Stakeholder Comments Template

Transmission Access Charge Options Issue Paper

Submitted by	Company	Date Submitted
Bonnie S. Blair *bblair@thompsoncoburn.com* *202.585.6900* *Margaret E. McNaul* *mmcnaul@thompsoncoburn.com* *202.585.6900*	*Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (the "Six Cities")*	*November 20, 2015*

This template has been created for submission of stakeholder comments on the issue paper for the Transmission Access Charge Options initiative that was posted on October 23, 2015. The issue paper 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 **November 20, 2015.**

1. One theme emphasized in the issue paper and in FERC orders is the importance of aligning transmission cost allocation with the distribution of benefits. Please offer your suggestions for how best to achieve good cost-benefit alignment and explain the reasoning for your suggestions.

Consistent with Commission precedent established in litigated proceedings involving the transition of the Cities of Anaheim and Riverside, California, to Participating TO status within the ISO, the costs of network transmission facilities that are under the ISO's Operational Control should be fully rolled-in to the ISO's access charge rates. *See City of Anaheim, Cal., et al.*, Opinion No. 483, 113 FERC ¶ 61,019 (2005), *order on reh'g*, Opinion No. 483-A, 114 FERC ¶ 61,311 (2006). Based on the principles articulated in Opinion No. 483, the Six Cities urge the ISO to retain its existing TAC methodology. PacifiCorp should be treated comparably to existing CAISO Participating TOs, which are all subject to the combined gridwide TAC based on an established methodology that has been in place for multiple years.

In Opinion No. 483, the Commission explained and applied the relevant test for whether transmission facility costs should be included in the TAC: "[t]he Commission affirms the test used in the Initial Decision. The Initial Decision is correct that any degree of integration in the transmission network is sufficient to establish that a facility is a network facility and that its costs must be rolled into transmission rates …" Opinion No. 483 at P 34. The Commission added, "the transmission network is a single interconnected system serving and benefiting all transmission customers and it is this interconnected nature that makes for a reliable system consistently providing for the delivery of electric energy to all customers." *Id*. With respect to costs, the Commission ruled

> It is the Commission's policy that the costs of network transmission facilities be included in transmission rates. There is no need to identify further actual benefits in order to include the costs of network transmission facilities in transmission rates. The fact that they are network facilities means that they are providing benefits to all network users. Since the [Northern Transmission System] and [Southern Transmission System] entitlements have been determined to be integrated network transmission facilities, there is no need for the Cities or the CAISO to establish further actual benefits in order to include the costs of the entitlements in the Cities' TRRs and in the CAISO's rates.

Id. at P 58.

In applying the "any degree of integration" test in Opinion No. 483, the Commission explained that "any transmission functions" would be sufficient to show integration. *Id.* at P 47. The Commission assessed factors including whether the high voltage lines at issue are "designed to and do carry bulk power," whether they are "interconnected with other utilities and other transmission systems," whether the lines are capable of carrying power from more than one generating unit, whether power flows are bi-directional, and whether the lines "provide reliability benefits to the CAISO grid by giving the CAISO increased ability to control scheduling." *Id*. at 48. The CAISO also affirmed arguments by the Commission Trial Staff and Southern California Edison Company that

> the relative actual use of the NTS/STS entitlements is not relevant under Opinion No. 466 orders to determine whether a facility is a network facility. The issue is whether there is any degree of network integration. Use of the entitlements by other customers may be additional proof of network integration, but it is not necessary that other customers make actual use of the entitlements for them to be network facilities …

Id. at P 51.

