

**SDG&E's Comments
on the CAISO's August 1, 2016**

***Generator Interconnection Low Voltage Network Upgrade Cost Recovery
Issue paper and straw proposal***

SDG&E agrees with the CAISO and other stakeholders that FERC would likely find that the existing mechanism for recovering the costs of low voltage network upgrades required to interconnect generators within the CAISO Balancing Authority Area is not just and reasonable in certain circumstances.

These circumstances include the situation where generators connecting to transmission facilities owned by a load-serving Participating Transmission Owner (PTO) require the construction of low voltage (less than 200 kV) Reliability Network Upgrades (RNUs) and Local Delivery Network Upgrades (LDNUs) whose costs, in aggregate, are large in proportion to the benefits such generation confers on the PTO's loads. This situation could exist for load-serving PTOs who have large amounts of renewable resource development potential but comparatively small load. The existing CAISO tariff does not provide a mechanism by which a portion of the low voltage costs of interconnecting such generation can be allocated to other PTOs' loads that benefit from the interconnection of such generation.

The CAISO has proposed several mechanisms for allocating the costs of low voltage RNUs and LDNUs among other PTOs within the CAISO Balancing Authority Area. Option 1, which is the simplest to administer, would allocate the revenue requirements associated with the costs of all low voltage RNUs and LDNUs to the high voltage Transmission Access Charge (TAC). The effect of this option would be to spread the costs of low voltage RNUs and LDNUs to all loads within the CAISO Balancing Authority Area on the basis of each PTO's energy loads. Option 2 would limit the allowable increase in a PTO's low voltage TAC as a result of RNU and LDNU costs; costs above this limit would be allocated to the high voltage TAC. The CAISO proposal does not suggest what this allowable increase should be.

Option 2 requires that setting of largely arbitrary limits on how much a PTO's low voltage TAC can increase as a result of constructing low voltage RNUs and LDNUs. While FERC may ultimately determine that there is a limit that would result in just and reasonable transmission rates, SDG&E believes Option 1 is more likely to attract this finding. FERC has already determined that the costs of transmission upgrades that benefit a broad swath of customers should be recovered from that broad swath of customers. This is the basis upon which FERC found that the costs of network transmission facilities operated above 200 kV should be recovered from all loads within the CAISO Balancing Authority Area.

SDG&E believes that a similar basis exists for those load-serving PTOs who have large amounts of renewable resource development potential but comparatively less load. If this potential is developed, all loads within the CAISO Balancing Authority Area will benefit – some directly as a result of receiving Renewable Portfolio Standard (RPS) credits, others indirectly as a result of improved air emissions. For this reason, SDG&E supports Option 1.

The CAISO's proposal appears targeted at future RNUs and LDNUs. However, SDG&E believes the logic applies equally to RNUs and LDNUs that have already been built and whose costs have yet to be recovered from loads (e.g., undepreciated ratebase for in-service RNUs and LDNUs). SDG&E recommends that Option 1 be applied to all yet-to-be recovered RNUs and LDNU costs, existing and future. In connection with this recommendation, the CAISO and stakeholders need to consider the associated cost accounting implications and processes.