Stakeholder Comments Template

Transmission Access Charge Options

May 20, 2016 Revised Straw Proposal

Submitted by	Company	Date Submitted
Paul Nelson Eric Little	Southern California Edison	June 10, 2016

SCE appreciates the opportunity to provide comments on the CAISO Transmission Access Charge (TAC) straw proposal[1]. Developing a proposal that results in changes to the allocation of transmission costs to new Participating Transmission Owner ("PTO") members of the CAISO, and other CAISO transmission users, is both difficult and challenging and SCE appreciates the CAISO's efforts to develop a proposal. The current straw proposal is well-conceived and has a good general foundation. However, it also has several significant flaws that need to be remedied. SCE believes they can be corrected using the general framework proposed by the CAISO and building upon the already-established and FERC-approved current structure of the CAISO TAC. Further, the CAISO should develop a proposal with sufficient detail and clarity so that stakeholders understand how TAC will work, and how they would be treated as a participant in an expanded Western ISO. SCE has concerns with any proposal that simply defers this important and threshold matter to a different decision body for later development. Indeed, such a proposal would likely face major regulatory challenges in terms of its lack of transparency to establish that it is a just and reasonable framework and is operable.

In summary:

- SCE offers an alternative definition of "sub-regions" for discussion

[1] Proposal dated May 20, 2016, http://www.caiso.com/Documents/RevisedStrawProposal-TransmissionAccessChargeOptions.pdf

- SCE offers an alternative proposal for sub-regional cost allocation for both “new” and “existing” transmission for discussion
- SCE offers an alternative definition of “new” and “existing” transmission
- SCE requests additional detail on the role of the “board of state regulators”
- SCE requests the CAISO include more time to develop a complete proposal
- SCE requests the CAISO to include its proposed changes in the next draft proposal for discussion

Any TAC structure, as updated to reflect both the addition of new transmission owners (TO) to the sub-regions and the cost allocation for the new category of regional projects, should adhere to the following principles:

1) Compliance with the principles set forth in Order 1000
2) A structure that incentivize new transmission owners to join the expanded ISO while not unfairly burdening current participating transmission owner (PTOs)
3) Preservation of the existing TAC structure used in the CAISO today on a going forward basis, including with respect to new TOs that join the expanded ISO framework with respect to each sub-region.

As FERC has approved the TAC framework as just and reasonable and consistent with Order No. 1000, it should be applied throughout the expanded footprint. The current Revised Straw proposal follows these principles in some areas but not in others.

SCE offers for consideration a framework as described below to establish sub-regions, recover transmission costs, and defined new versus existing transmission facilities.

