Stakeholder Comments Template

Transmission Access Charge Options

May 20, 2016 Revised Straw Proposal

Submitted by	**Company**	**Date Submitted**
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The ISO provides this template for submission of stakeholder comments on the May 20, 2016 revised straw proposal. The revised straw 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 **June 10, 2016.**

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.

   SDG&E Response:

   SDG&E believes that PTO(s) joining an expanded ISO at the same time and under the same transition agreement, become its/their own separate sub-region unless (i) an embedded PTO requests that it be part of the existing sub-region in which it is embedded, and (ii) all PTOs within the existing sub-region at the time of the request agree to allow the embedded PTO to become part of the existing sub-region.

   SDG&E believes this places existing and prospective members of an expanded ISO on a comparable basis and will minimize inappropriate transmission cost shifts.

2. <u>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.</u>

   <u>SDG&E Response:</u>

   SDG&E generally agrees with the comment made by the NIPSI representative at the June 1, 2016 stakeholder meeting: "New facilities" are transmission facilities that are approved for cost recovery through the expanded ISO's Transmission Planning Process (TPP). Every other transmission facility would be considered an "existing facility" for purposes of cost recovery.

   However, SDG&E believes it is important to add an additional criteria for being a "new facility": A "new facility" must have been selected to satisfy a "need" identified in the expanded ISO's TPP through a competitive process conducted by the expanded ISO.

   In SDG&E's opinion, this could mean that a transmission project which was under active development—theoretically, even under construction—could become a "new facility" if the facility was (i) determined to satisfy a "need" identified in the expanded ISO's TPP, and (ii) other entities were given the opportunity to satisfy the identified need through the expanded ISO's competitive process but were not selected.

3. <u>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.</u>

   <u>SDG&E response:</u>

   See SDG&E's response to question 2. A transmission project under review as an "inter-regional" project prior to the project sponsor's decision to join an expanded ISO would be a "new facility" if the inter-regional facility was (i) determined to satisfy a "need" identified in the expanded ISO's TPP[1], and (ii) other entities were given the opportunity to satisfy the identified need through the expanded ISO's competitive process but were not selected.

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</u>

[1] SDG&E understands that proposed inter-regional transmission projects requesting inter-regional cost allocation pursuant to FERC Order 1000's inter-regional cost allocation requirements, would be evaluated by the expanded ISO in its TPP.

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.

SDG&E Comment:

SDG&E supports the CAISO's proposal for recovering the costs of "existing facilities." While "existing facilities" no doubt provide some level of benefits across multiple sub-regions, SDG&E believes the CAISO's proposal is the most practical path forward considering the widely varying stakeholder positions. Additionally, SDG&E notes that cost recovery of "existing facilities" at the sub-regional level has already been determined just and reasonable by the FERC.

5. "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."

   SDG&E Comment:

   SDG&E supports the two-step process as far as it goes. However, as indicated in SDG&E's response to question 2, eligibility for regional cost allocation must also include the condition that the "new facility" was selected to meet a "need" identified in the expanded ISO's TPP through a competitive process conducted by the expanded ISO.

6. 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.

   SDG&E Comment:

   As expressed in SDG&E's earlier comments, SDG&E believes the costs of all "new facilities" >200 kV should be allocated on the basis of benefits to each of the sub-regions within the expanded ISO. SDG&E does not believe there is clear basis for distinguishing between different "types" of transmission projects.[2] The expanded ISO's TPP will, presumably, always select the most economical solution for meeting an identified

[2] *SDG&E notes that section 24.4.10 of the existing CAISO tariff reserves the right to build and own a "Local Transmission Facility" (a facility which is operated "at a voltage below 200 kilovolts") to the PTO in whose "PTO Service Territory or footprint" the Local Transmission Facility is located. This section also reserves the right to build and own "any upgrade or addition to an existing transmission facility" to the PTO owning such existing transmission facility. "Regional Transmission Facilities" are those facilities which are not "Local Transmission Facilities," i.e., any transmission facility operated above 200 kV and which is not an "existing transmission facility" subject to an "upgrade or addition." Section 24.4.10 of the existing CAISO tariff provides that "Regional Transmission Facilities" are subject to section 24.5 of the existing CAISO tariff. According to section 24.5, any qualified transmission developer may "own and construct…Regional Transmission Facilities subject to competitive solicitation identified in the comprehensive Transmission Plan."*

"reliability" need, an identified "economic" need or an identified "public policy" need. In the end, every "new facility" selected through the expanded ISO's competitive process is an economic project.

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>

   <u>SDG&E Comment:</u>

   The CAISO's revised TAC proposal presumes the existence of a "body of state regulators" and punts the issue of cost allocation to this group. At this point in the process, it is unclear whether a "body of state regulators" will be included in the governance proposal for the expanded ISO and, if so, what the authority of this group would actually be.

