Stakeholder Comments Template

Transmission Access Charge Options

February 10, 2016 Straw Proposal &
March 9 Benefits Assessment Methodology Workshop

Submitted by	Company	Date Submitted
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The ISO provides this template for submission of stakeholder comments on the February 10, 2016 Straw Proposal and the March 9, 2016 stakeholder working group meeting. Section 1 of the template is for comments on the overall concepts and structure of the straw proposal. Section 2 is for comments on the benefits assessment methodologies. As stated at the March 9 meeting, the ISO would like stakeholders to offer their suggestions for how to improve upon the ISO's straw proposal, and emphasizes that ideas put forward by stakeholders at this time may be considered in the spirit of brainstorming rather than as formal statements of a position on this initiative.

The 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 ***March 23, 2016.***

Comments:

The State Water Contractors (SWC) appreciates this opportunity to provide the following comments to the California Independent System Operator (CAISO) regarding your February 10 Straw Proposal for *Transmission Access Charge Options for Integrating New Participation Transmission Owners* (Straw Proposal). The SWC addresses a few overarching comments that we want to share with the CAISO and the other stakeholders.

First, a quick background on the SWC. Our member agencies, the customers of the California State Water Project (SWP), supply water from the SWP to 25 million families and business and 750,000 acres of agriculture throughout California. Since initial operation of the SWP, which supplies the SWC member water agencies, has relied on one of the cleanest power supplies in the State – making the SWP the largest consumer of carbon free electricity in California. The SWP is also a significant user of the CAISO transmission network, and in a 'normal' water year the SWP would account for almost four percent of all load and subsequent transmission usage on the CAISO grid.

The SWC is an active stakeholder in the evolving California energy market and the regionalization proposal of the CAISO because no other party is able to represent our unique interests or represent the large volume of customers and usage of the current CAISO transmission grid. However, our desire to be a constructive participant in this TAC proceeding is inhibited by the piecemeal approach of the CAISO. The integral relationship between TAC, regional entity governance, expanded transmission planning process, resource adequacy, and SB 350 studies is lost as the CAISO attempts to consider matters in separate workshops and on different timelines.

Take for instance the CAISO decision to decouple the TAC proposal from an expanded Transmission Planning Process (TPP). In its rush to a FERC filing in 2016, the CAISO dismissed stakeholder comments that TAC structure and design of an expanded TPP should be addressed together. One need look no further than the CAISO's own "LTPP, TPP and IEPR Process Alignment for CPUC, CAISO and CEC v.3.8-4-18-14 (attached)" to see the flaw in CAISO rationale. Envision how the proposed benefit and cost assessment of a regional transmission project will become even more challenging as the expanded TPP is applied across multiple states with differing energy policies. To be more specific, consider PacifiCorp's Gateway transmission project, which will transmit large amounts of coal and wind, in an expanded TPP. Then consider a state, California for instance, disallowing its utilities from recovering costs from their customers even if CAISO deems California customers a beneficiary, because of the coal. CAISO's decision to decouple TAC from the Transmission Planning Process prevents stakeholders from being fairly able to assess the pros and cons of its TAC proposal. That is just one example of the flawed, piecemeal approach being taken by CAISO.

In reviewing the Straw Proposal and participating in the meeting and workshop on March 1 and March 9, we have developed several additional concerns with the rush to a FERC filing and the piecemeal approach, including:

- Timing
- Equitable treatment of transmission users
- Significant opportunity for cost shifts
- A lack of transparency
- A lack of a detailed benefit/cost analysis

Timing of TAC Proposal Leads to Piecemeal Approach

The Straw Proposal represents the largest change in CAISO operations since the Market Redesign and Technology Update (MRTU) and potentially the most significant change to the CAISO since its inception. Therefore, we strongly believe that it must be carefully considered, fully vetted, and understood by current CAISO market participants, potential new participants, and policy leaders that will be asked to approve a change to the CAISO's current governance. The current proposed schedule fails to provide the necessary timeframe to accomplish these critical requirements.

Equitable Treatment for all Transmission Users of the CAISO Grid

The Straw Proposal does not offer sufficient details to understand the full impact to California ratepayers. However, the lack of specific details coupled with the discussions during the March 9, 2016 workshop leads SWC to believe that the proposal is inequitable because it will allocate a disproportionate share of transmission costs to current CAISO customers. Under the proposal, a new PTO like PacifiCorp is not allocated any costs for California transmission that are operating or approved by the CAISO, whereas SWP and California customers may be obligated to pay for transmission even if it has already been approved by the new PTO (PacifiCorp and its Gateway project is an example). This will result in an inequitable treatment for existing CAISO customers. Consequently, customers of a new PTO like PacifiCorp will pay a decidedly lower cost than SWP customers, but current CAISO customers will be 'saddled' with high-voltage transmission rates 2-3 times greater than PacifiCorp customers.

