Stakeholder Comments Template

Transmission Access Charge Options

December 6, 2016 Draft Regional Framework Proposal

Submitted by	Company	Date Submitted
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The ISO provides this template for submission of stakeholder comments on the December 6, 2016 draft regional framework proposal and the discussion at the December 13 stakeholder meeting. The proposal, presentations and other information related to this initiative may be found at:
http://www.caiso.com/informed/Pages/StakeholderProcesses/TransmissionAccessChargeOptions.aspx

Upon completion of this template please submit it to initiativecomments@caiso.com. Submissions are requested by close of business on **January 11, 2017.**

NOTE: Items highlighted in yellow below refer to elements of the present proposal that have not changed from the prior proposal, the second revised straw proposal posted on September 28. If your organization's position on one of these elements has not changed from the comments you submitted on the September 28 proposal, you may simply refer to your prior comments in response to that item and the CAISO will take your prior comments as reflecting your current position.

SCE appreciates the opportunity to provide comments on the CAISO Regional Transmission Access Charge (TAC) draft framework[1]. Developing a proposal that results in changes to the allocation of transmission costs to new Participating Transmission Owners (PTO) members of the CAISO, and other CAISO transmission users, is challenging and SCE appreciates the CAISO's efforts to develop a proposal. It is SCE's understanding that there is no plan to bring a proposal to the CAISO Governing Board for approval, but it will be available as the CAISO's current thinking on TAC. The framework may be approved or modified in the future should the regional expansion process move forward. The current framework is well-conceived and has a good general foundation and SCE appreciates that the CAISO addressed many of SCE's concerns from the prior drafts. However, there are still remaining uses, such as the treatment of congestion revenue rights and the allocation of policy projects, which still warrant continued discussion before adopting in any future approval process.

Draft Regional Framework Proposal

1. The proposal defines "new facilities" as facilities that are planned and approved under an integrated TPP that will plan new transmission infrastructure for the entire expanded BAA and will commence upon integration of the first new PTO. Please comment on the CAISO's proposal for the definition of "new facilities."

The current proposal defines new transmission facilities, which may be subject to regional cost allocation, as those approved through the CAISO's expanded regional transmission planning process after the first transmission owner joins and creates the expanded ISO.[2] Existing facilities are any projects that do not meet the definition of new facility. SCE supports this treatment, as it provides a clear distinction of what is new and what is existing transmission.

2. The proposal previously defined "existing facilities" as transmission facilities that are in service or have been approved in separate planning processes for the current CAISO BAA and the new PTO's area at the time the new PTO is fully integrated into the

[1] Proposal dated December 6, 2016, http://www.caiso.com/Documents/DraftRegionalFrameworkProposal-TransmissionAccessChargeOptions.pdf

[2] Proposal page 6.

expanded BAA. Simply stated, all transmission facilities that are included in the controlled grid for the expanded BAA and are not "new" facilities will be considered "existing" facilities. Please comment on the CAISO's proposal for the definition of "existing facilities."

SCE supports the clearer definition of existing. Please see comments to question 1.

3. The CAISO provided further details on the determination of whether a candidate PTO should be deemed "integrated" within an existing sub-region rather than designated a new sub-region. The CAISO proposed that the expanded ISO would work with the candidate PTO and other stakeholders to apply criteria specified in the tariff (listed in the December 6 proposal) for making this determination. The CAISO would then present its recommendation to the Board of Governors as part of the new PTO application process, and upon Board approval would file for FERC approval of the proposal to treat the new PTO as either a new sub-region or part of an existing sub-region. Please comment on this element of the proposal.

SCE supports the removal of the option allowing new PTOs to decide whether to create their own sub-region or join a neighboring sub-region; this removes the opportunity for transmission owners to unfairly avoid or shift costs. The case to include an embedded transmission owner which is dependent on transmission facilities in an existing sub-region is clear, since they currently pay for transmission service and they should continue to pay for service on the same transmission assets in the future.

The example of "integrated" or electrically-connected PTO is less clear, which is acknowledged in the proposal. The current framework provides some factors to review in a stakeholder process whether a new PTO would be its own sub-region or incorporated into an existing sub-region.[3] The commitment to engage impacted stakeholders to provide input on the potential assignment of a new PTO to a sub-region of will allow for an open process to review the various impacts on the options. If the issue remains unresolved at the stakeholder level, then parties could file protests at FERC. This is reasonable as each case may have different circumstances which dictate different outcomes.

[3] Framework, page 10.

4. Consistent with the second revised straw proposal, the CAISO proposes to recover the costs of existing facilities through sub-regional “license plate” TAC rates. The CAISO has proposed that each sub-region’s existing facilities would comprise “legacy” facilities for which subsequent new sub-regions have no cost responsibility. Please comment on this aspect of the proposal.

