

**TANC COMMENTS**  
**ON THE CAISO'S TRANSMISSION ACCESS CHARGE OPTIONS**  
**DRAFT FRAMEWORK REGIONAL PROPOSAL**  
**JANUARY 11, 2017**

The Transmission Agency of Northern California (TANC) appreciates this opportunity to provide comments on the California Independent System Operator Corporation's (CAISO) Transmission Access Charge (TAC) Options Draft Framework Regional Proposal (TAC Framework Proposal). The CAISO published the Proposal on December 6, 2016 with a follow-up stakeholder meeting on December 13, 2016.

**Description of TANC**

TANC is a joint exercise of powers agency organized and existing under the laws of the State of California and is a "municipality" as defined in Section 3(7) of the Federal Power Act, 16 U.S.C. § 796(7) (2012). Among TANC's purposes is the provision of electric transmission facilities and services for the use of its Members<sup>1</sup>.

TANC is the largest Participant and the Project Manager (with an approximately 87 percent entitlement) on the California-Oregon Transmission Project (COTP), a 500-kV transmission project extending from the California-Oregon border to near Pacific Gas and Electric Company's (PG&E) Tesla Substation in central California, where the COTP and the PG&E electric system interconnect. The COTP is the third high voltage link between California and the Pacific Northwest, and became operational on March 17, 1993. As the Project Manager of the COTP, TANC coordinates (in accordance with contractual agreements) its use of the COTP among its Members, with other COTP Participants, and with the owners of the two other 500-kV transmission lines (PACI lines) running from north of the California-Oregon border southward into northern California (including PacifiCorp, Western Area Power Administration (WAPA) and PG&E). Portions of the COTP and the PACI lines constitute the California-Oregon Intertie (COI), for which the CAISO is the current Path Operator. Since 2011, the COTP has been operated in the Balancing Authority of Northern California (BANC) (formerly the SMUD Balancing Authority Area ("BAA")). Some TANC Members' systems are located within the CAISO and others are located in neighboring BAAs. TANC and certain TANC Members also require transmission service involving the use of transmission facilities that are under the operational control of the CAISO. TANC notes that the COI or Path 66 represents the most utilized 'path' within the Western Electricity Coordinating Council (WECC) and a key interface with the Pacific Northwest for meeting California world-leading environmental mandates as well as providing for inter-regional resource sharing and economic transfers.

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<sup>1</sup> TANC's Members are the California cities of Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Palo Alto, Redding, Roseville, Santa Clara, and Ukiah; the Sacramento Municipal Utility District ("SMUD"); the Modesto Irrigation District; and the Turlock Irrigation District. The Plumas Sierra Rural Electric Cooperative is an associate member of TANC.

## **Overview of TANC's Comments**

TANC appreciates that the CAISO is making an effort to address several difficult and important issues in this initiative. While progress has been made on several matters, TANC believes that there remain some significant concerns that need to be addressed. As discussed below, the "Embedded/Integrated" proposal would lead to unduly discriminatory and preferential treatment, is inconsistent with the stated objectives of a regionalized grid, and should be removed from the Proposal.

In addition, further review is needed in conjunction with stakeholders on the cost allocation methods proposed. The TAC Framework Proposal includes new provisions in an effort to allocate costs on a more granular basis for certain policy-driven projects. TANC is appreciative of the CAISO's movement towards more granular cost allocation, but these concepts need to be further vetted to ensure that the default cost allocation methods for all types and scenarios of projects that will be planned for in the regionalized ISO will fully adhere to the principles of cost causation, including needs-based and benefits-based allocation.

With respect to the process, TANC's comments throughout this initiative have stressed the need to address all regionalization issues in an integrated fashion. The CAISO is now seeking to address governance before further developing the regional TAC and regional Resource Adequacy proposals. Governance issues are critical to the development of a regionalized ISO and will inform the other market rule issues for a regionalized ISO, but the market rules will also drive governance determinations. As such, TANC continues to believe that a comprehensive assessment is necessary of all governance and market rules for a regionalized ISO.

Given that one of the fundamental responsibilities of an ISO is to effectively plan for the region's transmission needs, TANC believes an important part of the comprehensive assessment is to address how the new Transmission Planning Process for an expanded ISO would work. As discussed below, it is unreasonable to assume that the current process will be viable for an expanded region.

Finally, given the stakes involved and in an effort to ensure the successful transition to a regionalized ISO, the CAISO should ensure that sufficient time and consideration is afforded and that stakeholders are fully engaged as partners in a comprehensive development process.

