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

Submitted by	Company	Date Submitted
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Powerex appreciates the opportunity to submit comments on CAISO's May 20, 2016 Revised Straw Proposal on Transmission Access Charge Options for Integrating New Participating Transmission Owners ("Revised Straw Proposal").

In the Revised Straw Proposal, CAISO sets out a modified framework for allocating and recovering the cost of transmission facilities in the event that PacifiCorp (or other external transmission providers) integrates into the CAISO as a Participating Transmission Owner ("PTO"). In contrast to earlier incarnations of CAISO's proposal, the Revised Straw Proposal sets out proposed changes to CAISO's existing wheeling access charge ("WAC"), which currently is applied to exports from the CAISO balancing authority area ("BAA"). Under CAISO's proposal, CAISO would create a single WAC rate for all exports on any high voltage transmission facilities (*i.e.,* greater than 200 kV) connecting the expanded CAISO BAA with an adjacent BAA. The WAC would reflect a load-weighted average of all the sub-regional TAC rates within the expanded CAISO footprint plus any region-wide postage stamp TAC rate, if such a regional rate is created.

Powerex supports CAISO's decision to explore whether changes to the existing WAC structure would be prudent given the anticipated expansion of the CAISO market. Powerex believes, however, that the current WAC structure must be significantly improved ***to avoid imposing new hurdle rates that impede beneficial interregional trade and to avoid creating new market inefficiencies***.

As detailed in Powerex's previous stakeholder comments,[1] and as recognized by both CAISO and FERC,[2] applying a WAC or other measured demand charges to exports can pose a significant impediment to efficient trade. Such hurdle rates deter economic displacement activity that can help CAISO and others in the region meet the challenges of renewable

[1] *See, e.g.,* Comments of Powerex Corp. on Flexible Resource Adequacy Criteria and Must Offer Obligation – Phase 2 Straw Proposal at 18-21 (Jan. 6, 2016) ("Powerex FRAC-MOO Comments"), *available at* http://www.caiso.com/Documents/PowerexComments-FlexibleResourceAdequacyCriteria-MustOfferObligation-StrawProposal.pdf; Comments of Powerex Corp. on Clean Energy and Pollution Reduction Act Senate Bill 350 Study Scope, Assumptions, and Methodology at 6-7 (Feb. 19, 2016), *available at* http://www.caiso.com/Documents/PowerexComments-CleanEnergy-PollutionReductionActSenateBill350Study-Feb8_2016.pdf.

[2] *Cal. Indep. Sys. Operator Corp.*, 147 FERC ¶ 61,231 at P 156 (accepting CAISO proposal to waive the WAC for transfers to EIM BAAs on the basis that it would promote efficient and competitive markets), *order on reh'g*, 149 FERC ¶ 61,058 (2014).

integration, including increased exports during periods when market prices are low to alleviate oversupply conditions and avoid renewable curtailment.[3]

Powerex believes that extending the WAC framework that currently applies to exports from CAISO to an expanded CAISO footprint could be particularly detrimental to efficiency given the existing transmission charges that actually apply in practice in the PacifiCorp BAA, as well as other western BAAs that might join. Critically, the majority of day-ahead and hour-ahead interchange transactions into, out of, or through the PacifiCorp transmission system ***do not currently face incremental hurdle rates***. This is because the vast majority of such deliveries occur on transmission rights that are purchased under the Open Access Transmission Tariff ("OATT") framework for durations in excess of one day (*i.e.,* weekly, monthly, yearly, or multi-year service), making the cost of such rights irrelevant to the decision to export power from the PacifiCorp BAA on a day-ahead and real-time basis. In fact, based on a preliminary analysis of publicly available data on PacifiCorp's Open Access Same-Time Information System, it appears that the overwhelming majority of all transmission service on the PacifiCorp system is acquired ahead of the day-ahead timeframe and, as a result, day-ahead and real-time deliveries on these rights are not exposed to incremental hurdle rates.

Under CAISO's proposal, however, all transactions leaving the expanded CAISO BAA (including PacifiCorp's current BAA) would now be assessed a WAC (which would apply if and when exports occur). Powerex recognizes that, at one level, it could be argued that the proposed WAC merely represents a transition from one framework for funding PacifiCorp's transmission system to another framework, with no material effect on the underlying export transactions. For example, an entity that relies on exports from the PacifiCorp BAA to serve firm load in another BAA currently pays for use of the PacifiCorp transmission system through the purchase of Long-Term Firm transmission service under PacifiCorp's OATT. These charges would be replaced by a WAC under CAISO's proposal, thus ensuring that such export activity continues to contribute to the annual revenue requirement of the PacifiCorp transmission system. In the case of exports relied upon to serve firm load, the difference between the cost of reserving Long-Term Firm service under the OATT and the cost of paying the WAC is unlikely to materially affect such transactions.

But for exports that are undertaken for economic displacement purposes, the change is likely to significantly affect the efficient dispatch of exports from the PacifiCorp system. Such economic exports occur only if the incremental cost of the exported energy, including transmission charges, is less than the cost of alternative supply available from other BAAs. In this scenario, replacing a sunk investment in transmission service under the OATT framework with a WAC that applies to every exported MWh can render otherwise economic transactions uneconomic, and hence prevent them from taking place. This is because a WAC on exports is a charge that is faced if, and only if, the export occurs. Market participants can thus avoid the WAC by not conducting the export, which they will rationally do when the WAC exceeds the value of the economic displacement opportunity.

[3] Powerex FRAC-MOO Comments at 18-20.

In Powerex's view, the efficiency of economic displacement trading activity between PacifiCorp and its neighbors outside of the CAISO will be materially impeded with the introduction of a WAC that applies to all export activity. This is evidenced by CAISO's experience under its current practice of applying the WAC and other demand charges to all exports, which has resulted in a lack of day-ahead and real-time export bids. Ultimately, the benefits of more efficient dispatch, which is the expected result of the removal of hurdle rates between PacifiCorp and CAISO, may be offset by the cost of having less efficient trade between PacifiCorp and other BAAs in the west.

Evaluation of regional TAC options presents an opportunity to refine the existing structure and make modifications that ensure that export transactions make an appropriate contribution toward funding the CAISO transmission system while maximizing opportunities for mutually beneficial and efficient transactions.

Powerex believes the WAC framework can be significantly improved by applying the WAC only to exports relied upon to meet firm load while waiving the charge for exports for economic displacement purposes. Powerex outlined a similar concept in its comments in CAISO's FRAC-MOO stakeholder proceeding.[4] Specifically, Powerex recommended that CAISO exempt exports from WAC and uplift charges, if and only if, the exports are "flexible"—they permit the CAISO to economically change the delivery amount based on 15-minute economic bids submitted in the real-time market.

Powerex reiterates that it does *not* recommend simply exempting all exports from paying for the use of transmission facilities within the expanded CAISO footprint. However, Powerex believes that a more tailored application of WAC and measured demand charges—which would not apply such charges to exports for economic displacement activities—has the potential to increase external resource participation in the CAISO markets and to eliminate barriers to market activity that can assist CAISO in meeting the challenges of renewable integration.

[4] *Id.*