The Six Cities acknowledge precedent suggesting a cost-benefit analysis is relevant to transmission cost allocation issues and agree that such an analysis may inform the ISO and stakeholders with respect to retention of the existing TAC methodology. (*See* Issue Paper at 5-6, discussing the Seventh Circuit's *Illinois Commerce Commission v. FERC* decisions on MISO and PJM cost allocation.) Significantly, however, the ISO's Issue Paper includes no support for the idea that the ISO 230 kV system would not benefit the PacifiCorp region or that the facilities in the PacifiCorp region do not benefit the CAISO region. Among the touted benefits of the PacifiCorp integration is the enhanced ability of the CAISO to manage overgeneration arising from the integration of renewables in California, which results in lower cost power to utilities in the PacifiCorp footprint. Likewise, generators within the PacifiCorp Balancing Authority Areas will benefit from the ability to access ISO energy markets as part of a combined Balancing Authority Area and transmission network. None of these benefits are achievable absent either the CAISO or PacifiCorp transmission facilities, including the ISO region's 230 kV facilities. For ISO customers to bear the full cost of 230 kV network facilities within the existing ISO footprint, when those facilities likely will benefit all transmission customers in the combined region, would be inappropriate and reflect a misalignment of costs and benefits.

The ISO should proceed from the assumption that transmission customers benefit from integrated transmission facilities and should pay a share of the cost of those facilities and to further support its existing methodology by correlating the benefits that the ISO has already concluded will result from PacifiCorp's integration into the ISO against the projected increase in transmission costs. In short, the Six Cities believe that a more robust exploration of benefits is needed beyond simply assuming, without support, that because PacifiCorp does not have many 230 kV transmission lines today, it will not utilize or benefit from the 230 kV portion of the ISO system.

While the Six Cities do not support revising the TAC methodology, they are very aware that transmission rate increases can significantly impact overall costs. When four of the Six Cities became Participating TOs in 2003 (and when Pasadena joined in 2005), the TAC was substantially lower than it is now, and it has nearly quadrupled in the intervening years. Thus, the Six Cities can appreciate concerns within the PacifiCorp region regarding transmission rate increases as a result of membership in the ISO. While these increases appear to be outweighed by other benefits to PacifiCorp from ISO membership, it may be reasonable to implement a transition period to full transmission rate integration within the combined CAISO/PacifiCorp region. Based on precedent within the ISO, a ten year transition period could be appropriate, with the CAISO and PacifiCorp combining transmission costs in 10% increments each year. At this time, there does not appear to be sufficient information about planned facilities within PacifiCorp – including all potential segments of the Gateway project – in order for stakeholders to develop a position on whether new facilities that are placed into service during the transition period should be subject to the phase-in or whether the costs of such facilities should be fully integrated when they enter service. The Six Cities request that the ISO provide more information about the status of the Gateway project and its costs so that stakeholders may be fully informed about its expected effects on transmission rates.

Finally, the ISO should not undertake a wholesale revision to its TAC methodology based on specific facts of the PacifiCorp system. The ISO has stated that any revisions developed here are intended to apply to future prospective Participating TOs, but an arbitrary voltage delineation for region-wide cost recovery versus sub-regional cost recovery that is predicated on the facilities (and costs) of the PacifiCorp region may undermine future expansion of the ISO footprint to other Participating TOs with substantial 230 kV transmission. The ISO's existing methodology is well-known, and PacifiCorp (and any other prospective Participating TO) should decide whether to join the ISO based on the established TAC. The TAC should not be modified just to accommodate a desire to expand or to address the anticipated views of regulators in other states.

2. Please comment on the factors the ISO has identified in section 5 of the issue paper as considerations for possible changes to the high-voltage TAC structure. Which factors do you consider most important and why? Identify any other factors you think should be considered and explain why.

The ISO should proceed from the assumption that its existing methodology is just and reasonable, and the guiding principle for evaluating potential changes to the TAC should be preserving comparability. The ISO's TAC methodology is well-known and has been in place for multiple years following lengthy FERC litigation. New prospective Participating TOs should be subject to the same rules regarding transmission cost recovery and allocation as the existing Participating TOs. There is precedent for reflecting in the combined gridwide TAC the costs of facilities that are not in California – for example, the ISO did not contemplate revising the TAC when Valley Electric Association ("VEA") became a Participating TO or changing the TAC so that VEA would pay lower TAC rates. PacifiCorp and other prospective Participating TOs should assess the benefits of ISO membership based on the TAC as it stands today, and the ISO should refrain from modifying the TAC just to ease the entry of new Participating TOs. Consistent with preserving comparability, transmission customers in the ISO region should not bear a disproportionate share of the costs of transmission (i.e., 200 kV and above) facilities that form part of the integrated transmission network in the combined region.