Sub-Regions

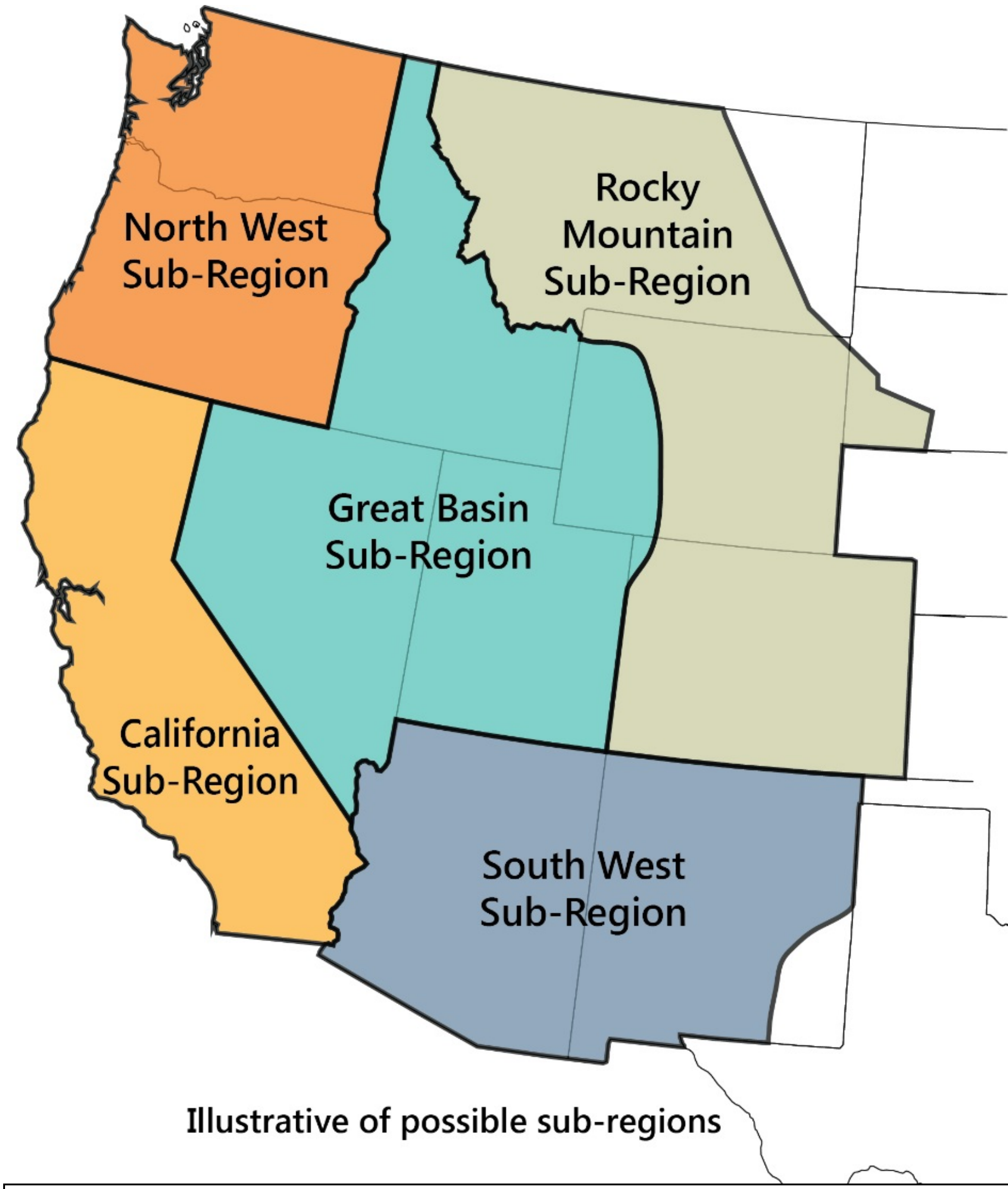
The concept of introducing sub-regions has merit. Combining every PTO’s transmission revenue requirement (TRR) into a single rate could prevent potential new members from joining due to the cost shifting and rate shock impacts. This concern can be mitigated by keeping cost responsibility within sub-regions instead of spreading all costs to every member. The CAISO’s current straw proposal defines the current CAISO system as a sub-region, then following PTOs will be allowed to declare themselves to be their own sub-region, or elect to join an existing sub-region if they are embedded or highly interconnected. However, that definition does not follow the principles of promoting competitive transmission and allocating costs according to benefits because the definition creates incentives to shift or avoid cost, and likely will impede competition to construct new transmission projects.

For example, under the current CAISO straw proposal, a utility that currently pays their neighboring sub-region a significant amount of wheeling charges can join the ISO and elect to be their own sub-region. Since the proposal has existing costs stay within a sub-region, they would no longer pay for transmission costs that they used to pay to their neighboring sub-region, yet they will continue to use and receive benefits from those transmission assets. Further, since this PTO is now a stand-alone sub-region, reliability projects in its sub-region would not be subject to Order 1000 competition.[2] Another example would be a utility that has built very expensive transmission to meet their own needs, but then joins a sub-region to spread the costs over a wider base, therefore they have shifted costs but not necessarily the benefits.

As an alternative, SCE recommends the creation of geographic based sub-regions upfront and before any new non-California based PTOs join the CAISO. The sub-regions need to be large enough to contain multiple utilities that currently benefit from each other's transmission assets, but not so large that it would be difficult to justify benefits are shared among the utilities within the geographic sub-region. A logical starting point would be sub-regions based upon grouping of State boundaries with some modifications based upon transmission networks and ownership. To illustrate the concept, Figure 1 shows one possible definition of geographic sub-regions.

[2] The current straw proposal has the cost of reliability projects being recovered solely from the sub-region where the project is located.

Figure 1 Geographic Sub-Regions for TAC Recovery



- Sub-regions based on geography and transmission network; determined upfront
- New regional transmission (>200 kV) is subject to cost allocation to multiple sub-regions based upon benefits
  - PTOs that join a sub-region receive an allocation of new regional transmission facilities immediately.
- Legacy transmission costs stay in sub-region
  - When a new PTO joins a sub-region, PTO's within the sub-region share existing costs phased in over 10 years.

