BRYCE FREEMAN
ADMINISTRATOR

DENISE PARRISH
DEPUTY ADMINISTRATOR

MATTHEW H. MEAD
GOVERNOR

# Office of Consumer Advocate

2515 Warren Ave., Suite 304
Cheyenne, Wyoming 82
Telephone 307-777-7427
FAX 307-777-5748
TTY 307-777-5723
http://psc.state.wy.us/oca/oca.htm

June 10, 2016

Ms. Stacey Crowley
Vice President, Regional and Federal Affairs
California ISO
P.O. Box 639014
Folsom, CA 95630

RE: Comments on Revised Straw Proposal on Transmission Access Charge Options

Dear Ms. Crowley:

The Wyoming Office of Consumer Advocate is an independent division within the Wyoming Public Service Commission created by an Act of the Wyoming Legislature in March, 2003. We are charged with representing the interests of Wyoming citizens and all classes of utility customers in matters involving utilities. Should the California ISO choose to restructure itself to allow for the development of a regional energy market, and should PacifiCorp choose to join such regional energy market, the impacts on both the provision of electric service in Wyoming and on customer rates could be significant. It is for these reasons that the Wyoming Office of Consumer Advocate has taken a keen interest in the market expansion stakeholder processes. It is also why we today offer our comments on the May 20, 2016 Revised Straw Proposal relative to *Transmission Access Charge Options for Integrating New Participating Transmission Owners.*

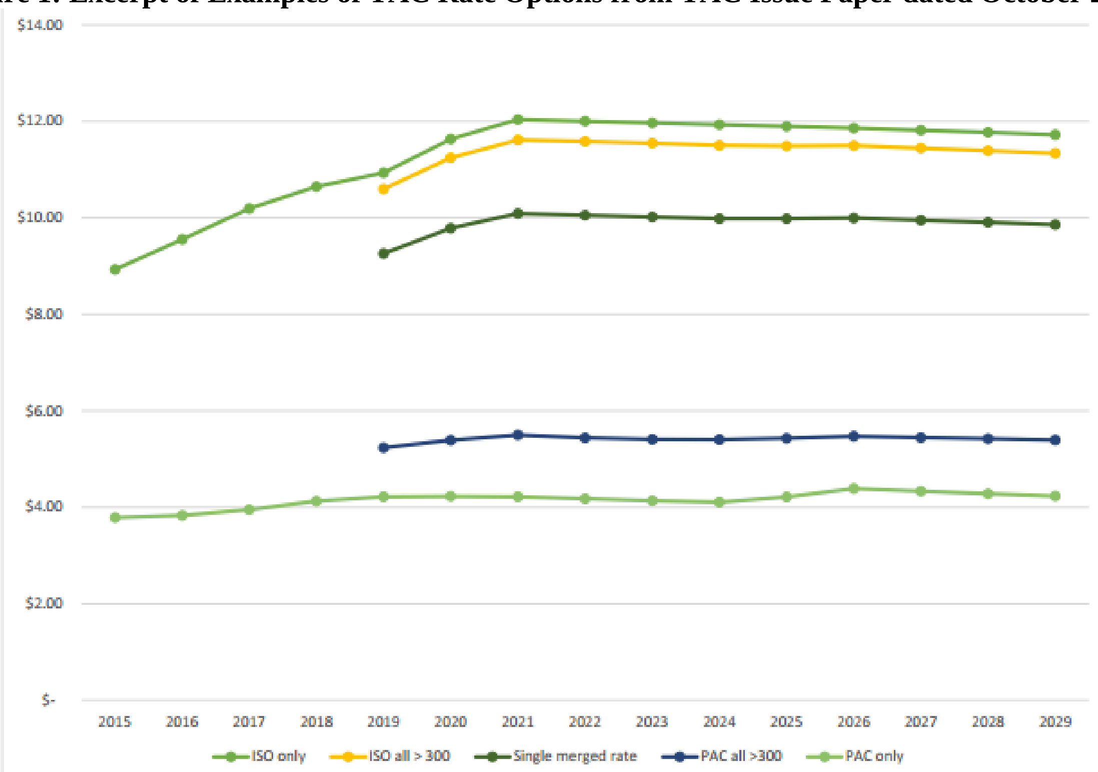
The revised straw proposal, as contained in the May 20, 2016 policy paper, has three major parts: treatment of existing transmission facilities, treatment of new regional transmission facilities, and a determination of transmission facilities subject to competitive solicitation. As to existing transmission facilities, we generally agree with the concept of not pooling all of the existing transmission asset costs to arrive at a single rate to be applied to all participating transmission owners. As to the new regional transmission facilities, we do not take issue with the concept of a body of state regulators weighing in on the matter of how new transmission assets should be assigned to the various states.[1] However, we are concerned about some of the actual implementation matters and implementation timing as it might occur with the state regulators, and suggest that an alternative plan be put in place as a back-up plan should the regulators fail to reach a timely consensus. We will not be commenting on the matter of competitive bidding, at this time. Finally, some questions and comments have arisen during the public workshops about the proposed rate design structure of the transmission access charges. We will weigh in briefly on the matter of an all energy based rate, without a demand based component of the rate.

