

# Stakeholder Comments Template

## Transmission Access Charge Options

### May 20, 2016 Revised Straw Proposal

Submitted by	Company	Date Submitted
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The ISO provides this template for submission of stakeholder comments on the May 20, 2016 revised straw proposal. The revised 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](mailto:initiativecomments@caiso.com). Submissions are requested by close of business on **June 10, 2016**.

### Revised Straw Proposal

1. In the previous straw proposal the ISO proposed to define sub-regions, with the current ISO footprint as one sub-region and each PTO that subsequently joins as another sub-region. Now the ISO is proposing an exception to allow a new PTO that is embedded within or electrically integrated with an existing sub-region to have a one-time choice to join that sub-region or become a separate sub-region. Please comment on whether such an embedded/integrated new PTO should become a new sub-region, be given a one-time choice, or whether another approach would be preferable.

#### Six Cities’ Comments:

The Six Cities are concerned that the proposal to allow a new PTO embedded within a sub-region a one-time choice of becoming part of the surrounding sub-region or forming its own sub-region is likely to increase costs disproportionately for customers in the surrounding sub-region. A new PTO that has lower average transmission costs than the average transmission costs of the surrounding sub-region likely would choose to create its own sub-region. Conversely, a new PTO that has higher average transmission costs than the surrounding sub-region likely would choose to become part of the sub-region, thereby increasing charges to the customers in the sub-region. In either case, if the new PTO had been paying wheeling charges for use of the transmission facilities in the surrounding

sub-region, the wheeling charges would be eliminated, which also would have the effect of increasing charges to the existing customers in the surrounding sub-region. Under the CAISO's proposal, the likely cost impacts on customers in the surrounding sub-region would be asymmetrical and unfair.

The preferable approach would be to apply a phased-in postage stamp rate for all transmission facilities, existing and new, under the operational control of the regional ISO. Under such a phase-in approach, all facilities, existing and new, within a new PTO sub-region would be allocated to that sub-region until the average costs for that sub-region were within a specified threshold (perhaps 10%) of the average costs for the CAISO sub-region. At that time, the sub-regions having average costs within the threshold would be merged and a postage stamp rate applied over the merged sub-region. The phase-in/merger process over time should result in expansion of a postage stamp rate over an increasingly broad area without imposing rate shocks on new PTOs and without asymmetric burdens as among new and existing PTOs..

2. The proposal defines “existing facilities” as transmission assets in-service or planned in the entity’s own planning process for its own service area or planning region, and that have either begun construction or have committed funding. The ISO proposed criteria for what constitutes a facility having “begun construction” and “committed funding” and for how these criteria would be demonstrated. Please comment on these criteria and their use for this purpose.

Six Cities’ Comments:

The Six Cities fundamentally disagree with CAISO's proposal to apply differential treatment on a permanent basis to existing versus new facilities. Because the build-out of new transmission infrastructure is in different stages in different areas of the potential footprint for a broad regional ISO, and because such timing differences are likely to persist, any approach to drawing a line between new and existing facilities is likely to result in inequitable outcomes.

Subject to their disagreement with the CAISO's proposal to maintain separate sub-regional rates for existing facilities, the Six Cities observe that the CAISO's as-proposed criteria raise a number of questions that suggest the criteria require further refinement. For example, what party would determine whether physical work of a “significant nature” has been commenced, and what quantity of funds paid or incurred would satisfy the criteria? The concept of “committed funding” likewise would benefit from further detail. Additionally, what role does each sub-region's planning process play in relation to the proposed criteria?

3. The proposal defines “new facilities” as transmission projects planned and approved in an expanded TPP for the expanded BAA. Projects that are under review as potential “inter-regional” projects prior to the new PTO joining may be considered as “new” as long as the “existing” criteria are not met. Please comment on the potential inclusion of candidate inter-regional projects in the new facilities category.

Six Cities’ Comments:

See the response to Item 2 above.

4. Consistent with the previous straw proposal, the ISO proposes to recover the costs of existing facilities through sub-regional “license plate” TAC rates. The ISO’s decision to retain the previous proposal, rather than develop a new proposal for allocating some costs of existing facilities across the sub-regions, was based on the importance of retaining the principle that only new facilities planned through the expanded TPP should be eligible for region-wide cost allocation. Please comment on the license plate approach and the logic for retaining that approach, as explained here and in the revised straw proposal.

Six Cities’ Comments:

See the response to Item 2 above. The Six Cities do not believe there is any logical basis for retaining a permanent difference in treatment between existing facilities and new facilities, and doing so is likely to impede rather than facilitate optimal regionalization. The SB 350 analyses suggest that the full benefits of regionalization will be achieved only through broad regional integration. As noted above, TOs within the different areas in the potential regional footprint are in different stages of transmission build-out. As each TO and its local regulatory authorities consider the costs versus benefits of becoming part of the regional ISO, a permanent distinction between existing and new facilities and the timing for construction of new facilities will give rise to incentives or disincentives for participation as well as controversy over the application of the definitional criteria in specific cases. The essence of a regional ISO is optimization of the use of all resources throughout the integrated region, and such optimization will require the use of all high voltage transmission facilities in the region, whether or not they originally were built for that purpose. Creating a permanent difference in treatment between new and existing facilities is inconsistent with the goal of regionalization.