### **"Embedded" and "Integrated" Participating Transmission Owners (PTOs)**

In comments to the Second Revised Straw Proposal on TAC Options<sup>2</sup>, TANC raised

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<sup>2</sup> TANC's October 28, 2016 comments on the TAC Options Second Revised Straw Proposal are

several concerns related to the CAISO's attempted definition of "Embedded" and "Integrated" PTOs.<sup>2</sup> The new proposal does nothing to alleviate those concerns. In fact, the new proposal formalizes the Integrated Balancing Authority Area (IBAA) tariff language (§ 27.5.3.8.1) as guiding criteria for defining an Integrated PTO. To date, the IBAA tariff has been punitively and discriminatorily applied only to the BANC and the Turlock Irrigation District (TID) BAAs.

Moreover, by its own definition, it is clear that the CAISO proposed criteria for defining an "Integrated" PTO, is unsuitable for the intended purpose. Specifically, the CAISO admits that formally defining an "Integrated" system is not possible, but describes the concept as:

"...a situation where a new PTO is not dependent on another PTO's transmission facilities to import energy prior to joining, but it does have significant interconnections with one or more PTOs in an existing sub-region and, once it joins the expanded BAA, the new PTO will benefit significantly from the transmission system of the sub-region with which it is integrated."

TAC Framework Proposal at 10. The first criterion of the test for determining if a proposed PTO is "Integrated" is the proportion of peak load that is served by the facilities of the existing sub-region. Since an entity that is Integrated is defined as not being dependent on another PTO's system to meet its load-serving needs, this criterion would not be applicable to, or an indicator of, an Integrated entity. Instead, this criterion reveals that the CAISO is conflating Integrated entities with "Embedded" entities, since an Embedded PTO is defined as one that is "dependent on the transmission facilities of an existing sub-region to meet its load-serving obligations." *Id.*

In addition, since the whole point of the expansion is to create an "integrated" West-wide grid, the rest of the test for determining if an entity is Integrated (i.e., the IBAA-like factors such as the number of interties, parallel transmission, and frequency and magnitude of unscheduled flows) would create controversy, as what could qualify more clearly as a sub-region now may not be as clear in the future. Further, it is possible that this definition would create disincentives to build integrating facilities sooner rather than later.

Furthermore, the lack of any criteria for determining or calculating whether a new PTO would "benefit significantly" from the sub-region with which it is integrated leads to a non-transparent proposal that could result in a subjective allocation of costs and benefits. In fact, if the CAISO were to take into account "significant benefits" to the new PTO joining, the CAISO must also take into account whether requiring the Integrated or

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accessible at: <https://www.aiso.com/Documents/TANCComments-TransmissionAccessChargeOptions-SecondRevisedStrawProposal.pdf>.

Embedded PTO to have its transmission revenue requirement integrated with an existing sub-region's (as proposed in the TAC Framework Proposal at 12) would result in rate shock or otherwise serve as a disincentive to join. These were factors that the CAISO considered in determining to offer sub-regional license plate treatment to PacifiCorp thereby proposing to exempt it from paying the transmission costs of existing CAISO sub-region facilities. The failure to even attempt to minimize the rate impact on an Embedded/Integrated PTO (such as by requiring it to only bear a share of the costs of existing facilities which it actually uses as opposed to having to contribute to the entire sub-regional license-plate TAC of the sub-region to which it is deemed Embedded/Integrated or by incorporating a transition period) reveals the unduly discriminatory, preferential and unreasonable nature of the proposal.

The CAISO's proposal is vague and could be applied to almost any new PTO joining. Failure to provide all new PTOs the same option of being their own sub-region sets up the current CAISO Board or a future ISO Board with the opportunity to make capacious and arbitrary treatment of certain new PTOs. For instance, if this criteria were applied equitably, would PacifiCorp be deemed integrated with Bonneville Power Administration (BPA)? Likewise, would Portland General be integrated with PacifiCorp and/or BPA? In sum, the CAISO's proposal on Embedded and Integrated PTOs would lead to unjust, unreasonable, unduly discriminatory and preferential treatment, is inconsistent with the stated objectives of a regionalized grid, and should be removed from the TAC Framework Proposal.

### **The Integrated Transmission Planning Process (TPP) and TEAM**

TANC remains highly skeptical that the current TPP is adequate to incorporate the new TAC Framework Proposal. The demands on the CAISO staff to complete the current TPP over the fifteen-month period have been stretched. Special studies are not being completed in adequate time for stakeholder review and comment. The addition of new sub-regions, new relevant regulatory authorities, more detailed study plan creation, and more complicated cost allocation and project need evaluation would indicate that the current process would need significant changes to accommodate the new requirements.

