California ISO

Transmission Access Charge Options for Integrating New Participating Transmission Owners

Draft Regional Framework Proposal

Stakeholder Comments and CAISO Responses

March 2, 2017

Transmission Access Charge Options Initiative

Summary of Stakeholder Comments Submitted on the Draft Regional Framework Proposal and CAISO Responses

March 2, 2017

1. **The proposal defines "new facilities" as facilities that are planned and approved under an integrated TPP that will plan new transmission infrastructure for the entire expanded BAA and will commence upon integration of the first new PTO. Please comment on the CAISO's proposal for the definition of "new facilities."**

A majority of stakeholders are in support of the definition of "new facilities", including ORA, SCE, TransCanyon, and UAE/WIEC.

- BPA will not support unless this statement is placed back in the definition. "Projects that are under review as potential 'inter-regional' projects prior to the new PTO joining may be considered as 'new' if they meet needs identified in the integrated TPP."
- CPUC Staff continues to recommend that if existing facility costs will not be shared regionally, then spreading new facility costs regionally should be limited to compelling circumstances.
- Six Cities simply opposes the definition.

ISO response: The definition of "new" facilities, which is intended to define the scope of transmission facilities potentially eligible for cost allocation across the entire expanded BAA, has had considerable discussion and iteration in the course of this initiative. The ISO believes that the definition as stated in the draft regional framework proposal (DRFP) is the most appropriate definition for the purpose just stated. The ISO also acknowledges BPA's point as consistent with the DRFP: that a project under review as an "inter-regional" project may be considered "new" if it meets needs identified in the integrated TPP and is selected in that process as the preferred solution to meet the identified need.

2. **The proposal previously defined "existing facilities" as transmission facilities that are in service or have been approved in separate planning processes for the current CAISO BAA and the new PTO's area at the time the new PTO is fully integrated into the expanded BAA. Simply stated, all transmission facilities that are included in the controlled grid for the expanded BAA and are not "new" facilities will be considered "existing" facilities. Please comment on the CAISO's proposal for the definition of "existing facilities."**

<u>A number of stakeholders who commented on the definition of existing facilities objected to the proposed cost allocation for existing facilities rather than the definition itself. Others that commented on the definition are considered below.</u>

- LADWP and TransCanyon request that the ISO provide further information on how existing transmission projects currently under development, both within and outside the Inter-Regional Transmission planning process, may be incorporated into future TPPs.
- ORA supports the simplified definition of existing facilities.
- PAC does not oppose this definition.
- SCE supports the clearer definition of existing facilities.
- UAE/WIEC supported the definition.

<u>ISO response:</u> The ISO believes that the definition as stated is quite clear: Transmission facilities under the operational control of the ISO for the expanded BAA are either “new” or “existing,” and the “new” category is limited to facilities approved under an integrated TPP for the expanded BAA. Thus the “existing” category includes all facilities that were approved prior to the formation and outside of the integrated TPP, regardless of whether the facilities are already in service or still under development at the time the expanded BAA begins operation. This definition has had extensive stakeholder discussion in the course of the initiative and the ISO believes that the definition stated in the DRFP is the best approach.

3. **The CAISO provided further details on the determination of whether a candidate PTO should be deemed “integrated” within an existing sub-region rather than designated a new sub-region. The CAISO proposed that the expanded ISO would work with the candidate PTO and other stakeholders to apply criteria specified in the tariff (listed in the December 6 proposal) for making this determination. The CAISO would then present its recommendation to the Board of Governors as part of the new PTO application process, and upon Board approval would file for FERC approval of the proposal to treat the new PTO as either a new sub-region or part of an existing sub-region. Please comment on this element of the proposal.**

<u>A majority of stakeholders who commented oppose this proposal.</u> <u>The stakeholders that oppose include: BPA, CPUC, ICNU, LADWP, MID, ORA, PAC, Roseville Electric, SCL, SMUD, and TANC.</u>

- BPA believes the list of criteria in this proposal is not comprehensive enough. The ISO does not recognize or seem to address financial impacts of integrating another area into an already existing PTO.
- ICNU believes that the WSC should have the responsibility of determining whether a new PTO should have a new sub-region or be part of an existing sub-region.
- LADWP does not support a case by case method and favors a simpler approach.
- MID believes that the ISO’s proposed criteria are not suitable for an assessment of whether an entity should be deemed “integrated.”
- SCE supports removal of the option of allowing a new PTO to decide whether to create their own sub-region and believes the current proposal is reasonable.
- SCL does not support because it supports one time option.

