



Chief Executive Officer and General Manager's Report and Recommendation

on Open Access Transmission Tariff

March 16, 2017 • Volume 1

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Report and Recommendation on**

Open Access Transmission Tariff

***Volume 1
March 16, 2017***

a Sacramento Municipal Utility District Publication

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Open Access Transmission Tariff***

Volume I

March 16, 2017

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Contents

I.	Introduction	1
	1. SMUD’s Commitment to Our Customers.....	1
	2. Overview	1
II.	Proposed Tariff Revisions	3
	1. Open Access Transmission Tariff.....	3
	Issue	3
	Content of Proposed Tariff.....	3
	Customer and Revenue Impact	3
	Energy Imbalance Market Participation	4
	Recommendation.....	4
	2. Summary of Tariff.....	4
	Ancillary Services.....	4
	Point-to-Point Transmission Service	5
III.	Environmental Assessment	7
IV.	Proposition 26 Compliance	9
V.	Glossary of Terms	11

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I. Introduction

1. SMUD's Commitment to Our Customers

Although the electric utility industry is in a state of flux due to the combined impacts of new technology and regulatory changes, SMUD continues to focus on what we do best — providing the Sacramento region with reliable, clean, and competitively priced power and being our customers' trusted energy advisor.

2. Overview

SMUD owns and operates high voltage transmission facilities, and in February 2004 SMUD adopted an Open Access Transmission Tariff (OATT) consistent with the regulations established by the Federal Energy Regulatory Commission (FERC). SMUD offers any excess transmission on our system to other entities that desire to transport energy through our service territory.

SMUD's OATT establishes the rates, terms, and conditions under which we will provide transmission service. Although SMUD is not a jurisdictional public utility subject to FERC's rate jurisdiction under Section 205 or Section 206 of the Federal Power Act, SMUD voluntarily adopted an OATT. Under the Open Access Transmission Tariff, SMUD provides generator interconnection procedures, network transmission through the SMUD service territory, and point-to-point transmission service over SMUD's high voltage transmission facilities.

This document presents proposed changes to SMUD's OATT to the SMUD Board of Directors, as well as to our customers, community and the interested public. It recommends approval of a revised OATT with an effective implementation date of July 1, 2017.

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II. Proposed Tariff Revisions

1. Open Access Transmission Tariff

Issue

Formalization of these tariff revisions will serve to:

- Ensure SMUD's transmission rates reflect current costs; and
- Provide SMUD additional flexibility to market its excess transmission capacity.

Content of Proposed Tariff

The proposed changes to the existing OATT:

- Clarify certain terms and conditions of the tariff;
- Update rates for Ancillary Services provided by SMUD under Service Schedules 1, 2, 3, 5, 6 and 10;
- Update wholesale transmission rates for Firm and Non-Firm Point-to-Point Transmission service under Schedules 7 and 8;
- Standardize the \$/MW nomenclature under Service Schedules 1 through 10;
- Update scheduling timelines to be consistent with regional practices;
- Add an hourly product in Schedule 7; and
- Add a yearly product in Schedule 8.

Customer and Revenue Impact

Charges imposed under the new 2017 rate are charged only to those customers taking service under the tariff and reflect the reasonable cost to SMUD of providing tariff service. SMUD's costs for providing service under the tariff were determined by 2015 data.

SMUD System Rate:

The new SMUD System rate will have no immediate revenue impact on SMUD since it has no customers currently taking long-term open access transmission service under the SMUD System Rate.

COTP Rate:

The new COTP Rate acts as a maximum allowable rate that can be charged for Point-to-Point Transmission service on SMUD's share of the California-Oregon Transmission Project. Since SMUD implemented market-based Discount Pricing in March 2016, this rate has no immediate revenue impact on SMUD.

Energy Imbalance Market Participation

In October 2016, SMUD's Board of Directors approved SMUD's participation in the California Independent System Operator Corporation (CAISO) Energy Imbalance Market (EIM). SMUD will participate in the EIM through the Balancing Authority of Northern California, the Balancing Authority Area operator, with an anticipated go-live date of April 2019. Changes to SMUD's OATT, including updates to Schedule 4 (Energy Imbalance Service) and Schedule 9 (Generator Imbalance Service) to reflect CAISO pass-through costs, are needed to accommodate participation in the CAISO EIM, with such changes to be incorporated in the future before the go-live date.

Recommendation

- Approve the revisions to the OATT effective July 1, 2017.
- Authorize the CEO and General Manager to modify SMUD's OATT to facilitate EIM participation in accordance with the CAISO Tariff.
- Authorize the CEO and General Manager to modify the non-rate terms and conditions of SMUD's OATT to: 1) conform with, or obtain the benefits of, future Congressional or regulatory policies or requirements; and 2) respond to market and operational conditions as long as the modifications are intended to provide a net benefit to SMUD.

