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.

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."

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 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.”

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.

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.

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.

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.

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.

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.

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.

10. 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.

11. 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.

12. 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.

13. 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.

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.

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.

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.

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.

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.

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.

20. 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.

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

Regional Cost Allocation: "One-and-Done" is the Right Approach

In certain instances, the CAISO's proposal provides for the allocation of new transmission project costs among multiple sub-regions of an expanded ISO. These instances include new "economic" transmission projects (section 1.4.c – page 7), new "reliability" or "policy-driven" transmission projects where the transmission project is "enhanced or replaced" by a more costly project that provides economic benefits to multiple sub-regions (section 1.4.d – page 7), and new "policy-driven" projects the support policy mandates in multiple sub-regions (section 1.4.e – page 7).

The CAISO is proposing that the cost allocation for these new transmission projects should be performed once and not reevaluated when a new Participating Transmission Owner (PTO) joins an expanded ISO ("one-and-done"). At the December 13, 2016 stakeholder meeting, there was some concern expressed by PG&E and SCE representatives that this approach was too rigid and that there could be circumstances where a subsequent change in cost allocation would be appropriate. SDG&E acknowledges the concerns expressed by PG&E and SCE; the benefits of particular transmission projects to particular sub-regions and particular Load Serving Entities (LSEs) no doubt *will* change over time. However, it is not clear to SDG&E that it will be possible to identify and quantify these changes with enough certainty to justify the disruption that such changed cost allocations will impose.

SDG&E also acknowledges that the "one-and-done" approach may create incentives for certain Load Serving Entities (LSEs) to not join an expanded ISO until after "costly" new transmission projects are approved through the expanded ISO's Transmission Planning Process (TPP), thereby insulating those LSEs from the costs of the "costly" projects. However, in making the decision to not join an expanded ISO, those LSEs are foregoing other cost savings; savings that the results of the Energy Imbalance Market (EIM) suggest can be significant. SDG&E believes the possibility of "lost opportunities" will tend to neutralize the disincentive that might otherwise exist.

Importantly, the CAISO's approach provides cost certainty and removes the risk that a PTO may, at some undetermined later date, be required to take-on an unknown larger share of the cost of a transmission project previously approved through the expanded ISO's TPP. SDG&E believes that, on balance, this cost certainty will provide a greater incentive to join an expanded ISO than the possibility of being exposed to cost responsibility for "costly" transmission projects provides a disincentive. Finally, significant administrative efficiencies are realized where the cost allocation is performed only once and then fixed.

<u>Small PTOs Joining an Expanded ISO Should be Obliged to Pay Towards the Fixed Costs of the *Existing* Grid</u>

The CAISO's proposal provides that if a PTO joining an expanded ISO "is embedded within or electrically integrated with an existing sub-region" such PTO "would become part of the sub-region in which it is embedded or with which it is integrated." (section 3.1.g – page 9) Such PTOs are treated differently than PTOs which are not embedded within, or integrated with, an existing sub-region. SDG&E understands that this different treatment is intended to ensure that an existing transmission-dependent LSE will join the expanded ISO and assume a fair share of the costs of the existing transmission system upon which it depends.

If such transmission-dependent LSE were allowed to join the expanded ISO as a separate sub-region, it would only be obligated to pay for the fixed costs of the transmission that it owned or contracted for prior to joining the expanded ISO. This amount of transmission may be far less than is needed to serve the needs of the transmission-dependent LSE, especially if the transmission-dependent LSE's contractual transmission rights terminate on, or after, the date of joining the expanded ISO. In an extreme case, absent the CAISO proposal, a transmission-dependent LSE could become its own sub-region and have transmission cost liability only for the costs of *new* transmission approved through the expanded ISO's TPP after the date of joining; i.e., in an extreme case, it would have zero transmission cost liability for the costs of the *existing* transmission system. A zero transmission cost is not a just and reasonable transmission rate.

SDG&E believes it is important for the CAISO to clearly articulate the principal that all PTOs joining an expanded ISO must pay towards the fixed costs of the *existing* transmission system after joining.[1] While the instant initiative is not the place to decide the specific rate structure that will be used to assign the costs of existing transmission to a new PTO (the CAISO has indicated this initiative will commence sometime next year), the instant Draft Regional Framework Proposal should be augmented with language providing the policy basis of the CAISO's proposal for transmission-dependent PTOs that seek to join an expanded ISO.

<u>CAISO Proposal Requires Significant Changes to PTOs' Plant Accounting Practices</u>

SDG&E supports the CAISO's proposal to allocate the costs of certain *new* transmission projects among multiple sub-regions of an expanded ISO. In an interconnected network, all sub-regions are, to some extent, economically impacted by new transmission projects anywhere within the interconnection. To the extent these economic impacts can be reasonably quantified, there is a basis for allocating the costs of specific transmission projects among the sub-regions. This ensures a reasonable alignment of costs and benefits: a FERC requirement for cost recovery.

At the December 13, 2016 stakeholder meeting, PG&E pointed out that the CAISO's proposal to allocate the costs of specific new transmission projects among the sub-regions of an expanded ISO, requires major changes in the PTOs' current plant accounting practices. Currently, the PTOs cumulate the costs of all new transmission by voltage level and asset class; costs by individual transmission project are generally not preserved. The current plant accounting practice works because the costs of <u>all</u> high voltage transmission facilities within the CAISO's existing footprint are aggregated and shared pro-rata across <u>all</u> CAISO LSEs; from a cost

[1] In this context, SDG&E is referring to PTOs with load serving responsibilities.

recovery perspective, there is no need to track the costs of new transmission project Y separately from the costs of other existing and new transmission projects.

If the CAISO's Draft Regional Framework Proposal is implemented, it will become necessary to know exactly the costs of new transmission project Y so that the associated revenue requirements can be determined separately from the revenue requirements associated with all other existing and new transmission assets.[2] This is because the revenue requirements associated with project Y may need to be allocated across multiple sub-regions of an expanded ISO (e.g., for an "economic" transmission project providing specific benefits to different sub-regions) while the revenue requirements for all other transmission assets will be allocated across a single sub-region of the expanded ISO same as today (e.g., a "reliability" project that meets a reliability need within a single sub-region).

To know what new transmission project Y's revenue requirements are, it will be necessary to augment the current plant accounting practices with a tracking mechanism that allows the costs of project Y to be identified by voltage level and asset class and distinguished from the costs of all other transmission assets. Also, it will be necessary to devise a mechanism that distinguishes the O&M costs applicable to new transmission project Y from the O&M costs applicable to all other transmission assets.

At this stage of the initiative, it is too early to speculate on the magnitude and cost of implementing the required augmentation of the PTOs' current plant accounting practices. SDG&E preliminarily estimates that following FERC approval of the CAISO's proposed cost allocation scheme for load-serving PTOs within an expanded ISO, it will take a minimum of 18 months for SDG&E to design and implement the processes and software necessary to track the costs of specific transmission projects.

While SDG&E supports the CAISO's cost allocation proposal, SDG&E believes it is important that the CAISO and stakeholders understand the need for new accounting processes and allow adequate time for implementation.

[2] This expanded cost accounting will be necessary even for load-serving PTOs that do not own a new transmission facility whose costs will be allocated across multiple sub-regions of an expanded ISO. This is because all load-serving PTOs will need to the ability to audit the costs of new transmission projects for which the load-serving PTOs have cost responsibility.