It is SCE’s understanding that attempting to create a single postage stamp TAC rate for the entire expanded BAA would create significant cost increases for parties such as PacifiCorp’s customers and would be a barrier for new entrants. Therefore, SCE does not oppose the creation of sub-regions and license plate rates for each sub-region.

5. The CAISO proposes to use the Transmission Economic Assessment Methodology (TEAM) to determine economic benefits to the expanded ISO region as a whole and to each sub-region. Please comment on the use of the TEAM methodology to determine sub-regional shares of economic benefits.

For economic benefit cost allocation between sub-regions, the CAISO proposes to use the existing Transmission Economic Assessment Methodology (TEAM) to measure sub-region economic benefits. The TEAM methodology is a measurement of electric consumer benefits and does not examine macroeconomic benefits to the sub-regions, such as income, economic growth, and job creation. The current TEAM is appropriate as a first step to determine whether or not a project should get built, as it measures if there are positive benefits for electric consumers. However, the macroeconomic benefits for each sub-region should also be considered for determining regional cost allocation. Impacts to the local economy in terms of job growth and resulting income impacts are substantial factors that should be considered when determining regional cost allocation, but they are not considered with the existing TEAM. This second step will recognize that benefits can accrue to a sub-region both through energy prices and economic growth.

Moreover, policy projects in a multistate environment create additional challenges. It is not clear to SCE how projects will be proposed, approved, how costs will be allocated among entities, or how changes in State polices will be address (per above). SCE encourages the CAISO to dedicate additional time to discuss the proposed process, include any need for changes in current processes, for policy projects in the context of a multistate ISO.

6. The CAISO assumes that a new integrated TPP for the expanded ISO will retain today's TPP structure. Please comment on the structure of the current three phase TPP process.

SCE supports the current three phase TPP.

7. The CAISO proposes to allocate the entire cost to a sub-region if a reliability project within that sub-region only addresses a reliability need of that sub-region or if a policy-driven project within that sub-region is approved only to support the policy mandates for that sub-region. Please comment on this element of the proposal.

SCE supports this element of the proposal, except if other regions adopt policies in the future that benefit from the project, then the cost allocation should be reviewed so that parties benefiting from transmission contribute to the cost recovery. Please see the response listed in question 21.

8. The CAISO proposes to allocate the cost of an economic project, for which the economic benefits must exceed its cost, to sub-regions in proportion to each sub-region's economic benefits. Please comment on this element of the proposal.

SCE supports this element of the proposal. However, SCE recommends modification to the TEAM to support a regional cost allocation. In addition, should new PTOs join the allocation should be reviewed to see how the new PTO benefits from the project. See response to question 5 and 21.

9. For a reliability project that is enhanced or replaced by a more costly project that also provides economic benefits that exceed the incremental cost above the cost of the original reliability project, the avoided cost of the original project will be allocated to the sub-region with the original reliability need, and the incremental cost will be allocated to sub-regions in proportion to each sub-region's economic benefits. Please comment on this proposal.

SCE supports this element of the proposal.

10. <u>For a policy-driven project that is enhanced or replaced by a more costly project that also provides economic benefits that exceed the incremental cost above the cost of the original policy-driven project, the avoided cost of the original project will be allocated to the sub-region with the original policy need, and the incremental cost will be allocated to sub-regions in proportion to each sub-region's economic benefits. Please comment on this proposal.</u>

SCE supports the element of the proposal to assign incremental costs based on economic benefits.

11. <u>In the December 6 proposal the CAISO introduced an approach for allocating costs more granularly than just to sub-regions for certain policy-driven projects and for the policy-driven costs of projects that provide economic benefits in addition to meeting policy needs. The proposal is based on the following principles: If a project that meets policy needs is built within a different sub-region from the state or local regulatory authorities driving the policy need, the policy-related project cost will be allocated only to the load of those regulatory authorities driving the policy need. Alternatively, if a project that meets policy needs is built within the same sub-region as the state or local regulatory authorities driving the policy need, that project is deemed to provide benefits to the entire sub-region and therefore the policy-related costs will be allocated to the sub-region as a whole rather than on a more granular basis. Please comment on these principles.</u>

SCE continues to have concerns over the CAISO's proposal to allocate the policy-related costs of policy-driven projects to states driving that policy need. This more granular approach proposed by the CAISO still presents the same issues. Once a project is built, it is available for all PTOs to use. This creates the potential for one class of customers to bear the cost for others. For example, a project that is built ostensibly to serve a state agency's policy to procure wind resources from a wind-rich area ends up being utilized by PTOs outside of that agency's jurisdiction to procure solar resources to fulfill their own policy need. The CAISO's latest proposal merely brings this issue to the sub-regional scale. In the above example, PTOs within the same sub-region can benefit without cost from another PTO's governing agency's policy projects.