   Rather than punting this issue as has been done in the CAISO's revised TAC proposal, SDG&E believes it would be preferable to revive the CAISO's earlier concept of using the Transmission Economic Assessment Methodology (TEAM) as the basis for estimating benefits of "new facilities" across the sub-regions of the expanded ISO. As it stands, stakeholders have no basis for evaluating the fairness of cost allocation across sub-regions.

   At the same time SDG&E believes it will be very helpful for state regulators to provide their views as to how the costs of "new facilities" within the expanded ISO should be allocated across sub-regions. The success of an expanded ISO will be greatly facilitated by the support, cooperation and input of state regulators. SDG&E believes the most productive path forward is for the CAISO to suggest a specific cost allocation framework for "new facilities" and allow all stakeholders, including state regulators, to comment on that proposal.

   Finally, as noted in SDG&E's response to question 6, SDG&E does not support one cost allocation scheme for "reliability" projects, and a different cost allocation scheme for "economic" and "public policy" projects. Cost allocation for all "new facilities" above 200 kV should be based on the level of economic benefits within the different sub-regions of the expanded ISO.[3]

8. <u>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</u>

[3] Transmission projects which the CAISO typically designates as "reliability" projects, such as local voltage support projects, would logically not provide significant benefits outside the local sub-region in which case there would be zero cost allocation to other sub-regions. But this may not always be the case and there is no compelling reason to treat "reliability" projects different from other projects.

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.

SDG&E Comment:

SDG&E agrees that the CAISO's determination of which "types" of identified transmission "needs" would be met through a competitive solicitation is "consistent" with FERC Order 1000. However, as was pointed out at the June 1, 2016 stakeholder meeting, FERC's existing policy raises fundamental issues of fairness. For example, qualified PTOs can compete to meet >200 kV "reliability" needs anywhere in the CAISO sub-region but would not be permitted to compete to meet >200 kV "reliability" needs anywhere in the PacifiCorp sub-region, were PacifiCorp to join the expanded ISO.

Additionally, as indicated in SDG&E's response to question 6, SDG&E questions whether there are meaningful distinctions between "reliability," "economic" and "public policy" projects in the first instance.

SDG&E recommends that in connection with the tariff changes necessary to implement an expanded ISO, the CAISO ask the FERC to change its current policy concerning which types of transmission "needs" are subject to a competitive process conducted by the expanded ISO. SDG&E believes competitive pressures will help to reduce the costs of meeting all >200 kV "needs" identified in the expanded ISO's TPP.

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.

   SDG&E Comment:

   As indicated in SDG&E's response to question 7, SDG&E believes the CAISO should revive its earlier concept of using the Transmission Economic Assessment Methodology (TEAM) as the basis for estimating benefits of "new facilities" across the sub-regions of the expanded ISO.

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.

    SDG&E Comment:

    In previous comments SDG&E has suggested that the CAISO consider eliminating the export charge. In as much as the CAISO as indicated that potential elimination of the *export charge is not an issue that will be taken up in the instant initiative, SDG&E is not providing further comment.*

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>

    <u>*SDG&E Comment:*</u>

    As indicated in SDG&E's earlier comments and restated at the June 1, 2016 stakeholder meeting, SDG&E has concerns with the CAISO's proposal that whenever a PTO joins the expanded ISO, the expanded ISO (or "body of state regulators") would re-estimate the benefits of all "new facilities" previously approved through the expanded ISO's TPP.

    The CAISO's proposal would be challenging to implement (e.g., for a previously-approved "new facility," what alternatives would be assumed for purposes of re-estimating benefits?) and would introduce unnecessary rate uncertainty. Also, SDG&E is concerned that faced with the prospect of being allocated transmission costs for previously approved "new facilities," a PTO might be discouraged from joining the expanded ISO. Finally, SDG&E notes that FERC will have already determined that the cost allocation of previously-approved "new facilities" among the then-existing sub-regions is just and reasonable. It is not obvious to SDG&E that a reallocation of these costs is required or would be helpful.

    Instead, SDG&E recommends that the CAISO's proposal be revised to "lock-down" the cost allocation of "new facilities" at the time cost-recovery is approved through the expanded ISO's TPP. Subsequent joining PTOs would only be subject to cost allocation for those "new facilities" whose cost allocation is approved through the expanded ISO's TPP after the new PTO joins. This is a fair and much simpler cost allocation process that is less likely to discourage new entrants from joining the expanded ISO.

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>

    <u>*SDG&E Comment:*</u>

    SDG&E has concerns with the CAISO's proposal. See SDG&E's response to question 11.

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

SDG&E Comment:

SDG&E believes it is important that stakeholders place transmission cost allocation issues in the proper perspective. While transmission cost allocation is a necessary and important element of an expanded ISO, it should not supersede the bigger objective in play: ISO expansion allows more loads and resources to obtain day-ahead transmission access through a centralized-market platform that simultaneously accommodates all system constraints with settlements at Locational Marginal Prices (LMPs) that reflect those constraints. This will reduce the inefficiencies inherent in contract-path-based transmission access, improve unit commitment and hourly scheduling, and result in better use of existing transfer capability; all of which will result in lower costs for consumers.