- SDG&E believes that small PTOs that are transmission dependent should pay for the existing transmission system. SCE supports the proposal.

ISO response: Based on extensive discussion of this question and consideration of alternatives, the ISO has concluded that the best approach is a case-by-case assessment, subject to Governing Board and FERC approach and utilizing criteria stated in the tariff, similar to the existing tariff provisions for establishing or modifying an Integrated Balancing Authority Area ("IBAA"). A rule that follows a fixed formula would not allow for consideration of specific circumstances that may not be captured in the formula. That said, the ISO is open to further consideration and refinement of the specific criteria to be used for developing a recommendation on whether to categorize a new PTO as integrated with an existing sub-region.

4. **Consistent with the second revised straw proposal, the CAISO proposes to recover the costs of existing facilities through sub-regional "license plate" TAC rates. The CAISO has proposed that each sub-region's existing facilities would comprise "legacy" facilities for which subsequent new sub-regions have no cost responsibility. Please comment on this aspect of the proposal.**

Stakeholders were mixed in their position on this proposal.

- BPA supports the use of a "license plate" rate for "only" existing facilities in each sub-region. It does not support the inclusion of costs incurred from a PTO's rights or entitlements on external transmission facilities. A reasonable compromise would be for the ISO to maintain renewal rights inside new PTO sub-regions if those rights were offered before the entity became a PTO.
- LADWP supports.
- PAC supports.
- SCL supports.
- Wyoming OCA supports.
- SCE does not oppose.
- CPUC does not support because it believes that the ISO must mitigate the rate disparity between existing and new PTOs, which will occur through the ISO's current proposal.
- ORA continues to recommend that the costs of existing transmission facilities be allocated to all sub-regions within the expanded ISO based upon the benefits the sub-region receives from the existing facilities.

ISO response: The ISO recognizes that a number of stakeholders oppose this element of the proposal while others support it. The proposed "license plate" rate was thoroughly discussed during the stakeholder process. For reasons stated in the DRFP the ISO believes it is the best approach.

5. **The CAISO proposes to use the Transmission Economic Assessment Methodology (TEAM) to determine economic benefits to the expanded ISO region as a whole and to each sub-region. Please comment on the use of the TEAM methodology to determine sub-regional shares of economic benefits.**

<u>A majority of stakeholders requested an additional stakeholder process to review and update TEAM and the TPP.</u>

- AWEA/Interwest support consideration of a broader range of benefits as part of TEAM.
- BAMx requests that the ISO hold a separate stakeholder process on TEAM.
- BPA agrees that a methodology needs to be established to provide data to decision makers but does not agree that a model should be the decision maker.
- Clean Coalition advocates for an alternative to TEAM based on aggregate transmission energy downflow in each region.
- CPUC supports use of TEAM but consider necessary updates to the TEAM methodology, such as identification of benefits to producers and the regional economy, because transmission investment will bring benefits to both consumers and producers, which both impact a regional economy.
- MID requests continued stakeholdering of TPP and TEAM.
- ORA requests that TEAM be expanded to include broadened benefits.
- PAC supports a modeling framework like TEAM but welcomes updates to the documentation.
- SCE believes it is not clear how projects will be proposed, approved, how costs will be allocated among entities, or how changes in State polices will be address (per above). SCE encourages the CAISO to dedicate additional time to discuss the proposed process, include any need for changes in current processes, for policy projects in the context of a multistate ISO.
- SCL requests stakeholder process for TEAM.

