October 28, 2016

SWC Stakeholder Comments
Transmission Access Charge Options for Integrating New Participating Transmission Owners
Second Revised Straw Proposal
Dated September 30, 2016

***Submitted via initiativecomments@caiso.com***

Re: Transmission Access Charge Options Initiative

The State Water Contractors (Contractors) respectfully submit the following comments on the California Independent System Operators (CAISO) Second Revised Straw Proposal on Transmission Access Charge (TAC) Options for Integrating New Participation Transmission Owners (Straw Proposal #2).

## Background and SWP Benefits to California

The State Water Project (SWP) is the largest state-built, multi-purpose water project in the United States. Owned and operated by the California Department of Water Resources (DWR), a primary purpose of the SWP is to store and deliver water to its customers, the Contractors. The service areas of the Contractors are found throughout Northern California, the San Francisco Bay area, the San Joaquin Valley, the Central Coast and Southern California. The SWP delivers an average of 2.6 million acre-feet of water annually to 25 million families and businesses and 750,000 acres of agriculture, providing critical water needs to the majority of California.

The SWP requires significant electricity to pump water from sea level at the pumps in the south Delta to the Contractors' service areas in the Bay Area and south of the Delta. The SWP contains eight carbon-free hydroelectric power plants that play an important role in supplying the energy necessary to run SWP pumps, typically producing the equivalent of more than half of the energy used by the pumps. Flexibility for managing pumping needs and power generation was built into the design of the SWP from its inception over 50 years ago.

The SWP is unlike any other customer of the current CAISO grid and will continue to be unique within an expanded regional grid. The unique characteristics of the SWP—including the fact that the SWP has both load and generation it can control (within certain current operational limits)—allow it to provide numerous grid operations and reliability services to the CAISO and overall electricity market. The SWP can thus play a valuable role in supporting the California electric transmission grid through the curtailment of pumping load during emergency system conditions, which also supports the overall integration of the broader Western Electricity Coordination Council (WECC grid).

If the CAISO is to fully realize its goal of tying costs to benefits, its approach to expansion must address cost allocation to transmission customers such as the SWP that have unique characteristics (and assets) and that do not tangibly benefit from many transmission projects. A more granular approach to the cost/benefit analyses that will face the CAISO and stakeholders as this process moves forward is necessary to ensure the fair allocation of costs, and, relatedly, the overall success of expansion.

**Current Regionalization Proposal Will Drive Up Costs for the SWP**

The SWP customers, who bear all energy costs of the SWP, support the SWP role in integrating renewable resources but do not believe that the SWP should be unfairly burdened with rising transmission costs associated with projects from which they do not benefit.

The studies by the CAISO, as required under SB 350 (De Leon) show that under the CAISO's proposed regionalization approach there will be a net benefit to California electricity customers of approximately $1.5 billion by 2030. According to the SB 350 studies, the net benefits are a result of the gross benefits (approximately $1.8 billion) less gross costs (approximately $300 million of increased transmission costs), resulting in $1.5 billion. However, under the regional TAC proposal, the SWP and the Contractors will see no tangible or economic benefit, but will be subject to an increase in annual costs of over $11 million.

This increase in net costs to the Contractors will occur because the SWP, in a "normal" water year, represents approximately 4 percent of the total energy scheduled through the CAISO. The SWP currently utilizes the CAISO controlled transmission grid for delivery of all of electricity needs – making the SWP the largest customer of the CAISO. Additionally, in the future, declining loads of electric utilities may increase the SWP share of the CAISO load – and respective costs. Therefore, the SWP and the Contractors would see their transmission costs increase by at least approximately $11 million (4 percent of the increase transmission costs in the SB 350 studies). However, the SWP, with a 65-70 percent carbon-free electricity supply and an electricity demand predicated on the water year, does not need or is not able to take advantage of the proposed net benefits (cheaper renewables from out-of-state) that the SB 350 studies identified. Hence, the CAISO's proposal represents a direct increase in our costs without discernible benefits.

**Specific Comment on Straw Proposal #2**

The Contractors believe that numerous aspects of the CAISO's straw proposal require further consideration, but these comments will focus on what we view as the key principle in any formulation of a regional TAC methodology. Specifically, the comments address Straw Proposal #2's statement that "A central policy element of expanding the ISO is the question of how to allocate the costs of owning, maintaining and operating transmission assets that would comprise the expanded ISO's controlled grid."

The Contractors understand that the CAISO is attempting to formulate a workable regional TAC that will entice other states, balancing authority areas (BAAs), and utilities to join the CAISO or its regional successor. The CAISO's Straw Proposal #2 clearly reflects a recognition that an approach that would subject the rest of the WECC to the type of exorbitant increases in transmission costs that the SWP has experienced is not conducive to CAISO expansion. The past decade has brought a 500 percent increase in California's postage stamp TAC rate, and this increase is largely a result of economic- and policy-driven transmission projects that have not demonstrably benefited the SWP and its customers.

The straw proposal appears to contemplate an unchanged approach to sub-regional costs for existing facilities. The Contractors believe that avoiding cost increases where benefits cannot be ascertained is as important currently for California transmission customers as it is for customers in other western states in the future. The Contractors recommend that the CAISO consider revisiting the sub-regional TAC rate for existing California facilities as part of this process.

With respect to new transmission facilities, the Contractors agree philosophically with the straw proposal's attempt to develop a transmission rate methodology that protects transmission customers in both sub-regions from the costs of economic- and policy-driven projects that do not have demonstrable BAA-wide benefits through a "beneficiary pays" approach.

For the Contractors, the "beneficiary pays" concept is the most important policy principle at stake with respect to any regional TAC proposal, and the SWC greatly welcomes the opportunity to discuss how this goal can be best accomplished. The CAISO's current proposal for a sub-regional TAC for new facilities does not go far enough in accomplishing this principle. In the straw proposal, the CAISO defers a more granular approach to cost allocation in the sub-regions, finding that a broader allocation of costs is a necessary step to greater granularity and that a not-yet-formed "western states committee" is a more appropriate forum for addressing the issue.

It is uncertain if, how and when a re-evaluation of this critical cost allocation issue will occur. More importantly, in the intervening period, as the CAISO's own "beneficiary pays" philosophy suggests, the proposed sub-regional cost allocation will result in significant cost shifts as entities within a sub-region may end up paying a significant amount of money for transmission build-outs that they do not need and, from which they may not derive, any benefit. This is exactly the situation that the Contractors find itself in with regard to the CAISO's proposal, and we do not think that we will be alone. PacifiCorp (PAC) customers in Utah and Wyoming may end up paying for transmission projects necessary to meet Oregon RPS requirements, notwithstanding the divergent needs for policy-driven projects. We are sure that there will be other examples in other areas of the PAC sub-region.

**Proposal**

The Contractors propose that all transmission customers should pay for all new reliability projects. However, costs for new economic- and policy-driven projects should be allocated in a more granular manner within the sub-regions to ensure that only those customers who need and benefit from these projects pay for them. The Contractors appreciate the additional work that a more granular approach to cost allocation may entail, but, in the interest of assuring fair cost allocation and, thereby, the success of regional expansion, the core principle of matching costs and benefits for all new projects is too important to punt to some unknown future date.

Sincerely,

Timothy J. Haines
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