The CAISO has stated that it considered alternate cost allocation methods for existing facilities that would have reflected some degree of cost sharing. (*See Revised Straw Proposal at 6.*) The Six Cities believe that the existing cost allocation method, when coupled with a phase-in, ought to be a viable option.

5. “New facilities” will undergo a two-step process to determine eligibility for regional cost allocation. First, the project must be planned and approved through the integrated TPP for the expanded BAA. Second, the project must meet at least one of three criteria to be a “new regional facility” eligible for region-wide cost allocation. Please comment on the two-step process to determine “new facilities.”

Six Cities’ Comments:

The Six Cities agree that high voltage facilities planned for construction after the commencement of a regional ISO should be planned and approved through an integrated Transmission Planning Process for the expanded BAA. The Cities consider the details of the TPP to be critical and do not support adoption of a regional TAC policy without concurrent formulation of the TPP.

The criteria for considering a new facility to be eligible for region-wide cost allocation, in whole or in part, should be informed by and established concurrently with the detailed development of the regional TPP.

6. The proposal would allocate the cost of new reliability projects approved solely to meet an identified reliability need within a sub-region entirely to that sub-region. Please comment on the proposed cost allocation for new reliability projects.

Six Cities’ Comments:

Again, the criteria for considering a new facility to be eligible for region-wide cost allocation should be established concurrently with the detailed development of the regional TPP. High voltage transmission projects are likely to have multi-faceted and broad range impacts. For that reason, it seems questionable that any substantial new facilities would be approved solely to meet a reliability need within a sub-region.

7. The ISO proposes that a body of state regulators, to be established as part of the new regional governance structure, would make decisions to build and decide allocation of costs for new economic and policy-driven facilities. Please comment on this proposal.

Six Cities’ Comments:

The Six Cities are unable to comment at this time on CAISO’s general proposal regarding the role of the body of state regulators with regard to transmission planning and cost allocation. While state regulators should have substantial input in evaluating the desirability of new projects and allocating associated costs, the Six Cities are unable to comment on the nature and scope of that input without substantial additional detail concerning the composition of the body of state regulators, the procedures, processes, and principles that will apply to their deliberations and determinations, the provisions for stakeholder input to the body of state regulators, and the relationships between the regional TPP and the deliberations of the body of state regulators. The Six Cities note that the decision to establish such a body appears to be a matter of regional governance,

which has not yet been determined. At this time, it is not known whether a body of state regulators will be a component of the revised governance structure.

Additionally, assigning cost allocation decisions regarding transmission facilities to a body of state regulators may raise jurisdictional concerns relative to FERC's authority to determine just and reasonable transmission rates. The jurisdictional implications of this approach, if any, should be considered.

8. Competitive solicitation to select the entity to build and own a new transmission project would apply to: (a) economic and policy-driven transmission projects approved by the body of state regulators for regional cost allocation, and (b) new projects whose costs are allocated entirely to one sub-region but are paid for by the ratepayers of more than one PTO within that sub-region. The ISO has determined that this policy is consistent with FERC Order 1000 regarding competitive solicitation. Please comment on this proposal.

Six Cities' Comments:

The Six Cities support this aspect of the Revised Straw Proposal.

9. FERC Order 1000 requires that the ISO establish in its tariff "back-stop" provisions for approving and determining cost allocation for needed transmission projects, in the event that the body of state regulators is unable to decide on a needed project. The revised straw proposal indicated that the ISO would propose such provisions in the next proposal for this initiative. Please offer comments and your suggestions for what such provisions should be.

Six Cities' Comments:

As discussed in response to Item 7 above, it is necessary to have much more detail regarding the composition of the body of state regulators, the procedures and processes that will apply to their deliberations and determinations, the provisions for stakeholder input to the body of state regulators, and the relationships between the regional TPP and the deliberations of the body of state regulators in order to understand the role of the body of state regulators with respect to transmission planning and allocation. In the absence of such an understanding, it is impossible even to consider a framework for "backstop" tariff provisions to approve and determine cost allocation for "needed" transmission projects. Who decides that transmission projects are "needed" if the body of state regulators does not see fit to approve them? It would be premature to consider the appropriate scope and nature of "backstop" provisions until the transmission planning and cost allocation processes have been developed in much greater detail.

10. The proposal indicated that the ISO would establish a formula for a single export rate (wheeling access charge or WAC) for the expanded region, and this rate would be a load-weighted average of all sub-regional license plate rates plus any region-wide postage stamp rate. Please comment on this proposal.

Six Cities' Comments:

The Six Cities are not able to express a substantive position at this time concerning the development of a wheeling access charge. On first impression, the CAISO's proposal to develop a weighted average of sub-regional license plate rates plus any region-wide postage stamp rate appears to create the risk of counter-productive incentives that may undermine the objectives for regionalization. But the Six Cities have not identified an alternative methodology they are prepared to endorse.