[1] In fact, the Wyoming Office of Consumer Advocate supports a strong role for the Body of State Regulators in the operation and oversight of the expanded regional energy market. See the Wyoming Office of Consumer Advocate comments in California Energy Commission's Docket No. 16-RGO-01.

*Treatment of Existing Transmission Facilities*

The revised straw proposal calls for the development of sub-regions, with the current balancing authority area of the current California ISO as one sub-region and each new participating transmission owner causing the creation of yet another sub-region. Exceptions may be created for a new participating transmission owners embedded within or electrically integrated with an existing sub-region, as they would be permitted a one-time choice of remaining part of the sub-region with which it is integrated, or becoming its own additional sub-region. Pursuant to the revised straw proposal, each of the sub-regions would continue to pay the costs associated with the existing facilities for that sub-region, rather than causing the costs to blend (either immediately or transitionally) into one rate paid by all of the participating transmission owners within the expanded energy market. We are comfortable with this *license plate* type proposal. While one could reasonably argue that participating transmission owners other than the existing owner of the transmission assets being brought to the regional operations will (or at least may) benefit from this pooled use of the existing assets, in our view, the likely joint benefits are not enough to warrant the pooling of the costs of all existing transmission assets. As shown on Figure 1 below, there are substantial differences among the non-expanded California ISO rate, the expanded, blended regional rate, and the stand alone PacifiCorp rate.[2]

**Figure 1: Excerpt of Examples of TAC Rate Options from TAC Issue Paper dated October 23, 2015**




[2] While we understand that the proposal is meant to look at a generic expansion of the California ISO, and not specifically at the addition of PacifiCorp, our interest is in the impact on Wyoming customers were an expansion of the ISO permitted and PacifiCorp joined as a new participating transmission owner. We also believe that the illustrative impacts raised by the example of PacifiCorp joining an expanded energy market is informative to the overall stakeholder process.

These rate differences are substantial enough that there would be many fundamental questions as to the reasons for such rate differences -- questions such as are they policy driven, or due to geography, or due to asset age, etc. This investigation could be a major distraction from the process of actually expanding the California ISO operations, and could easily distract from the heart and primary purpose of the potential integration process: reducing energy costs for all load serving entities.[3] Furthermore, based on what we know about the systems currently, there are only a few transmission paths, with limited transfer capability, that allow for the transfer of energy between the California ISO and PacifiCorp. Given the current transfer limitations and limited use of each other's systems, it does not seem reasonable that the entirety of the cost of both existing systems should be shared on a blended rate basis.

*Treatment of New Regional Transmission Facilities*

Pursuant to the revised straw proposal, new regional transmission facilities would be defined as: (1) transmission facilities planned and approved under an integrated transmission planning process yet-to-be-established and (2) high voltage lines, defined as greater than 200 kilovolts. While the revised straw proposal defines the new regional transmission facilities, it fails to set forth a specific manner in which these costs will be allocated to each sub-region or each transmission owner participating in the expanded regional energy market. Instead, it simply leaves the allocation decision to a yet-to-be-established body of state regulators. The one exception to this yet-to-be-determined process is for reliability-driven projects that are approved solely on the need to meet reliability within a sub-region. These new facilities would be allocated strictly to that sub-region and not the expanded system as a whole.

The Wyoming Office of Consumer Advocate does not take issue with the concept of establishing a body of state regulators to provide oversight and to participate in governance issues as part of expanding the California ISO into a regional energy market. However, we are concerned about leaving the decisions about transmission cost allocations to such a group of regulatory representatives, without any timeline or further decision-making structure or directives. There are too many unknowns for us to be comfortable with this process given its currently undefined nature and evolving status. Admittedly, part of our discomfort comes from the experiences we have had with interstate jurisdictional cost allocation processes over the past several decades, where it may take several years to reach only a partial agreement on how the costs of shared use facilities are to be allocated to each of PacifiCorp's six states. It is not obvious to us why this process would be any less onerous or reach a conclusion in a timelier manner.