Phasing in Costs of Existing Transmission Facilities

Under the current CAISO straw proposal, PTOs joining an existing sub-region would be immediately responsible for Legacy Facilities. Such an approach could constitute rate shock for many potential PTOs and thus be a disincentive for them to join the ISO. SCE suggests the phased-in approach that was used for the CAISO and approved by FERC. Costs of Legacy Facilities would be phased-in over a ten-year period starting at the point any PTO joins one of the pre-established geographic sub-regions described *supra*.

For example, if PTO A is the first to join the Great Basin sub-region in 2020, then 2020 becomes the start date for that sub-region cost phase-in.[3] If in 2022 (two years later), PTO_B joins the Great Basin region, then two-tenths of PTO_A's TRR is pooled with two-tenths of PTO_B's costs, and this total amount is shared on a proportional load basis between PTO_A and PTO_B. The remainder of each PTO's TRR is recovered solely from each PTO. If PTO_C joins in 2025, then one-half of their TRR (10% increase per year over 5 years) is pooled with one-half the TRR of PTO_A and PTO_B and this is shared on a proportional load basis. By 2030 the Great Basin sub-region's transmission rate would be a single license plate rate recovering each PTO's TRR. Figure 2 shows the process used to allocate transmission costs. This encourages utilities to join earlier rather than later to reduce cost impacts of joining the market. This also resolves the treatment of ongoing maintenance and capital improvements to existing transmission facilities, which was not discussed in the straw proposal.

New Transmission Facilities

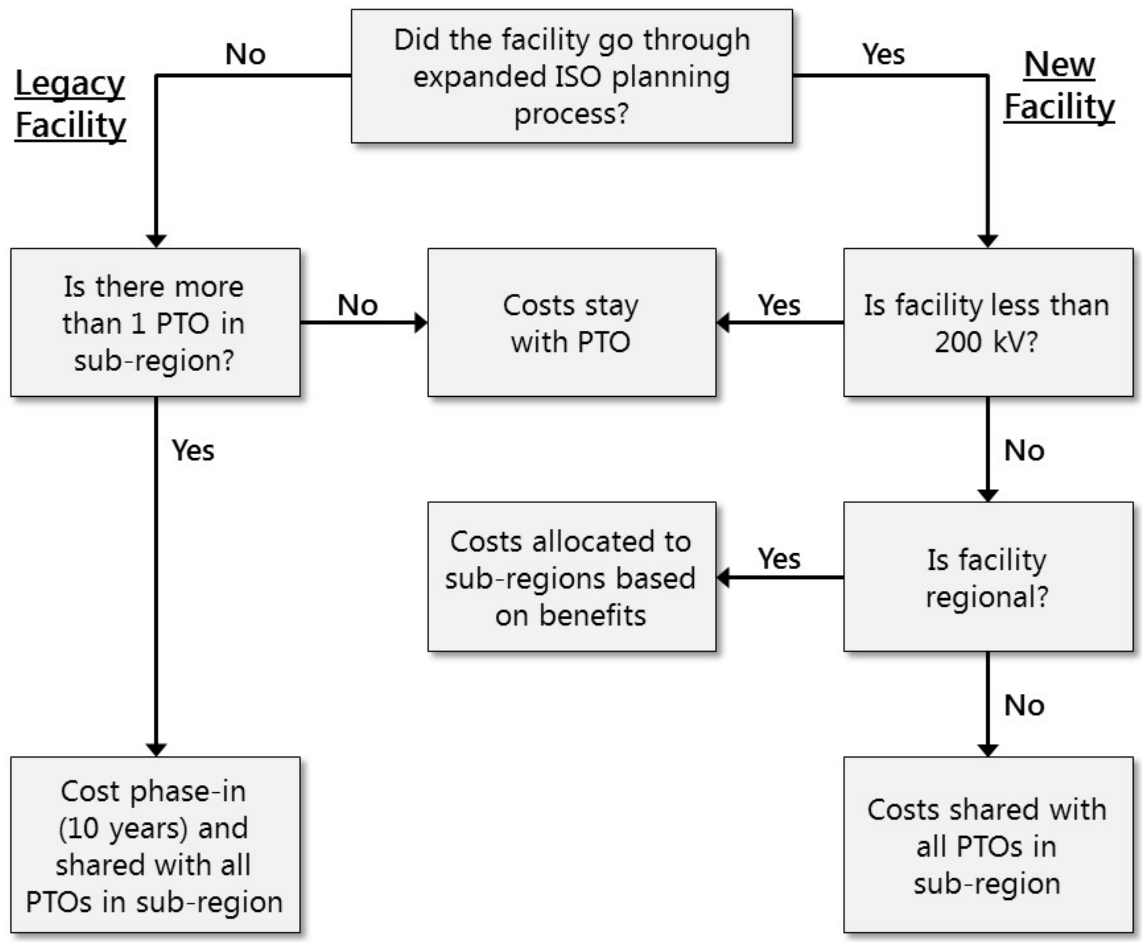
SCE supports a simple definition of "new" vs. "existing" transmission. SCE proposes any project that goes through all aspects of the expanded ISO transmission planning and selection process is "new". All other transmission is "existing" or a legacy facility. This definition creates a clear bright line test and provides a reasonable and rational definition for "new" that should reduce the opportunity for gamesmanship.

