SWC COMMENTS
ON THE CAISO'S REVISED STRAW PROPOSAL ON
TRANSMISSION ACCESS CHARGE OPTION

The State Water Contractors (SWC) hereby submits the following comments on the CAISO's *Revised Straw Proposal – Transmission Access Charge Options for Integrating New Participating Transmission Owners* (Revised Proposal). We maintain a general concern that the proposed TAC is going to result in dramatically higher costs for the State Water Project (SWP) and SWC, and that we will not receive proportionate benefits to offset these costs. The Revised Straw proposal states that "The costs of new regional facilities would be allocated to multiple sub-regions of the expanded ISO in accordance with the decisions of a new body of state regulators to be formed as part of a new ISO regional governance structure in conjunction with the integration of the new PTO."[1] The proposal fails to provide justification or context for this approach – and it creates significant risk for the SWC to be exposed to costs for facilities in other sub-regions, without having a clear sense of the governance structure that would be created to protect California interests like the SWP.

GOVERNANCE MUST BE DEFINED BEFORE TAC METHODOLOGY CAN BE SETTLED

Both the March letter from Utah Governor Herbert as well as the May letter from Wyoming Governor Mead include the same theme: policymakers in states with PacifiCorp customers insist on being part of creating the new regional ISO body and influencing how transmission costs will be allocated as part of the new governing board, be it the Body of State Regulators as proposed by the CAISO, or another board. Thus it is unclear how CAISO will attempt to impose a Transmission Access Charge methodology on a yet-to-be formed regional ISO that will be created by others in the coming years.

CAISO should recognize its traditional stakeholder process was not intended for the design of TAC for a regional ISO. SWC encourages CAISO to postpone further TAC activities until its role is defined by the new governing board, and/or the Body of State Regulators. Until then, SWC questions the rationale for CAISO developing a TAC proposal and FERC filing when it is likely to be revised, perhaps significantly, by the Board of the regional ISO. At a minimum, any discussion of a regional TAC needs to be part of a comprehensive proposal that also includes governance and transmission planning.

SWC PRIMARY CONCERNS REMAIN UNRESOLVED

In response to the original Straw Proposal the SWC raised five (5) primary concerns: rushed timing; need for fair treatment of transmission users; significant opportunity for unfair cost shifts; a lack of transparency; and a lack of a detailed benefit/cost analysis. Unfortunately, the Revised Proposal fails to address any of those concerns, introduces new issues, and leads to continued questions about the CAISO-led process.

Rather than repeat ourselves, we have included those previous comments. Our members strongly encourage the CAISO to embrace and adhere to its guiding principal that "beneficiary pays." In structuring the TAC according to this principle, the customers of the SWP will be

[1] Revised Straw Proposal, page 4, in reference to Economic and Policy driven new transmission.

protected instead of allowing other entities to have lower costs because the SWP has already made and may continue to make substantial investments.

COMMENTS ON REVISED PROPOSAL

1. ***Rushed Process Lacking Needed Details***: In summary the SWC find the Revised Proposal to be extremely deficient in detail. CAISO regionalization is being addressed through a piecemeal approach – with separate proceedings for governance and the transmission access charge, and the impact studies are disjointed, failing to consider the full range of costs and impacts. This rushed process is not a prudent way to develop a future market for California and potentially the West. At this point, with so many questions unresolved, many California stakeholders will be required to oppose a vague proposal in front of the CAISO Board, the California Legislature, FERC, and potentially elsewhere. We strongly recommend the CAISO take the time and do this right – by undertaking the requisite studies, engaging stakeholders in a meaningful way, and hopefully developing consensus on a complete package for such a dramatic redesign of our energy system.

2. ***Revise Definition of Existing Facilities***: The Revised Proposal includes a new definition for existing facilities, but we believe that there is a much simpler definition for existing facilities: *those facilities that are in service or currently being planned by the prospective PTO.* To be perfectly clear, under this definition all segments of PacifiCorp's Gateway Project should be considered existing facilities. Similarly, any other potential new PTO should not look at joining the CAISO as a means to have California ratepayers pay for transmission projects on their respective systems. The SWC strongly believe that the CAISO has a fiduciary responsibility as a California entity to serve and protect the fundamental interests of its California customers.

3. ***Lower Voltage Requirements Means Inappropriate Regional Cost Allocation***: SWC also seek additional justification for the CAISO's determination to lower the voltage level for projects eligible for regional cost allocation down to 200 kV. We believe this will result in significantly more projects potentially qualifying for regional cost allocation and create the opportunity for additional inter-regional cross-subsidization.

4. ***Unclear Composition and Processes for Body of State Regulators***: The Revised Proposal introduces the concept of the Body of State Regulators, yet lacks any specific detail for stakeholders to comment on regarding how this organization would be created, its composition, its decision-making processes, what occurs if this board and the ISO disagree, and how POUs and other wholesale participants (like the SWC) would be represented. More detail on this Body and how it would work is needed in order for the SWC to comment on this new concept. However, the proposed introduction of the Body of State Regulators and its proposed authority over cost allocation for regional and policy-driven facilities creates significant concern over how the new regional transmission planning process (TPP) will proceed. Will it include both sub-regional and regional planning? How will it address potential expansion of the CAISO? How would costs be allocated to entities that may or may not join?