There are several other key unknowns to this body of state regulators proposal:

(a) Will there be an adequate process for taking public input and allowing public participation?
(b) Will each new transmission line be subject to a different allocation formula or will one formula apply to all?
(c) How will this be implemented such that the regulatory authority of individual state regulatory bodies is not usurped?
(d) What happens if agreement is not reached in a timely manner?

[3] During one of the public input sessions, a discussion occurred wherein existing participating transmission owners indicated that the transmission access charge constituted between 10% and 20% of the overall cost of service from the California ISO. While not inconsequential, this cost does not rise to the same level as the cost of energy itself.

Perhaps our comfort with this process would be increased if there were a back-up cost allocation plan established. This plan – most likely some sort of *postage stamp* type based allocation where all costs are shared proportionally with usage (or alternatively a formula where costs are shared based on a defined cost-benefit analysis) – could be established up-front as part of the FERC tariff filing. Of course, any cost allocation plan, whether from the state regulators or as part of a back-up plan would need to be consistent with FERC's cost allocation policies. This back-up allocation process could then be used if the body of state regulators failed to agree upon some alternative wholesale cost allocation method within an established timeline.

*<u>Proposed Energy Based Rate Design</u>*

During the stakeholder process, a number of questions arose about the basis and impact of structuring the transmission access charge such that it is collected strictly on a megawatt hour (or energy) basis rather than having some or all of the transmission access charge tied to megawatts (or demand). The inference of these questions is that certain participating transmission owners, certain states, and/or certain customers will be disadvantaged by this method of structuring the FERC approved wholesale transmission rate. We don't believe that the determination as to who would be disadvantaged, if anyone, can be made based on the information we have seen as part of this public stakeholder process. In order to make such a determination, it would be important to know the relative load factors of each of the participating transmission owners (both existing and those likely to join, such as PacifiCorp).

To see if one participating transmission owner is paying, or being attributed, a greater amount of cost on an energy basis than on a demand basis, it is important to compare the relative amount of energy used by the participating transmission owner relative to the other participating transmission owners. This may then be compared to the relative demand of one owner versus the others – after determining whether one wanted to measure the coincident peak demand or the non-coincident peak demand for each of the participating transmission owners. The comparison of the impact on any one ISO participant will depend on not only whether it is a high energy user or whether it has a high load factor, but will depend on how its load factor compares to that of other ISO participants. This is information that the Wyoming Office of Consumer Advocate has not yet seen as part of this stakeholder process. Thus, we are unable to determine whether the proposed rate design has a positive or negative impact on PacifiCorp and its customers. It is, however, information that would be important to have before the energy based rate structure is finalized for approval by FERC.

As a final point of clarification on this rate design matter, some have expressed concern that the establishment of an energy only based rate design at the wholesale level will dictate the manner in which the transmission costs are allocated or assigned to states or even individual customer retail rate classes. We agree with those who argue that this is not true. We agree with those who have stated the focus of the current transmission access charge stakeholder initiative are the inputs and allocations used to determine the wholesale rate(s) subject to the approval of FERC. In other words, this process and the resulting rate design will determine the amount of transmission related costs to be attributed to each of the participating transmission owners. This is not the process to determine the costs to be attributed to each of PacifiCorp's states or even each of the customer classes within a state.

To provide an example of this, FERC could approve wholesale rates that are based only on energy (megawatt hours). This results in a certain level of wholesale transmission costs for a participating transmission owner – let's say PacifiCorp. Then, under today's process, the established, approved multistate protocol would be used to allocate these costs to each of PacifiCorp's states. This protocol involves a mix of energy and demand allocators. Once the costs attributable to each state is established, then each state regulator would determine how that pool of state level transmission costs would be allocated to each of the retail rate classes. Based on past practices, in Wyoming, this would again involve allocations based on a mix of demand and energy. Thus, the use of energy-only factors at the FERC level would not prohibit the use of demand allocators at the retail level. If the California ISO finds that the Wyoming OCA's understanding is not correct, it should so clarify in its proposal and seek further comments on this issue.

*Closing Comments*

The Wyoming OCA has appreciated the openness of the transmission access charge stakeholder process as it has occurred thus far. We appreciate the willingness of the California ISO staff to engage in discussions with a wide variety of stakeholders and to listen to the concerns as they arise. It has a difficult job ahead to balance the interest of current and potentially new participating transmission owners. While we may not agree with the outcome, once it is known, we do appreciate the courtesies we have been shown as we learn about the California ISO and the challenges involved in its potential expansion into a regional energy market.

Respectfully submitted this 10th day of June, 2016.

Denise Kay Parrish

Denise Kay Parrish
Deputy Administrator
Wyoming Office of Consumer Advocate
2515 Warren Avenue, Suite 304
Cheyenne, WY 82002
(307) 777-5743
Denise.Parrish@wyo.gov