SCE supports the CAISO's proposal that PTOs would immediately be responsible for the costs of new transmission projects in their respective sub-regions, even if they were built prior to that PTO joining. This reduces the incentive for a utility to delay joining after a large new

[3] Different sub-regions can have different stating dates based upon the date the first PTO joins their sub-region.

transmission project is completed and avoid paying a share of the cost. In addition, by joining earlier the rate shock impact is likely to be moderate because few new transmission cost projects would have been completed when the expanded ISO is created.

Figure 2: Transmission Cost Recovery Process



<u>Reliability Projects</u>

The CAISO proposes that the cost of reliability projects over 200 kV are not subject to regional cost allocation. Because the CAISO allows each PTO to declare itself a sub-region, SCE does not support this proposal as currently crafted. There does not appear to be a reason why reliability projects are treated differently from other project other than difficulty ascertaining benefits between sub-regions. Without changing the definition of a sub-region, the proposal would result in asymmetric treatment between parties inside and outside of California, and thus it would likely be considered inappropriately discriminatory, and could hinder competition in the presence of single PTO sub-regions. Currently in the CAISO footprint, any project above 200 kV, even if it is built solely to address a reliability issue for one PTO, is subject to competition. This is because existing CAISO members share all transmission costs above 200 kV. However, under the straw proposal the single PTO sub-region could compete for reliability projects in California, but not vice versa. This aspect appears discriminatory and arguably violates Order No. 1000. SCE's proposal for geographic (rather than PTO specific) sub-regions along with sub-regional cost allocation helps to partially address these concerns. That is, once a sub-region has two or more PTOs, the costs of such reliability projects would be spread to all the PTOs in the sub-region, and with such cost sharing the project would be subject to competition.

This proposal attempts to leverage the rules and principals of the existing tariffs. SCE, and many other participants throughout the country, consider the current rules as effective in fostering new transmission construction, and in fostering competition. They represent, in SCE's view, a best practice within the nation, and as such these best practices should be applied to the expanded market. However, automatically allocating costs of a >200 kV reliability project to a single sub-region without the principle that only that sub-region benefits from that project still arguably violates Order No. 1000, even using SCE's recommended geographic sub-regions. Accordingly, SCE recommends that >200 kV reliability projects should not be exempted from a regional benefits determination.

<u>Body of State Regulators</u>

The latest CAISO proposal also defers the decision to construct and cost allocation of economic and policy transmission projects to an undefined body of state regulators. The proposal lacks sufficient detail for SCE to provide comments on its merits. For example, how will the composition of this board be determined? What power will it have to file tariffs? How will it determine which projects to construct? How will it decide to allocate costs? What discretion will it have on cost allocation on a project by project basis? Who will have jurisdiction over this body? Will its decision be filed for review at FERC? SCE requests more information and answers to these questions in the next version of the straw proposal.

CAISO's Proposed Schedule

The CAISO's schedule has a draft final proposal being issued on June 28, with one more round of comments before seeking CAISO Board approval in August/September. There are too many unresolved issues regarding the very important issue of cost allocation to meet this aggressive schedule. More time is needed to develop a proposal that will have widespread support than issue a proposal that is likely to have widespread rejection when tariffs are filled at FERC.

SCE believes that the modifications that it has proposed to the CAISO's straw proposal, particularly the pre-definition of geographical sub-regions as well as utilizing existing cost-allocation and competitive principles that have been approved by FERC for the CAISO, adheres to the principles articulated *supra*. As such, SCE encourages the CAISO incorporate SCE's recommendations into its next straw proposal.