A stakeholder process is necessary to define the rules of the integrated TPP for a regionalized ISO and to permit all stakeholders an understanding of how the new TPP would work. Issues that need to be explored for an integrated TPP include whether a 10-year horizon will be sufficient for planning and constructing new needed transmission (including interstate transmission). Appropriate processes will need to be created to ensure that the integrated TPP is designed to fully incorporate and comprehensively consider all needs, resources, and requirements of the expanded grid. As noted in TANC's August 26, 2016 comments in this initiative, the expected re-dispatch and expansion of inter-regional transfers could lead to significant differences in how the current bulk grid is utilized and operated and alter how the future grid should be planned

and ultimately expanded.<sup>3</sup>

Moreover, as noted in TANC's August 26, 2016 comments in this initiative, there are critical flaws in the CAISO's current planning studies and modeling, including with respect to maintenance and inability to forecast congestion on interties and other major paths. The fact that the COI impacts numerous BAAs, including the PacifiCorp BAA, it is critical that the integrated TPP addresses the current modeling flaws, including to reflect an accurate assessment of, and maximize, the COI transfer capability. Thus, in order to ensure robust and reliable planning for all systems involved in an integrated TPP, it would be prudent to fully review and vet these issues in coordination with all impacted entities in a timely fashion.

With regards to the Transmission Economic Assessment Methodology (TEAM), TANC's November 16, 2016 comments in the 2016/17 TPP highlighted the need for a process to fully analyze this methodology with interested entities to ensure fair and accurate cost allocation.<sup>4</sup> For instance, the CAISO's November 16 presentation clarified that TEAM considers "indirect" benefits, such as public policy benefits and renewable portfolio standards goals. Thus, the CAISO should ensure that the TEAM is updated to not double-count policy-driven benefits in projects that meet both policy and economic needs.

### **New Policy-Driven Project Cost Allocation**

The CAISO's major change from previous proposals was to introduce a more granular cost allocation method for one specific scenario and category of projects, i.e., for a new policy-driven project that is built in a different sub-region from the one that is driving the policy need for the project. For such projects, the CAISO proposes to allocate cost shares corresponding to the policy benefits of the project to the load served under the state or local regulatory authority or authorities in the sub-region that drove the needs for the project. TAC Framework Proposal at 4-5, 7, 14-15, 17. Consistent with its view that cost allocation should follow the beneficiary-pays principle, and that costs should follow needs, TANC is supportive of the concept of assigning costs more granularly, but is concerned that the proposal may still result in subsidization by entities that do not need or benefit from such projects. TANC also seeks clarification with respect to the CAISO's proposal to allocate the costs of a new policy project that is built in one sub-region for the benefit of other sub-regions to the "load served under the state or local regulatory authorities within each sub-region . . . whose policy mandates drove the need for the project." Thus, TANC believes further review with stakeholders is required to ensure that the cost allocation proposal for all project types and scenarios are designed to ensure adherence to the principles of beneficiary-pays and that costs are fairly assessed to those

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<sup>3</sup> TANC's August 26, 2016 Comments on the August 11, 2016 TAC Options Working Group Meeting are accessible at: [https://www.caiso.com/Documents/TANCComments-TransmissionAccessChargeOptionsWorkingGroup\\_Aug11\\_2016.pdf](https://www.caiso.com/Documents/TANCComments-TransmissionAccessChargeOptionsWorkingGroup_Aug11_2016.pdf).

<sup>4</sup> TANC's November 30, 2016 Comments in the CAISO's 2015-2017 TPP are accessible at: [https://www.caiso.com/Documents/TANCComments\\_2016\\_2017TransmissionPlanningProcess\\_No v16\\_2016Meeting.pdf](https://www.caiso.com/Documents/TANCComments_2016_2017TransmissionPlanningProcess_No v16_2016Meeting.pdf).

that drive the needs of the project.

Such vetting should include exploration of whether more granular cost allocation of other types of new projects or scenarios would provide a better balance of costs commensurate with benefits/needs.

### **Future Process**

TANC recognizes that the CAISO had determined to not take Board action on the TAC options and to classify this proposal as a Draft Framework Proposal pending finalization of the regional governance discussions that are ongoing. TAC Framework Proposal at 3. The need to address all regionalization issues in an integrated fashion has been a consistent theme in TANC's comments throughout this process. TANC underscores its view that prior to the submission of any filings to the FERC on regional implementation (including any governance and market structure proposals), there must be a comprehensive stakeholder process so that interested entities can understand the full scope of rules (including associated tariff provisions) that are proposed to govern the regionalized ISO in a consolidated, as opposed to piecemeal, manner. There should not be any conceptual piecemeal filings submitted to FERC prior to the submission of a tariff proposal and sufficient time should be afforded for stakeholder input in the development of the final comprehensive proposals (inclusive of tariff language) if any, that will be filed with FERC.