Straw Proposal issued as part of Phase 2 of the Flexible Resource Adequacy Criteria and Must Offer Obligation initiative, CAISO stated that it was "exploring the potential for exports to provide flexible capacity" and sought comment on "whether exports providing flexible Resource Adequacy capacity should [be] subject to any exemption from or reduction to measured demand charges, including wheeling access charges."[4]

Notwithstanding the fact that Powerex and other stakeholders expressed support for further considering this issue,[5] CAISO has not provided any opportunity for meaningful discussion of the issue. And, based on the Straw Proposal, it now appears that CAISO does not plan to do so in the foreseeable future. Powerex believes that this issue warrants thorough consideration, and that CAISO's reasoning for not pursuing the issue should be more fully explained to stakeholders.

As Powerex has more fully explained in its comments in the aforementioned stakeholder proceedings,[6] the TAC and other "measured demand" charges act as incremental hurdle rates

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[2] Straw Proposal at 6.

[3] *See* Cal. Indep. Sys. Operator Corp., FMM Import & Export Liquidity at 6 (Oct. 6, 2015), *available at* http://www.caiso.com/Documents/ISOPresentation_Import-ExportLiquidity_15-MinuteMarket_Workshop_Oct6_2015.pdf.

[4] Cal. Indep. Sys. Operator Corp., Flexible Resource Adequacy Criteria and Must Offer Obligation Phase 2: Straw Proposal at 12, 16 (Dec. 11, 2015), *available at* http://www.caiso.com/Documents/StrawProposal-FlexibleResourceAdequacyCriteria-MustOfferObligationPhase2.pdf.

[5] *See, e.g.,* Comments of Calpine Corp. on Flexible Resource Adequacy Criteria and Must Offer Obligation – Phase 2 at 2 (filed Jan. 6, 2016), *available at* http://www.caiso.com/Documents/CalpineComments-FlexibleResourceAdequacyCriteria-MustOfferObligation-StrawProposal.pdf.

[6] *See* Comments of Powerex Corp. on Flexible Resource Adequacy Criteria and Must Offer Obligation – Phase 2 Straw Proposal at 18-21 (Jan. 6, 2015), *available at* http://www.caiso.com/Documents/PowerexComments-FlexibleResourceAdequacyCriteria-MustOfferObligation-StrawProposal.pdf; Comments of Powerex Corp. on October 6, 2015 Intertie

that impede efficient economic displacement and storage activities. Removing these hurdle rates has the potential to confer significant economic and efficiency benefits, including facilitating the use of storage-like services and economic exports during low-priced periods, which can help alleviate oversupply conditions and avoid the need to curtail renewable output. While the CAISO has taken steps to eliminate incremental hurdle rates on economic displacement transactions in the Energy Imbalance Market ("EIM"), this does nothing to increase CAISO's efficient use of significant flexible capacity located in areas that remain outside of the EIM.

Given that this issue has been raised in a number of separate proceedings as well as the significant potential benefits associated with making changes to the application of TAC and measured demand charges, it is unclear to Powerex why CAISO has elected to drop this issue without further discussion. While Powerex recognizes that CAISO may believe that this is not the appropriate proceeding to consider refining the application of the TAC and measured demand charges, Powerex respectfully requests that the CAISO convene a separate stakeholder proceeding to follow-through on its commitment to consider this issue.

Liquidity Workshop (Oct. 20, 2015), *available at* https://www.caiso.com/Documents/PowerexComments-Import-ExportLiquidityinFMM-Oct6-2015.pdf.