

State of California

Memorandum



Date: December 19, 2022
To: CAISO Staff
From: Energy Division Staff, California Public Utilities Commission¹
Subject: Comments on the CAISO's New Subscriber Participating Transmission Owner Model

Introduction and Summary of Comments

The Energy Division of the California Public Utilities Commission (CPUC or Commission) develops and administers energy policy and programs to serve the public interest, advise the Commission, and ensure compliance with Commission decisions and statutory mandates. The Energy Division provides objective and expert analyses that promote reliable, safe, and environmentally sound energy services at just and reasonable rates for the people of California.² Further, the Energy Division advocates on behalf of California ratepayers at the Federal Energy Regulatory Commission (FERC).

CPUC Energy Division Staff (Staff) recently began following this informal initiative that would allow remotely located transmission facilities to join the California Independent System Operator (CAISO) Balancing Authority Area (BAA) as Subscriber Participating Transmission Owners (SPTO) and allow additional transmission for resources in neighboring states. Staff understand that CAISO retail customers and utility ratepayers will not pay for the transmission revenue requirement (TRR) initially because these initial costs will not be added to the Transmission Access Charge (TAC). Staff appreciate the opportunity to provide comment on this important effort. Staff therefore submit comments and request response to questions on program costs, resource planning, and the process for approving this informal initiative. Generally Staff are supportive of the project because it will allow access to more out-of-state resources, particularly wind, providing opportunities for resource planning and meeting the energy needs of Californians. However, Staff remain cautious about the implications of this project on potential costs to CAISO consumers and utility ratepayers and the implications of creating a new model for future projects on future stakeholder processes.

Comments on Project Costs

Costs for transmission projects that are developed by Participating Transmission Owners (PTOs) are normally incorporated into the CAISO's Transmission Access Charge (TAC) once the project goes into service. The TAC is a FERC-approved formulaic rate that is part of the transmission costs that Load

¹ Please contact Katherine Stockton, Senior Regulatory Analyst, katherine.stockton@cpuc.ca.gov for any questions on these comments.

² More information about the CPUC Energy Division is available at: <https://www.cpuc.ca.gov/about-cpuc/divisions/energy-division>

Serving Entities (LSE) pay, a cost which is ultimately passed through to California consumers and utility ratepayers. CAISO proposes that SPTOs will have their own TAC areas.

This new subscriber model that TransWest Express, LLC (TransWest) is proposing as part of its application to be a PTO would be financed initially by “subscribers” who would be able to sell power to LSEs.³ Thus the initial costs for development of the TransWest Express transmission line (TWE) and network upgrades would not be part of the CAISO’s TAC but ultimately would flow through Power Purchase Agreements (PPAs) signed by LSEs.⁴ While the initial costs in the SPTO model would not end up in any PTO’s rate base and recovered in the TAC, the costs of these network upgrades would still be passed through to California ratepayers eventually, assuming the cost of PPAs go into rates of the specific LSEs purchasing the power. However, the initial cost recovery in the SPTO model for generation and transmission of out-of-state power would appear to have less of an impact on ratepayers, as costs would be included entirely in PPAs for specific LSEs and not included in the regionally allocated TAC.

Subsequent network upgrades to interconnect future resources (i.e. “non-subscribers” who were not identified before the approval of this model), however, will apparently flow through a regional TAC under the CAISO’s current “participant financing” model. Participant financing requires generators to initially fund the needed network upgrades, and transmission owners reimburse generators over a five-year period after the commercial operative date of the resource, thereby adding the costs of the network upgrades to the rate base to be recovered from load customers through the TAC.⁵

In the paper, CAISO explained:

If in the future additional generation projects wish to interconnect to the TWE line, the generating facility will be evaluated just like other potential projects through the ISO’s generator interconnection process consistent with Appendix DD of the ISO tariff. TransWest would establish a Regional TAC to recover those costs if the ISO tariff still requires the Participating [Transmission Owners] to reimburse Interconnection Customers for the cost of network upgrades.⁶

The TWE line will be located in Wyoming, Utah, Nevada, and California. While the subscriber(s) will pay for the initial costs related to transmission development and any network upgrades, it appears that the protection of the TAC – and California ratepayers – from incurring costs on the TWE line is temporary. Staff request response to the following questions:

1. If subsequent interconnection-related upgrades will be participant financed and eventually included in each PTO’s rate base and recovered from load customers in California, how will the costs to California ratepayers will be “roughly commensurate”⁷ with the benefits they receive from these network upgrades?

