Six Cities' Comments

Generator Interconnection Driven Network Upgrade Cost Recovery Initiative

Submitted by	Company	Date Submitted
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Revised Straw Proposal

This template has been created for submission of stakeholder comments on the revised straw proposal for the Generator Interconnection Driven Network Upgrade Cost Recovery initiative that was posted on Sept 6, 2016. The proposal and other information related to this initiative may be found at: http://www.caiso.com/informed/Pages/StakeholderProcesses/GeneratorInterconnectionDrivenNetworkUpgradeCostRecovery.aspx .

Upon completion of this template, please submit it to initiativecomments@caiso.com. Submissions are requested by close of business on **Sept 20, 2016.**

If you are interested in providing written comments, please organize your comments into one or more of the categories listed below as well as state if you support, oppose, or have no comment on the proposal.

1. Option 1, Include the cost of generator-triggered low-voltage facilities in the PTO's high-voltage TRR for recovery through the high-voltage TAC. *Please state if you support (please list any conditions), oppose, or have no comment on the proposal.*

   For the reasons discussed below in response to Question #3, the Six Cities strongly oppose the CAISO's proposal to adopt and expand to all Participating Transmission Owners ("Participating TOs") its "Option 1" approach to revising the cost allocation for generator interconnection-driven Network Upgrades to a Participating TO's Low Voltage transmission facilities.

2. If the ISO moves forward with Option 1, should Option 1 apply on a going forward basis only, or also apply to RNUs and LDNUs that have already been built and whose cost have yet to be recovered from loads (e.g., undepreciated rate base for in-service RNU and LDNU costs that

were reimbursed to an IC). *Please state if you support (please list any conditions), oppose, or have no comment on the proposal.*

As mentioned above, the Six Cities strongly oppose the "Option 1" proposal.

3. Other. *Please provide any other comments or suggestions you may have on this initiative.*

The Six Cities oppose revision of the CAISO's cost allocation rules relating to Low Voltage transmission facilities, including generator interconnection-driven Network Upgrade costs, as proposed in the Revised Straw Proposal. Instead, the Six Cities continue to urge the CAISO to consider changes in its cost allocation policy for Network Upgrades to allocate such costs to Interconnection Customers. The CAISO has wrongly characterized the approach recommended by the Six Cities as a "paradigm shift," and the CAISO has explained that it is reluctant to consider such a change for reasons that appear to be largely logistical or related to administrative convenience and the desire to complete this initiative according to an expedited timeframe. In fact, allocating Network Upgrade costs to Interconnection Customers is not only consistent with cost causation principles, but is aligned with FERC policy concerning interconnection pricing and conforms with the cost allocation approaches used within other major Regional Transmission Organizations.

FERC's Order No. 2003 reiterated FERC's general policy that, for interconnections to the transmission facilities of non-independent transmission providers, Interconnection Customers would be required to provide up-front funding for Network Upgrades, subject to subsequent reimbursement or repayment in the form of transmission service credits. *See* Order No. 2003 at PP 676, 693. It is this general policy that is currently reflected in the CAISO's Tariff, with certain modifications. However, with respect to independent transmission providers, such as the CAISO, FERC provided considerably more latitude in designing a cost allocation methodology for Network Upgrades:

> the Commission believes that, under the right circumstances, *a well-designed and independently administered participant funding policy for Network Upgrades offers the potential to provide more efficient price signals and a more equitable allocation of costs than the crediting approach*. The Commission notes that the transmission pricing policies that the Commission has permitted for an RTO or ISO with locational pricing, in which the Interconnection Customer bears the cost of all facilities and upgrades that would not be needed but for the interconnection of the new Generating Facility and receives valuable transmission rights in return, are acceptable forms of participant funding.

Order No. 2003 at P 695 (emphasis added). In Order No. 2003-A, the Commission stated that assigning Network Upgrade costs to Interconnection Customers conforms to its interconnection policies when the transmission provider is independent and other conditions are met:

> For example, we have permitted the direct assignment of Network Upgrade costs by an independent Transmission Provider when the Interconnection Customer receives well-defined congestion rights in return. Where the customer receives these rights in exchange for a direct cost assignment, and at the same time obtains access to the network in

> exchange for an embedded cost access fee, the Commission has found that the customer is paying separate charges for separate services.…

Order No. 2003-A at P 587 (footnote omitted). The Commission later clarified that Interconnection Customers are entitled to congestion rights in participant funding situations when Network Upgrades create new transmission capability. *See Old Dominion Elec. Coop. v. PJM Interconnection, L.L.C.*, 119 FERC 61,052, at P 16 (2007).