<u>ISO response:</u> The ISO will conduct additional discussions of the TEAM and the potential for enhancements relating to expanded regional cost allocation when and if the regional TAC options initiative is reopened.

6. **The CAISO assumes that a new integrated TPP for the expanded ISO will retain today's TPP structure. Please comment on the structure of the current three phase TPP process.**

<u>A majority of stakeholders requested either more information or a redesign of TPP.</u>

- Clean Coalition requests a redesign of the TPP structure to allow for non-transmission alternatives.
- CPUC believes that TPP needs to be reformed.
- ORA agrees with the current three phased approach bus has no further comments.
- SCE supports the current three phase TPP.
- Six Cities wants more info and details on TPP.
- TANC does not believe current TPP can adapt to framework proposal.
- Wyoming OCA supports at high level but believes it is important to have further discussions about the TPP.
- PAC supports.

<u>ISO response:</u> The ISO will conduct additional discussions of the TPP when and if the regional TAC options initiative is reopened. However, at this time the ISO sees no reason why the structure of the current TPP needs to be changed.

7. **The CAISO proposes to allocate the entire cost to a sub-region if a reliability project within that sub-region only addresses a reliability need of that sub-region or if a policy-driven project within that sub-region is approved only to support the policy mandates for that sub-region. Please comment on this element of the proposal.**

<u>Stakeholders that commented were supportive of the proposal.</u>

- ORA supports.
- SCE supports except if other regions adopt policies in the future that benefit from the project, then cost allocated should be revisited.
- UAE/WIEC generally support but believe that the Regional ISO cannot properly require that any costs associated with a policy-driven project approved to support the policy mandates of a single or certain states entirely within a sub-region should be allocated among the various states in any particular manner.
- BAMx requests to accelerate efforts to fully develop TPP due to lack of details on how a reliability project would address a need of a sub-region.

<u>ISO response:</u> The ISO will conduct additional discussions of the TPP when and if the regional TAC options initiative is reopened, to provide the opportunity for stakeholders to understand how the process works in practice.

8. **The CAISO proposes to allocate the cost of an economic project, for which the economic benefits must exceed its cost, to sub-regions in proportion to each sub-region's economic benefits. Please comment on this element of the proposal.**

<u>Majority of stakeholders would support only if TEAM is updated.</u>

- BAMx would only support if TEAM is updated.
- BPA believes that all entities that would be allocated costs for the economic project must agree to participate. Costs from project builds should not be forced onto other LSEs or sub-regions.
- CPUC supports if there is a review of TEAM with modifications.
- ORA requests a broader benefits approach for economic projects.
- SCE supports but recommends modification to TEAM.
- Wyoming OCA believes that the transmission planning analysis that drives a project to go forward should also drive who pays the costs of that project (i.e., allocation based on cost causation rather than based on who benefits).

<u>ISO response:</u> The ISO will conduct additional discussions of the TEAM when and if the regional TAC options initiative is reopened.

9. For a reliability project that is enhanced or replaced by a more costly project that also provides economic benefits that exceed the incremental cost above the cost of the original reliability project, the avoided cost of the original project will be allocated to the sub-region with the original reliability need, and the incremental cost will be allocated to sub-regions in proportion to each sub-region's economic benefits. Please comment on this proposal.

<u>There was no clear position of stakeholders in the comments.</u>

- BPA believes that an entity that initiates a reliability project should have the right to choose to spend additional money on the identified economic project or go forward with the reliability project. TEAM or any other analysis should not be able to force an entity into taking on a more costly project as a result of perceived savings
- ORA supports but believes there should be a consideration of a broader economic benefits.
- PAC generally supports.
- Wyoming OCA believes that if there is a limitation to be imposed such that the costs will not exceed the benefits for the sub-regions not driving the project, the Wyoming OCA suggests that a specific, explicit statement expressing such limitation be included in the proposal.

