

TANC COMMENTS
ON THE CAISO'S SECOND REVISED STRAW PROPOSAL ON TRANSMISSION ACCESS
CHARGE OPTIONS FOR INTEGRATING NEW PARTICIPATING TRANSMISSION OWNERS
OCTOBER 28, 2016

The Transmission Agency of Northern California (TANC) appreciates this opportunity to provide comments on the California Independent System Operator's (CAISO) Second Revised Straw Proposal on Transmission Access Charge (TAC) Options for Integrating New Participating Transmission Owners (PTOs) published on September 30, 2016, as well as issues that may have arisen at the CAISO Stakeholder Meeting held on October 7, 2016.

TANC remains concerned about the piecemeal process by which the CAISO is pursuing regionalization. For instance, the evolution of the proposed Western States Committee (WSC) and its role related to the Regional TAC continues to evolve – in **two separate** proceedings. At this time, the CAISO is currently undertaking no less than four specific policy stakeholder processes involving regionalization.¹ Furthermore, the CAISO Draft 2017 Stakeholder Initiatives includes a catch-all “Regional Implementation Items”, identified as “Non-discretionary” and identifying several issues that are likely to be of concern. Our over-arching concern is the lack of an explicit commitment by the CAISO to ensure that all the distinct stakeholder initiatives will be consolidated into a comprehensive proposal, resulting in draft tariff language, for review and comment by stakeholders, followed by review from the CAISO Board and ultimately the Federal Energy Regulatory Commission (FERC).

As a related concern, TANC continues to be troubled by the CAISO's continued insistence that the Regional TAC options being proposed can be facilitated in a similar or unchanged Transmission Planning Process (TPP) for the entire Regional Grid. The primary issues of this stakeholder process revolve around the allocation of costs of new regional transmission projects in a regional ISO. It is inappropriate to assume without careful consideration whether these new cost allocation processes will change the existing transmission planning process. Indeed, with a larger regional footprint, which initially incorporates five additional states (and five new state level policy considerations), it is likely that, at a minimum, the length and time needed for studies and vetting of study plans will increase. The expansion of the CAISO to include PacifiCorp will result in many more impacted systems for which the TPP will need to account. To date, such issues have not solicited significant, if any, consideration, at least publicly, by the CAISO. Furthermore, as indicated by CAISO staff at the Stakeholder Meeting on October 7, 2016, the CAISO's own TEAM model is in need of updating and vetting. TANC would hope that this is done sooner rather than later,

¹ TAC Options, Regional Integration of California Greenhouse Gas Compliance, Regional Resource Adequacy and Metering Rules Enhancements.

particularly if the CAISO intends to use this model as its primary vehicle for assessing the benefits of new regional facilities.

The CAISO plan of half a dozen or so simultaneous regionalization-based filings to be submitted to FERC is on its face a daunting prospect. As such, TANC requests that the CAISO commit to a comprehensive process prior to the submission of any conceptual or final tariff filings at FERC related to regionalization of the CAISO.

COMMENTS ON SPECIFIC ISSUES IN THE SECOND REVISED STRAW PROPOSAL

“A central policy element of expanding the ISO is the question of how to allocate the costs, of owning, maintaining and operating transmission asset.”

TANC strongly agrees with this statement made by the CAISO in the second paragraph of the Second Revised Straw Proposal. Over the course of this stakeholder initiative we have seen the CAISO’s thoughts and approach to allocation of both existing and new facilities ‘evolve.’ The CAISO has moved away from the concept of a single ISO-wide postage stamp rate, or a transition period to a postage stamp rate as was utilized when the CAISO was created. The CAISO has locked-in on a license plate rate for existing facilities and now appears focused exclusively on how to treat new transmission assets or facilities. We do note that the CAISO has caveated this proposal as “the ISO’s best thinking to date...but is not intended to be the final word.” TANC takes solace in that statement as we believe that there remains a significant amount of ‘thinking’ that needs to go into the current proposal in order for the future ISO to meet the ‘central policy element’ in a fair and non-discriminatory manner.

Proposed Definition and Treatment of “Integrated” and “Embedded” PTOs is Arbitrary and Unduly Discriminatory

TANC opposes the CAISO’s new proposed treatment for “embedded” and “integrated” PTOs. The proposal to have the regional ISO Board determine on a “case-by-case basis,” whether an entity should be deemed “integrated” and therefore subject to the costs of facilities for which other new PTOs would be absolved fails to provide the requisite transparency that is needed to ensure that the proposal is not applied in an arbitrary or unduly discriminatory manner. The CAISO provides no assurance that there will be an open and transparent process to ensure fair and equitable treatment of all new PTOs.