Not only has FERC authorized independent transmission providers to implement cost allocation mechanisms that provide for Interconnection Customers to fund Network Upgrades, but FERC has done so in circumstances that are similar to those currently faced by the Valley Electric Association ("VEA") system:

> Filing Parties state that their filing is designed to provide an interim solution to the unanticipated and inequitable consequences of application of the currently effective cost allocation rules that tend to allocate a large share of generator interconnection-related network upgrade costs to the pricing zone where a new generator interconnects. According to Filing Parties, the flow effects measured by [Line Outage Distribution Factor ("LODF")] result in the allocation of upgrade costs being highest in the zone where the upgrades are constructed and diminishing with distance from that zone. As a result, Filing Parties state, the current LODF approach imposes disproportionate costs on loads in the pricing zones where new generation locates, when the pricing zone in question has high levels of new generation concentration relative to its load. Specifically, Filing Parties point to the current situation where there is 12.7 MW of interconnection requests for every 1 MW of load in Otter Tail Power Company's (Otter Tail) zone. Similarly, Filing Parties report that the ratio is 4.7 to 1 in Montana-Dakota Utilities Company's (MDU) zone. According to Filing Parties, this situation indicates that interconnection customers intend "to serve significant amounts of Load outside the host pricing zone." Filing Parties explain that "the deleterious effects of the current generator interconnection project cost allocation rule" has prompted Otter Tail and MDU, two of the most immediately affected Transmission Owners, to announce their intent to withdraw from the Midwest ISO.

Midwest Indep. Transmission Sys. Operator, Inc., 129 FERC ¶ 61,060, at P 7 (2009), *order on reh'g*, 154 FERC ¶ 61,073 (2016) (footnotes omitted). To remedy the situation experienced by Otter Tail and MDU, the proposal included a requirement that Interconnection Customers would pay 100% of Network Upgrade costs associated with upgrades operated below 345 kV and 90% of the costs of upgrades at and above 345 kV. *Id.* at P 8. The Commission accepted this approach, initially on an interim basis (*id*. at PP 48-49), and it was subsequently made permanent. *See Midwest Indep. Transmission Sys. Operator, Inc.*, 133 FERC ¶ 61,221, at P 332 (2010), *order on reh'g and compliance filing,* 137 FERC ¶ 61,074 (2011), *aff'd in part, dismissed in part, and remanded in part sub nom.*, *Illinois Commerce Comm'n v. FERC*, 721 F.3d 764 (7th Cir. 2013). The MISO approach provides a model for addressing the same issue that has now arisen with respect to the VEA

interconnection queue, and the Six Cities urge the CAISO not to foreclose consideration of a viable solution for administrative reasons or merely to achieve closure of this stakeholder initiative quickly.

The CAISO's justification for revising its current cost allocation for generator interconnection-driven Network Upgrades – namely, that compliance with Commission Order Nos. 890 and 1000 demand a change in the current structure – is not well-founded and contradicts the precedent discussed above. Cost allocation principles established by FERC do not, in contrast to the CAISO's interpretation, require revision to the existing allocation methodology to require costs of Low Voltage Network Upgrades to be included in Participating TOs' High Voltage Transmission Revenue Requirements. The bifurcation between High Voltage and Low Voltage transmission facilities has been a fundamental aspect of the CAISO's transmission pricing structure for many years, and any changes that erode this long-standing bifurcation should be supported with more than generalized statements regarding the broad benefits of new generation.

Notably, in its compliance filing for Order No. 1000, the CAISO explained that "its existing transmission planning and cost allocation tariff provisions largely comply with the requirements of Order No. 1000." In the same paragraph in which its made this assertion, the CAISO provided a description of its planning process and transmission cost allocation and specifically stated that

> the ISO tariff allocates the cost of high voltage transmission upgrades included in the transmission plan, which benefit the entire ISO region, to customers throughout the region; whereas, the costs of low voltage facilities, which provide primarily local benefits, are allocated to the Participating Transmission Owner that builds them and then recovers the costs through its transmission owner tariff from its customers that use them.