³ Note that TransWest will not be able to add future subscribers.

⁴ *Subscriber Participating Transmission Operator Model Status Update*, Deb Le Vine, California Independent System Operator, November 28, 2022, page 5.

⁵ *Id.* at page 8.

⁶ *Id.*

⁷ As stated in FERC Order No. 1000, “[t]he cost of transmission facilities must be allocated r those within the transmission planning region that benefit from those facilities in a manner that is at least roughly commensurate with

2. Will costs of such subsequent network upgrades be allocated to Wyoming, Utah, and Nevada customers? How will this allocation be determined?
3. If all costs of such network upgrades end up in CAISO's high voltage TAC, what guarantee is there that ratepayers in the CAISO's footprint are receiving all of the benefits of such upgrades?

CPUC staff have had informal discussions with staff from one of the large investor-owned utilities, who stated that they were uncertain about cost/ratepayer impacts. They were not able to offer strong opinions about the price impacts within negotiated PPAs. More information is needed on the rate impacts of projects like these.

Comments on Resource Planning

This initiative is consistent with Integrated Resource Planning (IRP) needs for LSEs to have opportunity to procure out-of-state resources, particularly wind in Wyoming, and would contribute to diversity in options for resource technologies and geographic locations. A recent CPUC decision, Decision 22-02-004, adopted as part of Rulemaking 20-05-003, included 1,500 MW of out-of-state resources as part of the preferred system plan. The decision emphasized the CPUC's expectation that it will continue to evaluate the need for out-of-state resources from Wyoming, Idaho, and New Mexico. Projects like these provide LSEs with needed opportunities to procure these resources.

During the December 5, 2022 meeting and, in the paper, CAISO noted that TransWest held a FERC-approved solicitation to sell transmission capacity, and that capacity has been fully subscribed by the Power Company of Wyoming.⁸ Staff request response to the following two questions:

If the transmission has been fully subscribed by the Power Company of Wyoming, is there capacity available to flow through to California? If so, how much?

Would adding this transmission project in this location increase congestion in the CAISO BAA?

Comments on the Stakeholder Process

The paper indicates that TransWest Express, LLC (TransWest) submitted multiple study requests in the past into CAISO's Transmission Planning Process (TPP) as a regional or interregional project under the ISO operational control, but was not approved for several reasons, including a lack of support under the policy-driven transmission needs. Staff request response to the following question:

- What were the other reasons that the project was not approved?

CAISO briefed the Board of Governors on December 15, 2022 and submitted for approval the application of TransWest to become a Transmission Owner for the transmission line so that the CAISO

estimated benefits." Transmission Planning and Cost Allocation by Transmission Owning and Operating Public Utilities at P586, FERC Docket No. RM10-23 (Issued July 21, 2011).

⁸ *Subscriber Participating Transmission Operator Model Status Update*, Deb Le Vine, California Independent System Operator, November 28, 2022, footnote 1, page 3.

could perform network upgrade studies.⁹ Comments on the SPTO model are due on December 19, 2022. Staff request response to the following question:

- Why did CAISO submit the application for this project for approval prior to reviewing stakeholder comments?

Finally, this project creates a new participation model for transmission that is outside of the TPP, which was developed outside the CAISO's typical policy initiative process. CPUC staff appreciates the level of innovation and creativity that CAISO used to develop the project and new SPTO model, but staff has questions about the stakeholder process. Staff request responses to the following questions:

1. Does CAISO anticipate approving future SPTO projects using new models outside of the annual roadmap and typical policy initiative process? Under what criteria will CAISO consider such new projects and models, and will future applications be open to stakeholder comment?
2. Please explain how it is appropriate for projects to be approved outside of the TPP, especially when projects trigger upgrades within CAISO. Are there other examples of this?

² See *Decision on Participating Transmission Owner Application of TransWest Express LLC*, approved at the December 15, 2022 CAISO Board of Governors meeting, available at: <http://www.caiso.com/Documents/DecisiononPTOApplicationforTransWestExpressLLC-Memo-Dec2022.pdf>