Another implication of the CAISO's proposal is that the transmission access charge (TAC) within a sub-region is no longer uniform, which is contrary to the assumption that everyone within a sub-region benefits from transmission and should share in the cost. It also brings into question if sub-regions has been properly defined.

The policy for allocating the cost of policy projects needs continued refinement as there are a still unresolved issues such as:

- How to actually assign a percentage of a transmission project based upon policy needs:
  - Is it an equal percentage between sub-regions that have a policy need?
  - Or is it based upon a mega-watt hour target quantity driving a policy need. If based upon quantity then how does the likely potential for changing targets over time addressed?
- If only certain groups of customers are paying for the transmission project in a sub-region, then how are congestion revenue rights allocated between those paying for the project?
- Early vs late adopters for policy. Late adopters of the policy would have transmission access but would not pay for the transmission. This would lead to free-riding.

12. <u>Continuing with the scenario of item 10 and applying the principles above, for a policy-driven project, if the new project is built outside the sub-region where the regulatory authorities driving the policy need are located, the ISO will allocate the policy-related avoided cost to the load served under the state or local regulatory authority or authorities whose policy mandates drove the need for the original project. Please comment on this proposal.</u>

See response to question 11.

13. <u>Similarly, if the policy driver of the project was a federal policy, then for sub-regions other than the sub-region in which the project is built the ISO will allocate the associated avoided cost to the load served in each state in proportion to the state's need for the project to comply with the federal policy mandate. Please comment on this proposal.</u>

It is premature to assume the cost of transmission due to a federal policy should be allocated on load served in each state. It is possible that some states will have already achieved the standards in the federal policy and do not need the additional transmission, while other states will have need for the project.

14. For a policy-driven project that supports policy mandates of more than one sub-region, or that is built in one sub-region to meet the policy mandates of another sub-region, the ISO will calculate the economic benefits of the project and allocate costs to each sub-region in proportion to the sub-region's benefits, but only up to the point where each sub-region's cost share equals the sub-region's benefits. Any additional cost of the project will be allocated to the load served under the state or local regulatory authorities within each sub-region, other than the sub-region in which the project is built, whose policy mandates drove the need for the project. Please comment on this proposal.

See response to questions 11 and 13.

15. Continuing with the scenario of a policy-driven project that supports policy mandates of more than one sub-region, if the policy driver of the project was a federal policy, then for sub-regions other than the sub-region in which the project is built the ISO will allocate the project costs to the load served in each state in proportion to the state's need for the project to comply with the federal policy mandate. In such cases, if the project also supports policy mandates within the same sub-region in which the project is built, the ISO will allocate that sub-region's share of the policy-driven costs to the entire sub-region as part of the sub-regional TAC. Please comment on this proposal.

See response to questions 11 and 13.

16. Competitive solicitation to select the entity to build and own a new transmission project would apply to all new transmission projects rated 200 kV or greater, of any category, with exceptions only as stated in ISO tariff section 24.5.1 Please comment on this proposal.

SCE supports the proposal to subject all new facilities over 200 kV to cost allocation analyses based upon benefits and competition. The 200 kV threshold has worked well as a division between High Voltage (which are more regional in nature) and Low Voltage (which are more local in nature). This threshold should also work well for an expanded ISO. The document should clarify that the 200 kV threshold represents a convenient screen for the majority of transmission projects to classify them as either regional or local. In the event there is a >200 kV project that does not offer significant regional benefits, then the benefits test would have their costs allocated to the sub-region.

SCE supports the CAISO's proposal that all regional facilities shall be subject to competitive solicitation. Doing so would meet the requirements of FERC Order 1000 and create a level playing field between sub-regions with a single transmission owner and sub-regions with multiple owners.

17. The proposal indicated that the ISO would establish a formula for a single export rate (export access charge or "EAC") for the expanded region, and under the proposal, non-PTO entities would pay the same sub-regional TAC rate paid by other loads in the same sub-region. Please comment on this proposal.

SCE supports a single High-voltage[4] export access charge. This has the advantage of not creating market and system distortions by external parties attempting to exploit locations with cheaper transmission charges. The alternative of charging a sub-region based export rate could create congestion as parties attempt to take advantage of nodes with the lower transmission cost. Such congestion would be solely due to rate design which would create an improper price signal to expand transmission at that location. Instead, such congestion should be resolved by a proper rate design as opposed to transmission investment.