(*See* Transmittal Letter – Order No. 1000 Compliance Filing, *Cal. Indep. Sys. Operator Corp.*, Docket No. ER13-103-000 (filed Oct. 11, 2012) at 2.) Explaining that the CAISO elected to retain its existing cost allocation scheme, including the High Voltage/Low Voltage split, the CAISO stated:

> Retention of this existing cost allocation reasonably reflects (1) the historical development of the ISO-controlled grid, (2) the functional characteristics, operations, flows and configuration of the facilities that comprise the grid, and (3) the fact that high voltage facilities provide broad, regional benefits in California, while low voltage facilities provide only local benefits.

Id. at 4. The CAISO elsewhere described at length how its High/Low Voltage split appropriately aligned the benefits of High and Low Voltage transmission facilities with the customers responsible for paying the costs of those facilities. *See generally id.* at 25-31.

With respect to interconnection issues, the CAISO acknowledged that "[i]n Order No. 1000, the Commission ruled that issues related to the generator interconnection process and to interconnection facility cost recovery were beyond the scope of the final rule" (*id*. at 42) and at no point claimed that Low Voltage Network Upgrades provide more broadly allocable benefits such that they should be carved out from the normal cost allocation methodology.

The CAISO's statements on compliance with Order No. 1000 are sharply at odds with the CAISO's recent revelation that its tariff and, specifically, the provisions that operate to allocate

Network Upgrade costs associated with generator interconnections to individual Participating TOs are somehow suddenly non-compliant with Commission pricing policy, including Order No. 1000. In its extensive and detailed filing to address the requirements of Order No. 1000, the CAISO never suggested that any aspect of its Low Voltage cost allocation methodology, including the fact that Network Upgrades to interconnect generation to a Participating TO's Low Voltage system, would be recovered from the Participating TO's Low Voltage customers, violated the Commission's transmission pricing policy or should somehow be allocated differently based on the benefits provided by interconnecting resources.

The CAISO's current position is also inconsistent with its original rate design and the default cost allocation provisions in California legislation AB 1890. In testimony accompanying the original TAC filing, the CAISO's Director of Contracts & Compliance explained that, for transmission facilities operated at lower than 200 kV, the "Access Charge for the local facilities would continue to be recovered on a utility-specific basis … [t]his aspect of the Access Charge, the 'regional/local split' in rates was widely supported by most of the diverse stakeholder group." (Exh. No. ISO-3 – Amendment No. 27, *Cal. Indep. Sys. Operator Corp.*, Docket No. ER00-2019-000 (filed Mar. 31, 2000) at 26:18-24.) It also aligned with the intent of the California legislature as expressed in the default cost allocation terms provided in AB 1890.[1] The Commission rejected the sole protest of this aspect of the CAISO's original TAC proposal and "endorse[d]" the two-tier rate approach as "reasonable." *Cal. Indep. Sys. Operator Corp.*, 91 FERC ¶ 61,205, at 61,722 (2000).

The CAISO also attempts to justify the currently-proposed approach in the Revised Straw Proposal as necessary in order to correct a misalignment of benefits associated with generation development, contending that new generation benefits (or has the potential to benefit) everyone.[2] However, the Commission's policies regarding cost causation, including the principles that costs should generally align with benefits and that ratemaking is "not an exact science," have been in place long before the promulgation of Order Nos. 890 and 1000. A thorough analysis of benefits in light of Commission interconnection pricing policy generally and the basis for the current TAC structure in particular is required before any change as proposed in the Revised Straw Proposal should be seriously considered. Moreover, that analysis should include consideration of the benefits of a participant funding approach, such as adopted in MISO, for accuracy of price signals and efficiency of generator siting decisions. Such considerations are likely to become even more important in the context of a potential regional ISO.

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[1] As the CAISO is aware, the default cost allocation provisions in AB 1890 were not implemented, as the CAISO Board of Governors acted on the initial TAC proposal, which was subsequently filed at FERC. *See* AB 1890 at 9600(a)(2). However, that did not stop the CAISO from referencing these provisions in its Order No. 1000 compliance filing, which explained that continued use of the High/Low split would meet the intent of the California legislature as expressed in AB 1890. *See* Transmittal Letter – Order No. 1000 Compliance Filing at 24.

[2] If it were really true that the Commission's transmission pricing principles require Network Upgrade costs to be broadly allocated to transmission customers on the theory that generation benefits everyone, there would be no justification for the Commission's continued practice of requiring Interconnection Customers to pay for Interconnection Facilities or generator step-up transformers. *See* Order No. 2003 at PP 743-44. Rather, the supposed broad benefits of generation would likewise require transmission customers to fund these facilities as well.