The remaining factors identified by the ISO in Section 5 of the Issue Paper are addressed in response to the questions listed below, except for the ISO's request for comments on withdrawal procedures. The Six Cities believe that consideration of possible changes to withdrawal procedures is premature. In the event a transition period is adopted, it would likely be appropriate to adapt the withdrawal procedures to reflect the transition period. Beyond that, the Six Cities expect to provide comments on changes to withdrawal procedures, including the costs to be paid by withdrawing members, in response to a specific proposal by the ISO.

3. The examples in section 7 illustrate the idea of using a simple voltage-level criterion for deciding which facilities would be paid for by which sub-regions of the combined BAA. Please comment on the merits of the voltage-based approach and explain the reasoning for your comments.

The Six Cities oppose the establishment of new TAC sub-regions for 230 kV facilities in order to exempt PacifiCorp from paying the costs of such facilities in the CAISO Balancing Authority Area. First, as discussed elsewhere, these facilities form part of the integrated transmission network from which all transmission customers within the combined region will benefit and which they should expect to support. The ISO appears to be assuming, without support, that the PacifiCorp region will not benefit from the existing ISO grid. Further, the Six Cities are concerned that establishing new sub-regions could serve as a disincentive for entities with significant 230 kV facilities to join the ISO as Participating TOs if they will be unable to include their revenue requirements for such facilities in a combined gridwide access charge on the same basis as the existing Participating TOs. In the Six Cities' view, crafting an additional voltage delineation for region-wide cost recovery that is specifically tailored to accommodate anticipated rate impacts to PacifiCorp and the lesser quantity of 230 kV facilities within PacifiCorp is shortsighted. The CAISO should maintain its long-standing approach to transmission cost allocation and recovery, and future CAISO Participating TOs should assess whether to join the CAISO based on that established methodology.

Additionally, establishing voltage-based sub-regions appears to create complications related to the assessment of wheeling charges. Would wheeling charges follow the regional and sub-regional TAC paradigm? Would transmission customers located in each sub-region pay to wheel power over the sub-345 kV facilities located in the other sub-region? Under the voltage-based approach, wheeling transactions and use of the ISO system by non-Participating TO customers may become less costly, to the detriment of the existing ISO Participating TOs. The Issue Paper does not address the wheeling implications of the proposed voltage-based approach.

4. <u>Please comment on the merits of using the type of transmission facility – reliability, economic, or public policy – as a criterion for cost allocation, and explain the reasoning for your comments.</u>

The Six Cities oppose allocating transmission costs differently to different CAISO transmission customers according to the project type or purpose of the project. Transmission facilities generally have a long useful life, and the purpose for which a facility is used (or anticipated to be used) can change over time, which would potentially result in a misalignment of costs and benefits as grid topology and use evolve. Thus, assuming that, for example, CAISO customers should pay the cost of a particular facility that is ostensibly needed in furtherance of California's renewable procurement targets may result in an inaccurate alignment of costs with benefits if subsequent flows on the facility suggest that the line is being used in a manner that is different from what was initially contemplated. Such a scenario might occur if another state adopts similar procurement targets and the facility is capable of use in meeting that state's targets in addition to those applicable to California. Unless the CAISO intends to revisit facility classifications on an ongoing basis (a process that likely would be highly contentious and burdensome), these misalignments will go unaddressed. Further, this consideration only really speaks to planned new facilities or upgrades; the Six Cities assume that classifying existing facilities according to their primary purpose (i.e., reliability, economic, or public policy) would be infeasible.