18. The EAC would be calculated as the sum of all high-voltage transmission revenue requirements (TRRs) of all PTOs within the expanded BAA divided by the sum of the projected internal load for the entire expanded BAA. Please comment on this element of the proposal.

SCE supports this element of the proposal.

19. The CAISO proposes to allocate shares of the EAC revenues to each sub-region in proportion to their total high-voltage TRR. Please comment.

The proposal has the allocation revenue of the export charge allocated to transmission owners based upon their transmission revenue requirement.[5] This is a

[4] High voltage would be above 200 Kv. If the export is at a low voltage interconnection, then the total charge would be the export access charge and the specific PTO's low voltage rate.
[5] Proposal page 16.

change from the prior proposal that had revenue allocated to owners of the interconnection points of exports; as is currently done in the existing CAISO. As the ISO grows, the export boundaries will change. It is possible that there will no longer be exports from existing California scheduling points. However, the California transmission system is still being utilized to support those exports, and therefore California transmission owners should be entitled to export revenues. This is not solely a California PTO concern; it could occur elsewhere as the ISO expands.

SCE believes that since load pays for the transmission facilities, the allocation of export revenue should be limited to only load-serving PTOs. Alternatively, export revenues could be allocated to all PTOs, as long as those without load were required to return their allocation in their rates. For example, their share of export revenue would be credited to their Transmission Revenue Balance Account. Furthermore, it should only be credited to high-voltage transmission revenue requirement or rates.

With the above clarifications on load receiving the export revenue, SCE supports the allocation of revenues based upon the transmission revenue requirement.

20. <u>The CAISO proposes to break down each sub-region's share of the EAC revenues into portions to be allocated to the sub-regional TAC and each state or local regulatory authority whose load is paying a share of the high-voltage TRR for policy-driven transmission whose costs are not included in the sub-regional TAC. These shares of the sub-region's EAC revenue would be in the same proportion as the corresponding shares of the sub-regional high-voltage TRR. This element of the proposal would not affect the allocation of EAC revenues between sub-regions. Please comment on this proposal.</u>

SCE supports this element of the proposal, please see the response to question 19.

21. <u>Please provide any additional comments on topics that were not covered in the questions above.</u>

    a. **Any transmission project classified as new should be allocated to new members if they receive benefits**

    The CAISO proposes to remove the requirement that subsequent transmission owners who join the expanded ISO be subject to cost allocation of any transmission facility classified as new.[6] This would create various categories of what is considered new and complicate cost allocation. As the CAISO acknowledged, this would also create an incentive for potential members to delay joining the ISO until after a large transmission project is approved or built so they could avoid the cost allocation but receive the project's benefits.

SCE supports the prior proposal that new PTOs would immediately be responsible for the costs of prior transmission projects classified as new facilities even if they were built prior to that PTO joining. This treatment is appropriate as they would receive their share of costs commensurate to the benefits they receive. This reduces the incentive for a utility to delay joining until after a large new transmission project is completed and avoid paying a fair share. By joining earlier, the rate impact is likely to be moderate because few new transmission projects would have been completed when the expanded ISO is created. If significant rate shock would occur, then a phase-in over a limited time period could mitigate concerns. However, this treatment should be done on a limited basis and only when it can be documented that the rate impact is significant.

In a related issue, the CAISO now proposes to allocate costs of a new transmission project only once.[7] This would create another incentive to join later rather than sooner when large transmission projects are being considered. In the case of policy projects, this allows free-ridership, shifting cost to those that are first-adopters. One state should not be responsible to pick-up all the costs of a policy project that enable other states to adopt similar policies at a later date without paying any share of the transmission cost. As described above, this is unjustified because if the new member receives benefits, they should be assigned costs commensurate with the benefits received.

Therefore, SCE recommends that any time a new PTO joins the CAISO or a state adopts a new policy (which would impact transmission need or use), the allocation of transmission investment (classified as new) should be re-evaluated.

[6] Proposal page 15
[7] Proposal page 14

This would avoid parties delaying joining the CAISO and/or free-riding on first-adopters.

b. The issue of eligibility to receive congestion revenue rights needs to be addressed in the proposal

The proposal results in one set of customers (i.e. a specific sub-region or certain customers of a PTO within a sub-region) assigned transmission costs while other customers are not assigned the cost. However, there is no restriction on the use of that transmission project. Once built transmission is available to everyone. Should congestion occur, who is entitled to the congestion right revenues? Are all customers eligible to receive congestion revenue or only those assigned the cost of a project? This issue is magnified with the one and done cost allocation aspect of the proposal.