The Six Cities, however, would oppose any suggestion to eliminate all charges for exports and /or wheeling through the expanded regional BAA, because such transactions would use the grid facilities and should pay a reasonable share of the costs. In addition, any proposal for the wheeling access charge methodology should include the proposed distribution of wheeling revenues in a manner consistent with the methodology for developing the charge.

11. The ISO proposed to retain the provision that once the BAA was expanded and a new TPP instituted for the expanded BAA, any subsequent PTO joining at a later date could be responsible for a cost share of new regional facilities approved in the expanded TPP, based on the benefits the new PTO receives from each such facility. Please comment on this proposal.

Six Cities' Comments:

The Six Cities agree that PTOs that benefit from high voltage facilities should share the costs of paying for them. However, as described in response to Item 1, the Six Cities oppose a permanent distinction in the treatment of existing versus new facilities and support a phased-in postage stamp rate for all transmission facilities, existing and new, under the operational control of the regional ISO.

12. The ISO dropped the proposal to recalculate sub-regional benefit shares for new regional facilities every year, and instead proposed to recalculate only when a new PTO joins the expanded BAA and creates a new sub-region, but at least once every five years. Please comment on this proposal.

Six Cities' Comments:

The Six Cities agree with the CAISO's decision to drop the proposal to recalculate sub-regional benefit shares for new regional facilities on an annual basis. The revised proposal to recalculate benefits when a new PTO joins the expanded BAA and creates a new sub-region, but at least once every five years, is an improvement. However, as discussed above, the Six Cities oppose a permanent distinction in the treatment of

existing versus new facilities and support a phased-in postage stamp rate for all transmission facilities, existing and new, under the operational control of the regional ISO. Under the approach supported by the Six Cities, recalculation of sub-regional benefit shares would not be necessary, at least on a long-term basis.

13. Please provide any additional comments on topics that were not covered in the questions above.

Six Cities' Comments:

**Development of a Comprehensive Regionalization Proposal and Appropriate Sequencing of Related Initiatives** - - The results of the SB 350 benefits analyses as presented in the May 24-25 meetings compel a reevaluation of the approach to regionalization followed by the CAISO thus far. The CAISO has pursued a number of stakeholder initiatives in parallel and under accelerated schedules in order to facilitate integration of the CAISO and PacifiCorp BAAs beginning in 2020. The results of the SB 350 studies demonstrate that there is no justification for making critical policy determinations in a hasty, piecemeal, and uncoordinated fashion.

At this time, parallel processes are under way to develop policy proposals for a regional Transmission Access Charge methodology, a regional Resource Adequacy framework, and a governance structure for a regional ISO. Evaluation of another critical policy - - implementation of California's Greenhouse Gas reduction program in the context of a regional ISO - - has not yet begun. The ISO has pointed to the need for policy direction from FERC on the regional TAC, regional RA, and governance by the end of this year to facilitate review by PacifiCorp's state regulators during 2017 so as to support integration of the PacifiCorp BAAs with the CAISO BAA by 2020. As a result of the accelerated schedules for these critical policy developments, key elements (for example, the Transmission Planning Process for the regional TAC and the metrics for a methodology to establish a regional Planning Reserve Margin for the regional RA framework) will be deferred. There will be limited or no time to consider how elements of the various policy determinations may interact with one another. Perhaps most importantly, there will be no ability for the regional governance entity or entities to provide input on the regional TAC and regional RA proposals prior to seeking guidance from FERC on those proposals.

The SB 350 study results do not support a rush to accomplish integration of the CAISO and PacifiCorp BAAs by 2020. The study results show that benefits to California from integrating the PacifiCorp BAAs in 2020 will be approximately \$16 million, a *de minimis* figure in the context of the overall CAISO markets, unless PacifiCorp pays a load ratio share of the Grid Management Charge. But at the June 16, 2016 workshop on the GMC, a PacifiCorp representative stated that it would not realize sufficient benefits to its customers in 2020 to justify paying a load ratio share of the GMC. Hasty, incomplete, and uncoordinated development of policies for regional integration creates risks of adverse unintended consequences and waste of CAISO, stakeholder, and regulatory resources that far outweigh any expected benefits in 2020 from integrating the CAISO and PacifiCorp BAAs.

The SB 350 study results for 2030, however, based on expanded regional integration, identify the potential for more significant benefits to California. The Six Cities support further efforts to accomplish regional integration on a broad basis that will result in equitable sharing of benefits among all participants. To that end, the Six Cities support a sequenced and comprehensive approach to the development of necessary policies, beginning with development and implementation of a governance framework. With input from the regional governing entity or entities, development of complete policies for the regional TAC (including the Transmission Planning Process), regional RA rules (including, among other necessary components, the methodology for determining the regional PRM), and implementation of California's GHG objectives in the context of a regional ISO should follow. The goal should be to develop a coordinated and comprehensive proposal for regional integration that will have broad support not only among stakeholders in the CAISO and PacifiCorp BAAs but also among stakeholders in BAAs throughout the western region.