2. Summary of Tariff

This section summarizes the proposed Ancillary Service revisions and updated rate schedules. Detailed descriptions can be found in Volume 2 of this report, "Open Access Transmission Tariff."

Ancillary Services

Ancillary Services provide necessary support of transmission capacity and energy between the generating resources and the utility customers' loads. These services are critical to the reliable operation of the transmission system, in accordance with good utility practice.

The OATT includes revisions for the following six Ancillary Service schedules (see Volume 2 for yearly, weekly, daily and hourly rates in the corresponding schedules):

Schedule 1: Scheduling, System Control and Dispatch Service

\$267.21/MW of Reserved Capacity per month.

Schedule 2: Reactive Supply and Voltage Control From Generation or Other Sources Service

\$76.94/MW of Reserved Capacity per month.

Schedule 3: Regulation and Frequency Response Service

\$346.95/MW of Reserved Capacity per month.

Schedule 5: Operating Reserve – Spinning Reserve Service

Demand Charge: \$7,866.26/MW per Month times the Transmission Customer’s Load Ratio share of Transmission provider’s spinning reserve requirement.

Schedule 6: Operating Reserve – Supplemental Reserve Service

Demand Charge: \$7,258.06/MW per Month times Transmission Customer’s Load Ratio share of Transmission provider’s supplemental reserve requirement.

Schedule 10: Generator Regulation and Frequency Response Service

\$346.95/MW of Reserved Capacity per month.

Point-to-Point Transmission Service

Firm Point-to-Point Transmission

Firm Point-to-Point Transmission service is the reservation and transmission of capacity and energy on a non-interruptible basis from the Point(s) of receipt to the Point(s) of delivery. The proposed monthly rates are listed below. (See Volume 2, Schedule 7 for yearly, weekly, daily and hourly rates.)

Schedule 7:

System Rate: Transmission between the SMUD System and any single point of interconnection between the Transmission Provider and an interconnected third-party transmission provider, as specified on SMUD’s Open Access Same-Time Information System (OASIS).

\$1,652.54/MW of Reserved Capacity per month.

COTP Rate: Transmission between Captain Jack 500 kV and Tracy 500 kV substations.

\$3,182.64/MW of Reserved Capacity per month.

New Hourly Product: An hourly product is added to the OATT for market flexibility.

Non-Firm Point-to-Point Transmission

Non-Firm Point-to-Point Transmission service is the reservation and transmission of capacity and energy on an interruptible basis from the Point(s) of receipt to the Point(s) of delivery. (See Volume 2, Schedule 8 for yearly, weekly, daily and hourly rates.)

Schedule 8:

System Rate: Transmission between SMUD System and any single point of interconnection between the Transmission Provider and an interconnected third-party transmission provider, as specified on SMUD’s OASIS.

\$966.09 /MW of Reserved Capacity per month.

COTP Rate: Transmission between Captain Jack 500 kV and Tracy 500 kV substations.

\$3,182.64/MW of Reserved Capacity per month.

New Yearly Product: A yearly product is added to the OATT for market flexibility.

Wholesale Transmission Service Rate Comparisons

Proposed and Current Firm Point-to-Point Transmission Rates		
	Proposed Rate	Current Rate
System Rate	\$ 1,652.54/MW of Reserved Capacity/month	\$ 871.38/MW of Reserved Capacity/month
COTP Rate	\$ 3,182.64/MW of Reserved Capacity/month	\$ 5,043.84/MW of Reserved Capacity/month

Proposed and Current Non-Firm Point-to-Point Transmission Rates		
	Proposed Rate	Current Rate
System Rate	\$ 966.09/MW of Reserved Capacity/month	\$ 553.94/MW of Reserved Capacity/month
COTP Rate	\$ 3,182.64/MW of Reserved Capacity/month	\$ 3,862.84/MW of Reserved Capacity/month

III. Environmental Assessment

- 1.0 Section 21080(b)(8) of the California Public Resources Code and Section 15273 of the California Environmental Quality Act (CEQA) Guidelines (California Code of Regulations, Title 14, Sections 15000, et seq.) provide that CEQA does not apply to the establishment, modification, structuring, restructuring, or approval of rates, tolls, fares, and other charges by public agencies which the public agency finds are for the purpose of:
- (1) Meeting operating expenses, including employee wage rates and fringe benefits;
 - (2) Purchasing or leasing supplies, equipment, or materials;
 - (3) Meeting financial reserve needs and requirements;
 - (4) Obtaining funds for capital projects necessary to maintain service within existing service areas; or
 - (5) Obtaining funds that are necessary to maintain such intra-city transfers as are authorized by city charter.
- 2.0 Section 15061(b) (3) of the CEQA Guidelines provides that where it can be said with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA.
- 3.0 The proposed action to revise the rates in the Open Access Transmission Tariff (OATT) with an effective implementation date of July 1, 2017, is for the purposes set forth in (1) through (4) of Section 1.0 of the Environmental Assessment. Therefore, this rate action is exempt from the requirements of CEQA.
- 4.0 It can be seen with certainty that there is no possibility that the non-rate proposed modifications to the OATT may have a significant effect on the environment. Therefore, this proposed action is not subject to CEQA.