<u>ISO response:</u> The ISO confirms that the proposal would adopt economic expansion or modification of a reliability project only if the economic benefits exceed the incremental cost of the modification, and in that case any share of the incremental cost allocated to a sub-region would not exceed the economic benefits to that sub-region.

10. For a policy-driven project that is enhanced or replaced by a more costly project that also provides economic benefits that exceed the incremental cost above the cost of the original policy-driven project, the avoided cost of the original project will be allocated to the sub-region with the original policy need, and the incremental cost will be allocated to sub-regions in proportion to each sub-region's economic benefits. Please comment on this proposal.

<u>Stakeholders support the "driver first" concept but have varied opinions on how it should be designed.</u>

- BPA believes that an entity that initiates a policy project should have the right to choose to spend additional money on the identified economic project or go forward with the policy project. TEAM or any other analysis should not be able to force an entity into taking on a more costly project as a result of perceived savings.
- CPUC does not support because proposal fails to include criteria and procedures necessary to identify policy projects, or how policy projects could be enhanced or replaced to qualify for cost allocation proposal.
- ICNU supports driver first but believes that the WSC should have authority to override any default principle governing project cost allocation.
- LS Power supports.

- ORA continues to recommend allocating the costs of policy projects based on the benefits provided, irrespective of the policy-driver.
- Six Cities opposes proposal but prefers driver first allocation.
- UAMPS is concern about who is evaluating projects and who decides that an economic project provides benefits greater than a policy driven project.
- UAE/WIEC support.

ISO response: Several of the concerns raised related to the details of the TPP and how it is performed and how decisions are made. The ISO will conduct additional discussions of the TPP when and if the regional TAC options initiative is reopened, to provide the opportunity for stakeholders to understand how the process works in practice. In addition, the potential role of the WSC in the TPP is a topic being considered in the governance initiative for the regional BAA.

11. In the December 6 proposal, the CAISO introduced an approach for allocating costs more granularly than just to sub-regions for certain policy-driven projects and for the policy-driven costs of projects that provide economic benefits in addition to meeting policy needs. The proposal is based on the following principles: If a project that meets policy needs is built within a different sub-region from the state or local regulatory authorities driving the policy need, the policy-related project cost will be allocated only to the load of those regulatory authorities driving the policy need. Alternatively, if a project that meets policy needs is built within the same sub-region as the state or local regulatory authorities driving the policy need, that project is deemed to provide benefits to the entire sub-region and therefore the policy-related costs will be allocated to the sub-region as a whole rather than on a more granular basis. Please comment on these principles.

Stakeholders were generally in favor of granular cost allocation but had differing opinions on when to use it and if the ISO has the ability to assign costs to LRAs.

- BAMx supports granular cost allocation but believes that it is sufficient to allocate to LRA rather than States/LRA.
- Barrick Gold of N.A. believes that granular cost allocation approach cannot be used for all policy-driven projects.
- BPA supports this proposal as a possible evaluation method for cost allocation, but does not support it as a means to make a final decision on cost allocation.
- ICNU supports proposal to allocate to load within LRA driving policy need but does not support the alternative component in which benefits would be attributed uniformly throughout a sub-region, regardless of whether one or more states or LRAs support or oppose a policy-driven project.
- ORA recommends that the CAISO evaluate proposed policy projects to determine usage at the local and regional level, and the range of reliability and economic benefits, to develop a reasonable default cost allocation rule for policy projects.