5. ***Incomplete Impact Studies***: The CAISO's SB 350 studies indicate that regionalization of the entire WECC (less the federal PMAs) could result in $1-$1.5 billion in annual savings for California by 2030. However, the only utility currently evaluating joining the CAISO is

PacifiCorp – what are the savings if only PacifiCorp joins? The draft study results have also not (yet) released information on the required transmission build-out to accomplish the majority of the savings. At the same time, the RETI 2.0 proceedings are indicating that for California to hit is 2030 policy targets for RPS and GHG reduction an incremental 7,000 to 40,000 MW of new renewable generation will need to come online by 2030 (in addition to the new renewables needed to get to 33% by 2020). What are the anticipated costs for building out this new transmission system to access these new energy sources? How will these needs be integrated into the new TPP? Will the new TPP be different if the future is only PAC and CAISO? Will the transmission build-out costs cancel out the projected energy rate savings? These are important questions and issues that need to be addressed.

The SWP customers pay 500% more for transmission than 10 years ago - we have paid for massive build-out of new facilities in California to meet our state's clean energy goals, and the SWP currently uses carbon free power to meet about 70% of its power needs. We understand the importance of achieving a clean energy future, and we are a leader in pursuing that mission. But we can't afford to make mistakes in redesigning the CAISO grid and taking on costs that bring no measureable benefits. The lack of coordination between the various CAISO regionalization studies and stakeholder initiatives taking place in California is troubling and prevents policymakers from informed and responsible decision-making. We encourage CAISO to take the time to conduct a more thorough investigation into the potential impacts from the proposal.

State of Utah

Gary R. Herbert
Governor

Office of the Governor
Salt Lake City, Utah
84114-2220

Spencer J. Cox
Lieutenant Governor

March 2, 2016

The Honorable Edmund G. Brown, Jr.
Governor
Office of the Governor
State Capitol, First Floor
Sacramento, CA 95814

RE: CAISO Expansion

Dear Govern~~or Brown~~, Jerry

Following the passage of California's *Clean Energy & Pollution Reduction Act* (S.B. 350) late last year, I have monitored discussions regarding the expansion of the California Independent System Operator (CAISO) across the Western grid. While it is clear that California's energy agencies and the CAISO are ambitiously pursuing a path for PacifiCorp's participation in a new regional transmission organization, it is not clear whether such a development would be in Utah's best interest.

I understand that recently you received a letter from leaders in the California Legislature expressing their concerns about the expansion, most of which focused on maintaining California's sovereignty and preserving the integrity of its various energy policies. As I contemplate the prospective expansion of CAISO regionally, I have similar concerns with respect to Utah's sovereignty, policies, competitive power rates and system reliability. While we do not seek to unnecessarily impede California's goals, it is my duty to protect the interests of Utah's families and businesses.

My early assessment of this proposal is that, at least for Utahns, the costs of such an arrangement are likely to outweigh the benefits. That being said, I will continue to follow the regional stakeholder process and the associated studies. As you seek to build consensus around this expansion, I encourage you and your agencies to prioritize appropriate governance above all other considerations. For Utah, any move in the direction of a regional transmission organization lacking fair and transparent governance is untenable.

Best regards,

Gary R. Herbert
Governor

Cc: Michael Picker
Robert B. Weisenmiller, Ph.D.
Stephen Berberich

MATTHEW H. MEAD
GOVERNOR

THE STATE OF WYOMING

2323 Carey Avenue
CHEYENNE, WY 82002

Office of the Governor

May 13, 2016

The Honorable Edmund G. Brown, Jr.
Governor, State of California
Office of the Governor
State Capitol, Suite 1173
Sacramento, CA 95814

Re: Regional Western ISO

Dear Governor Brown,

I have been following the possible transformation of the California Independent System Operator (CAISO) into a regional ISO. I am mindful of the volume and complexity of issues and appreciate the open stakeholder process. In weighing whether to support PacifiCorp's participation, I will look at the proposal and the evidence to determine if I believe this is in the best interest of Wyoming ratepayers. As of today I'm not convinced this is in the best interest of Wyoming.

The concern is about governance. California law calls for modifications to governance, bylaw changes and other documents, but CAISO derives its ultimate authority from the California Legislature. I look forward to more information as to how governance will work without infringing on Wyoming's sovereignty.

Thank you for understanding and helping to address my concerns.

Sincerely,

Matthew H. Mead
Governor

MHM:dh

cc: Gregory Abel, President and CEO, Berkshire Hathaway Energy
Stephen Berberich, President and CEO, California ISO

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Stakeholder Comments Template

Transmission Access Charge Options

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

Submitted by	**Company**	**Date Submitted**
Timothy Haines *(916) 447-7357*	*State Water Contractors*	*March 30, 2016*

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