The CAISO’s proposal to use the Integrated Balancing Authority Area (IBAA) language in the existing CAISO tariff as a guide to determine a PTO’s eligibility to be its own sub-region does not cure this deficiency. To date, the punitive IBAA construct has applied only to the Balancing Authority of Northern California (BANC) and Turlock Irrigation District (TID) BAAs despite the fact that the IBAA tariff was designed to be of general applicability. The

proposal thus appears to target only these two BAAs, or at a minimum smaller BAAs or single PTOs that may be interested in joining the expanded region. In addition, the CAISO indicates that the current proposal is designed to be of general applicability, but has not explained how the IBAA factors, such as interconnections with other BAAs and amount of unscheduled flows which will inevitably increase if and as the region expands west-wide) would be a workable test as the region expands.

Furthermore, failure to provide the one-time option to certain new PTOs would have the very real effect of causing the types of cost shifts that the CAISO appears to be trying to avoid in creating the sub-regional license plate approach for existing facilities. This potential for cost shifts is amplified by the CAISO's proposal that a new PTO, that is deemed embedded or integrated, will pay for existing facilities of the sub-region to which it is deemed embedded or integrated as well as for costs of "new" facilities approved by the regional ISO prior to the new PTO's integration. Absolving only those new PTOs that are not deemed embedded or integrated PTOs from paying costs for the same facilities that embedded and integrated entities would have to fund even prior to their joining the region could potentially be based on arbitrary and preferential reasons and thus could be unduly discriminatory. Consistent with Order No. 1000's principles of not assigning costs to entities that are not enrolled in a region, new PTOs that are deemed "embedded" and "integrated" PTOs should not be responsible for the costs of facilities approved by the regional ISO prior to their integration. Moreover, the proposal to exclude an 'integrated' system from having its own sub-region may result in a significant delay in achieving the CAISO's stated goal of a west-wide RTO.

Proposed Treatment of Reliability, Policy, and Economic Projects Needs Further Evaluation and Exemplifies Need for Comprehensive Consideration of TPP Issues

TANC appreciates the CAISO continued efforts to refine the proposal regarding cost allocation for regional transmission projects. In particular, the CAISO appears to be making significant progress in the treatment of reliability and certain policy project costs in furtherance of a beneficiary pays approach. However, TANC is concerned with the current direction of assigning costs for economic (and potentially policy) projects based upon benefits. A sub-region (or potentially a component of that sub-region) should have a need for which the regional transmission project is addressing in order to qualify for or be subject to cost allocation. We would encourage the CAISO to give further consideration of additional approaches that examine both need and benefits for cost allocation.

For example, some of the States in proposed PacifiCorp sub-region have RPS goals and other do not. Therefore, it is possible that there could be policy projects (regional or not) in the PacifiCorp sub-region that specifically benefits the PAC West states. Will the costs of these projects be applied across the entire sub-region? This is one example that gives TANC a lot of pause when coupled with the proposed treatment of 'integrated' system. It is also

an example as to why we believe some thought and stakeholder discussion regarding an expanded TPP is required.

Role of the WSC Should be Explored Comprehensively

As mentioned in TANC's general comments above, the current proposal for the WSC's role in potential cost allocation for region-wide policy projects, along with the fact that the WSC creation, membership, and potential role are being discussed in another stakeholder forum, make it difficult to provide significant comments based upon this straw proposal. TANC implores the CAISO to develop a means to bring together the various regional initiatives so that they may effectively be considered in tandem.

The CAISO Export Access Charge (EAC) Proposal Has Merit

TANC supports a single EAC so as to prevent exporters from picking and choosing between export points. TANC also supports a distribution of EAC revenues based on the relative shares of each sub-region's Transmission Revenue Requirement. This is consistent with the principle guiding the development of a single system-wide rate reimbursing the costs of the entire system as appropriate. As was mentioned in the October 7 stakeholder meeting, the specific issues of how costs may be allocated to PacifiCorp and the CAISO should not drive a principled development of an EAC, especially as it might affect a future in which the expanded ISO could experience little or no export from the California sub-region(s).