- PAC notes that settlement quality data may not always be available or complete for all states or local regulatory areas (LRAs) and encourages flexibility in the proposal to account for any potential absence of revenue quality data at these levels of granularity.
- SCE continues to have concerns over the CAISO's proposal to allocate the policy related costs of policy-driven projects to states driving that policy need. This more granular approach proposed by the CAISO still presents the same issues. Once a project is built, it is available for all PTOs to use. This creates the potential for one class of customers to bear the cost for others.
- TANC supports more granular cost allocation but concerned that the proposal may still result in subsidization by entities that do not need or benefit from projects.
- TransWest supports.
- LS Power supports.
- UAE and WIEC generally support a more granular approach to cost allocation associated with policy driven projects. However, the Regional ISO should not be involved with determining the sub-regional allocation of costs for any project. The sub-regional allocation of costs is more appropriately determined by the affected utilities, customers and local regulatory authorities of the sub-region driving the policy need.
- Wyoming OCA states that a special cost allocation process has been put into place by PacifiCorp for addressing policy projects that may not benefit or be necessary for the entire system. The costs that are over and above the costs that otherwise would have been incurred, and driven by "jurisdiction-specific initiatives" are assigned specifically to the states imposing the special policy-related requirements.

ISO response: The ISO believes that this element reflects a preference expressed by many stakeholders to allocate the costs of policy-driven transmission projects in a manner that reflects the nature and source of the policy drivers. The proposal also reflects the recognition that a policy-driven project will generally have system benefits that go beyond the policy needs that drove the project, particularly within the same sub-region where the project is built. At the same time, the ISO recognizes that this element of the proposal was adopted relatively late in the initiative, and therefore intends to have further discussions to consider how it would be applied in practice and possible refinements to better align costs with benefits. The possible role of the WSC in cost allocation for such projects is a topic in the governance initiative.

12. Continuing with the scenario of item 10 and applying the principles above, for a policy-driven project, if the new project is built outside the sub-region where the regulatory authorities driving the policy need are located, the ISO will allocate the policy-related avoided cost to the load served under the state or local regulatory authority or authorities whose policy mandates drove the need for the original project. Please comment on this proposal.

Stakeholders were generally in support of the proposal.

- Barrick supports.
- ORA supports.
- PAC does not oppose.

- UAE and WIEC support the allocation of costs to the sub-region driving the need, but oppose any notion that the Regional ISO, as opposed to sub regional entities and authorities, will determine how costs will be further allocated within the sub-region.

- CPUC Staff requests that CAISO consider procedures for how the WSC, the regional ISO Board, and the other state regulatory commissions will coordinate and collaborate together on cost approval and allocation.

<u>ISO response:</u> See ISO response to the previous item.

13. Similarly, if the policy driver of the project was a federal policy, then for sub-regions other than the sub-region in which the project is built the ISO will allocate the associated avoided cost to the load served in each state in proportion to the state's need for the project to comply with the federal policy mandate. Please comment on this proposal.

<u>Stakeholders were split in position of this proposal.</u>

- BAMx supports.
- CPUC does not take issue with proposal.
- ICNU supports concept but might be better to move this determination to WSC.
- PAC does not oppose.
- SCE has no position because it is premature to consider federal policy allocation.
- ORA does not support but recommends basing the cost allocation for policy projects under the expanded ISO on usage and benefits received.
- The Six Cities believe that the details of this allocation scenario (and, indeed, each of the scenarios described herein) would benefit from further explanation and at least one example demonstrating the type of situation the CAISO is attempting to address.
- Barrick believes that if the project is driven by federal policy the costs should be allocated to each state in proportion to the state's need for the project to comply with the federal policy mandate, including the states in the sub-region in which the project is built if they also have a need for the project to comply with the federal policy mandate.

<u>ISO response:</u> See ISO response to the previous item.

14. For a policy-driven project that supports policy mandates of more than one sub-region, or that is built in one sub-region to meet the policy mandates of another sub-region, the ISO will calculate the economic benefits of the project and allocate costs to each sub-region in proportion to the sub-region's benefits, but only up to the point where each sub-region's cost share equals the sub-region's benefits. Any additional cost of the project will be allocated to the load served under the state or local regulatory authorities within each sub-region, other than the sub-region in which the project is built, whose policy mandates drove the need for the project. Please comment on this proposal.