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IV. Proposition 26 Compliance

INTRODUCTION. California voters approved Proposition 26 in November 2010, and that measure provides that every “levy, charge, or exaction of any kind imposed by a local government” is treated as a tax subject to voter approval, with exceptions discussed below. (Cal. Const., art. XIII C, § 1, subd. (e).) Proposition 26 therefore applies only to charges that are “imposed” by local government. SMUD’s Open Access Transmission Tariff (OATT) rates are not “imposed” on transmission customers for purposes of Proposition 26, because that language requires some exercise of government force or authority, which is not involved when a public agency such as SMUD provides services to transmission customers in a competitive market. These customers pay only for the voluntary use of service.

PROPOSITION 26 DOES NOT APPLY TO SMUD RATES. Although Proposition 26 therefore does not govern SMUD OATT rates, the rate structure developed for this Chief Executive Officer and General Manager’s Report and Recommendations on Open Access Transmission Tariff (“Report”) complies with Proposition 26, which includes seven exceptions that treat certain charges imposed by local government agencies as fees rather than taxes, four of which are relevant to SMUD’s OATT charges.

COST-JUSTIFIED FEES FOR BENEFITS AND SERVICES. First, charges for benefits conferred upon the payor, or for specific government services provided directly to the payor, are excepted under Cal. Const., art. XIII C, subdivisions (e)(1) and (e)(2), respectively, provided that the charge does not exceed the reasonable cost of providing that benefit or service. The proposed increases to SMUD’s OATT rates are based upon cost of service principles, because the cost-drivers of the increases are due to additions to SMUD’s facilities, changes with regard to SMUD’s major points of transmission interconnection including joint operation and cost sharing with the Balancing Authority of Northern California, Transmission Agency of Northern California, and the Western Area Power Administration, and escalation of administrative and general expenses. Moreover, the cost of SMUD’s participation in the California System Operator Corporation (CAISO) Energy Imbalance Market (EIM), which is expected to begin in April of 2019, will be passed through to OATT customers in order to recover the cost of service. SMUD used actual 2015 cost and depreciation data to determine the rate increase. These cost-drivers affect SMUD’s costs to provide transmission service uniformly to all transmission customers.

NON-COST-JUSTIFIED FEES FOR USE OF SMUD PROPERTY; FINES AND PENALTIES. Although SMUD's OATT rates are cost-justified, Proposition 26 also provides exceptions that are not restricted by cost of service principles and, in the alternative, apply to SMUD's OATT rates because they are charges for the use of government property. Proposition 26 provides exceptions for the following categories of charges, which are not treated as taxes subject to voter approval: (1) charges for the use of government property and (2) fines and penalties. (Cal. Const., art XIII C, § 1, subds (e)(4) and (e)(5).) Unlike charges for benefits and services, which cannot exceed the reasonable cost of providing those benefits and services, Proposition 26 does not limit charges for use of property to the cost of service. SMUD's OATT rates are for the use of SMUD property (e.g. transmission assets), and therefore, those charges would comply with Proposition 26 if it applied (which, as explained above, it does not) even without a showing that such charges are limited to SMUD's costs.

V. Glossary of Terms

Ancillary Services

Those services that are necessary to support the transmission of capacity and energy from resources to loads while maintaining reliable operation of the Transmission Provider's transmission system in accordance with good utility practice.

COTP

The California-Oregon Transmission Project 500 kV transmission line interconnecting the Northwest with California utilities. Of the 1600 MW transfer capability of this line and as a member of the Transmission Agency of Northern California (TANC), which co-owns the line, SMUD is entitled to 528 MW of transfer capability southbound and 405 MW of northbound transfer capability, though this amount may change over time.

COTP Rate

Transmission service rate between the Captain Jack 500 kV and Tracy 500 kV substations.

FERC

The Federal Energy Regulatory Commission or its successor.

Open Access Same-Time Information System (OASIS)

The information system and standard of conduct implemented by the Transmission Provider.

Point-to-Point Transmission Service

The reservation and transmission of capacity and energy from a specified point of receipt to a specified point of delivery.

Small Generating Facility

A Generating Facility having a Generating Facility Capacity no larger than 20 MW.

System Rate

Transmission service rate between the SMUD System and any single point of interconnection between the Transmission Provider and an interconnected third party transmission provider, as specified on SMUD's OASIS.

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