Opportunities for Cost Shifts

The inequity of the CAISO proposal will lead to significant cost shifts to SWP and California customers. One of the primary reasons for the high cost of CAISO transmission service is the decade long build-out of the California electric grid that CAISO has overseen. The build-out has been of historical proportions and led to an unsustainable 15% per year increase in SWP transmission charges over the last decade. CAISO will be replaced by a regional entity that will continue the build-out but with an emphasis on the rest of the Western Interconnect.

Under the CAISO proposal, a PTO like PacifiCorp will not contribute to the costs of the California transmission grid, but expects to receive substantial financial support from SWP and California customers for the Gateway project. Additionally, the CAISO-PacifiCorp bilateral agreement described below will set a precedent for subsequent PTOs to avoid the costs of not just California transmission costs but any new regional transmission approved before it elects to join the regional entity. Thus, the cost shift will repeat for each subsequent PTO that joins the regional entity. As this cycle is repeated, a disproportionate share of the cost to build-out

California and the Western Interconnect transmission will be shifted to SWP and California customers.

Lack of Transparency

We are similarly concerned regarding the lack of transparency occurring with the proposed expansion of the CAISO. The Straw Proposal is stated as being a 'generic' approach to accommodate any future PTO, at the same time the stakeholders have learned that there are negotiations occurring between the CAISO and PacifiCorp regarding PacifiCorp's pending participation as a PTO. Without knowing what is in those discussions – other than a carve-out for the Gateway Projects – we are very leery of the lack of transparency. In fact the very nature of the ongoing bi-lateral (non-transparent) 'negotiations' between the CAISO and PacifiCorp raises questions as to how and if the replacement regional entity will enforce the existing tariff on new PTOs, or if it will 'negotiate' with all potential new PTOs to the benefit of expansion of the CAISO footprint and potentially to the detriment of the current CAISO customers.

We further note that between the issue paper on the regional TAC and the Straw Proposal, all considerations of a blended rate between the CAISO and PacifiCorp have disappeared as has the proposal to treat all existing and future projects above 300 kV as 'Regional Costs.' The elimination of these alternatives is to the detriment of current CAISO ratepayers and potentially to the benefit of PacifiCorp. CAISO has provided no explanation as to why such changes occurred.

Lack of Detailed Benefit/Cost Analysis

As an Association who's Members pay approximately 4 percent of the current CAISO annual transmission costs, the SWC is concerned that the Straw Proposal does not address a benefit/cost analysis prior to the CAISO adding new PTOs. We are concerned that the potential exists, whether with PacifiCorp or another PTO in the future, for the CAISO to add a new PTO to its BAA that could cause significant economic harm to the SWP customers. One mechanism to allay this concern would be for CAISO to accept an independent entity to conduct, as part of any future expansion, an open and transparent benefit/cost analysis. That analysis should be undertaken with real input from stakeholders and assess a wide-range of future scenarios to attempt to ensure that it is a positive b/c ration for the existing CAISO customers.

In reviewing the CAISO and PacifiCorp sponsored study *Regional Coordination in the West: Benefits of PacifiCorp and California ISO Integration,* we note that a significant amount of the proposed benefits for the current CAISO customers are a direct result of resource procurement savings. According to the study, $691 million of the estimated $894 million in annual savings in the high scenario, a whopping 77 percent of the benefits, are a result of a change in renewable procurement. However, these savings could be achieved without a change in the current footprint of the CAISO, and without question these savings are achievable without a change to the current TAC methodology. The study also contributes a significant benefit ($134 million or 15 percent of the savings) to more efficient overgeneration management – can't this also be obtained through EIM? The SWC are trying to understand if there are limitations existing today that would prevent the CAISO customers from accessing Wyoming wind and the CAISO from using its EIM market to manage overgeneration. These two components comprise 93 percent of the estimated benefits to current CAISO customers from the PacifiCorp integration. An independent assessment of the 'true' benefits for the existing CAISO customers for PacifiCorp (or any incremental PTO) to join the CAISO should be undertaken and should be part of the CAISO's policy.

The SWC are not in a position to provide specific comments to CAISO questions because the CAISO has elected to decouple the TAC proposal from proposals on regional entity governance, expanded transmission planning process, resource adequacy and SB 350 studies notwithstanding the integral relationship.

LTPP, TPP and IEPR Process Alignment for CPUC, CAISO and CEC *v. 3.8 – 4/18/14*