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.

   See SCE's comments *supra*. Such an embedded/integrated new PTO should become a part of the geographic sub-region in which they are located. They should not be allowed the option of becoming its own sub-region as doing so would allow the new PTO to avoid cost responsibility for existing transmission facilities of the sub-region while also avoiding transmission costs that it was paying prior to joining the ISO.

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.

   The "existing facility" definition is unnecessary as any cost that does not meet the "new facility" definition is therefore an "existing facility". The use of "committed funding" is not a good criterion because most utilities do not have project specific funding. Because of this, a utility could mask the financial commitment of a transmission project to either have it labeled existing or not existing to their advantage.

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.

   The definition of a "new facilities are transmission projects planned and approved in an expanded TPP for the expanded BA" is a good and simple test. However, the qualification placed in the second sentence of "as long as the 'existing' criteria are not met" creates ambiguity and gaming opportunities of whether a project is new or existing.

There is going to be an intermediate period when a utility has begun planning and permitting a transmission project yet has not started construction. The utility has the option to complete the project as an existing facility or place it into the expanded transmission planning process (TPP) to be eligible as a new facility for regional cost allocation. Per SCE's proposed framework an existing facility would be recovered from the geographic sub-region subject to phase-in. The utility would have to seek approval from its current regulatory approval process. Any existing transmission facility is not eligible for cost allocation between sub-regions. If the project is placed into the expanded TPP and approved, then it will go through a FERC 1000 competition process and be eligible for cost allocation between sub-regions.

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>

Please see SCE's proposed framework described at the beginning of the document. SCE does not support this outcome with the current straw proposal's definition of a sub-region. However, with a geographic based sub-region, SCE supports a sub-region license plate rate.

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>

SCE supports the first step that it must be planned and approved in an expanded TPP. However, the second criteria test[4]:

(a) is rated > 200 kV, or

[4] Straw Proposal page 7-8.

(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

contradicts the principle outlined that proposal would "apply only to high-voltage (>200kV) transmission facilities" which would continue to be recovered on a PTO-specific basis.[5] The above test may change the way low voltage costs are recovered. Instead, SCE recommends the following:

- Transmission facilities with a voltage rating above 200 kV that: interconnects or increases interconnection capacity above 200 kV between two sub-regions

With SCE's proposed framework of geographic sub-regions, lower voltage (<200 kV) facilities are less likely to provide benefits across the geographic region, and even less so for the entire region. Consistent with the current FERC approved methodology, it is best to have low voltage facility costs recovered by the local PTO.

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>

   If there is only a single entity in a sub-region as defined in the straw proposal, such a proposal could violate Order 1000, which requires "the elimination of a federal right of first refusal for reliability projects." Order 1000-A at P 428.

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>

   See SCE's comments above. SCE needs more information regarding this proposal to provide substantive comments. Conceptually, there appears to be no value to the body of state regulators if there are tariff "back-stop" provisions for approving and determining cost allocation for needed transmission projects. A state representative would have no incentive to agree to a cost allocation higher than what the back-stop provision would determine.

[5] Straw Proposal page 6, item g.

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 appears consistent with FERC Order 1000. However, as mentioned supra, new reliability projects may need to be included.

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.

   While cost should be allocated consistent with sub-regional benefits (per SCE's definition of sub-regions), the details of any such method require additional stakeholder discussion. See SCE's comments to the prior straw proposal for more details allocating costs using assignment of benefits.[6]

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.

    This single WAC results in the transmission cost of exports at external interties to be the same regardless of which sub-region the intertie is located. This has the advantage of not creating market and system distortions by external parties attempting to exploit locations with a cheaper transmission. The alternative of charging a sub-region TAC 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, the

[6] See SCE comments to question 14 submitted on April 14, 2016. http://www.caiso.com/Documents/SCEAmendedComments-TACOptions-StrawProposal-BenefitsAssessmentMethodologies.pdf

congestion could be resolve by a change in rate design as opposed to transmission investment.

11. <u>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.</u>

    As explained supra, SCE believes that a subsequent PTO joining at a later date should be responsible for a cost share of new regional facilities approved in the expanded TPP, based on the benefits the geographic sub-region that the new PTO is located in, not the new PTO itself, receives from each such facility.

12. <u>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.</u>

    This appears reasonable.

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

    SCE offers its proposals for additional discussion and stakeholder consideration. We remain open to additional ideas and refinements that might improve on our proposals.