5. <u>Please comment on the merits of using the in-service date as a criterion for cost allocation; e.g., whether and how cost allocation should differ for transmission facilities that are in service at the time a new PTO joins versus transmission facilities that are energized after a new PTO joins.</u>

As a general matter, the Six Cities favor full, rolled-in pricing for all existing transmission facilities within the combined region based on the ISO's 200 kV voltage delineation between high and low voltage, with the costs of high voltage transmission facilities continuing to be recovered via the region-wide TAC. To the extent measures are needed to alleviate the effects of an abrupt increase in transmission rates on the PacifiCorp region, the Six Cities do not oppose a transition period consistent with the transition period previously implemented within the CAISO, whereby full, rolled-in treatment is phased in over a maximum period of ten years. The Six Cities do not presently have a firm position on whether the phase-in treatment should apply to new transmission facilities that are placed into service during the transition period or whether the costs of such facilities should be immediately granted full rolled in treatment. In order to fully assess either approach, complete information regarding all planned or considered facilities within the PacifiCorp region, including the entire Gateway project, is needed.

6. <u>Please comment on using the planning process as a criterion for cost allocation; i.e., whether and how cost allocation should differ for transmission facilities that are approved under a comprehensive planning process that includes the existing ISO PTOs as well as a new PTO, versus transmission facilities that were approved under separate planning processes.</u>

Again, the Six Cities favor rolled-in pricing for all existing transmission facilities within the combined region. When a new Participating TO joins the CAISO, transmission planning for the combined region should be performed by the ISO using its approved planning procedures. The Six Cities do not, at this time, have a position as to whether the costs of new facilities placed into service during any transition period that may be adopted should be subject to the transition period rate methodology or whether the new facilities should be immediately rolled in, because more information is needed in order to fully assess the effects of one approach versus the other.

The Six Cities are concerned, however, that prior to the implementation of ISO planning for the combined region, neither region should unilaterally approve significant new projects that will be subject to a combined cost allocation without coordinating with the other region. The entities considering integration should establish a threshold based on project cost to trigger joint review of projects by both regions. This joint review process would apply during the period between when a prospective Participating TO expresses interest in joining the ISO and the date it actually becomes a Participating TO. An interim coordinated process would prevent each region from approving projects that would not otherwise be approved but for the expectation of shared future costs.

7. <u>The examples in section 7 illustrate the idea of using two “sub-regional” TAC rates that apply, respectively, to the existing ISO BAA and to a new PTO’s service territory. Please comment on the merits of this approach and explain the reasoning for your comments.</u>

As explained elsewhere in these comments, the Six Cities do not support the creation of new sub-regional TAC rates as a means of minimizing transmission rate impacts to the PacifiCorp region. The Six Cities believe that this approach is inconsistent with Opinion No. 483 and would result in the ISO region bearing a disproportionate share of costs for transmission facilities that are fully integrated and benefit all customers, including those in the PacifiCorp area. The ISO should not assume without support that PacifiCorp does not benefit from all facilities comprising the integrated transmission network, including 230 kV facilities, simply because it elected in the past to utilize different voltage levels within its system. Simply put, voltage level is not an appropriate proxy for benefits in this situation.

8. <u>Please offer any other comments or suggestions on this initiative.</u>

Due to the complexity of the issues and the potentially large impacts to stakeholders, the Six Cities urge the CAISO to reconsider the expedited timeline it has established for this initiative. Achieving stakeholder consensus in time to take a proposal to the Board of Governors by June 2016 may not be realistic. Even if the ISO is unwilling to formally extend the timeline for this initiative, the Six Cities request that the ISO remain flexible as to scheduling, recognizing that additional time may be needed to fully work through all relevant issues. Taking adequate time to conduct a thorough stakeholder process may avert FERC litigation or settlement proceedings regarding the TAC methodology in the event the ISO does file proposed changes with FERC.

Additionally, the Six Cities urge the ISO to release relevant workpapers and supporting data related to the issues and options discussed in the Issue Paper, so that stakeholders may likewise evaluate the financial impacts of possible changes to the TAC. In particular, we request the following information:

- Projected annual revenue requirements differentiated by voltage level of the existing ISO Participating TOs, PacifiCorp, and other potential new Participating TOs (including those parties presently in the queue to become EIM entities).
- Projected annual load levels of the existing Participating TOs, PacifiCorp, and other potential new Participating TOs (including those presently in the queue to become EIM entities).
- Assumptions regarding future transmission projects.