<u>Stakeholders were split in their position on this proposal.</u>

- BAMx supports and urges the ISO to expand the provision to include policy driven projects within a single sub-region.
- Barrick supports but the cost allocation for a policy-driven project that supports the policy mandates of more than one-sub-region is not at all similar to and should not be the same as the cost allocation for a policy-driven project built in one sub-region to meet the policy mandates of another sub-region.
- LS Power recommends that CAISO clarify that in this policy-driven scenario it is recognized that even though economic benefits are being evaluated for the purposes of cost allocation, the BCR in one or more of the affected sub-regions may be less than 1.0.
- ORA recommends allocating any remaining costs to all load served.
- PAC does not oppose.
- SCL supports.
- AWEA/Interwest believe the current proposal is an improvement over prior proposals but have concerns over the viability of allocating policy driven project costs. States without policy mandates that won't be allocated costs for a policy project may choose to take advantage of low cost renewable on a "policy driven" transmission line.
- CPUC has specific refinements to TEAM.
- ICNU does not support but would support highly granular analyses in all such circumstances, to avoid scenarios in which individual states or sub-regions are unfairly allocated costs for projects driven by other sub-regions or states
- TransWest does not agree with this aspect of the proposal and suggest that the ISO use the same driver-first/beneficiary pays principles employed for the other policy-driven projects outlined in the previous questions for these projects.
- UAE/WIEC does not support.

<u>ISO response:</u> The ISO recognizes that this element of the proposal, although it was adopted in response to concerns raised by stakeholders, was adopted relatively late in the initiative. The ISO will therefore conduct additional discussions on this element if and when the regional TAC options initiative is reopened, to consider specific cases and applications and explore possible refinements.

15. Continuing with the scenario of a policy-driven project that supports policy mandates of more than one sub-region, if the policy driver of the project was a federal policy, then for sub-regions other than the sub-region in which the project is built the ISO will allocate the project costs to the load served in each state in proportion to the state's need for the project to comply with the federal policy mandate. In such cases, if the project also supports policy mandates within the same sub-region in which the project is built, the ISO will allocate that sub-region's share of the policy-driven costs to the entire sub-region as part of the sub-regional TAC. Please comment on this proposal.

<u>Stakeholders were in support of this proposal.</u>

- ICNU does not oppose but would defer to WSC.
- ORA supports but also recommends allocating the costs of policy projects based on a benefit and usage analysis, and conducting an analysis at least every three years to confirm that the cost allocation is reasonable and justified.
- PAC does not oppose.
- Six Cities supports.
- Barrick states that if a federal policy drives a project, the costs should be allocated to each state in proportion to that state's need for the project to comply with the federal policy mandates.

ISO response: See ISO response to previous item.

16. Competitive solicitation to select the entity to build and own a new transmission project would apply to all new transmission projects rated 200 kV or greater, of any category, with exceptions only as stated in ISO tariff section 24.5.1 Please comment on this proposal.

A majority of stakeholders support this proposal.
- CPUC does not support.
- ORA supports.
- SCE supports.
- UAE/WIEC supports.
- Clean Coalition would like competitive solicitation to extend to non-transmission alternatives.
- BPA believes that building and owning a transmission line do not need to be linked. An entity can take bids for constructing a transmission line while still retaining ownership post construction.
- PAC recognizes the benefits of competitive solicitation, but states that such solicitation should not strand development costs that have been prudently incurred by an incumbent.

ISO response: The ISO believes that the structure of its existing TPP addresses the concerns raised by stakeholders, and will conduct additional discussions of the TPP when and if the regional TAC options initiative is reopened, to provide the opportunity for stakeholders to understand how the process works in practice, particularly phase 3 of the TPP which is the competitive solicitation phase.

17. The proposal indicated that the ISO would establish a formula for a single export rate (export access charge or "EAC") for the expanded region, and under the proposal, non-PTO entities would pay the same sub-regional TAC rate paid by other loads in the same sub-region. Please comment on this proposal.

Stakeholders support the proposal but PAC and outside CA entities do not.

- BPA supports the approach for non-PTO entities but does not support the EAC.
- Clean Coalition supports EAC.
- CPUC supports.
- SCE supports.
- PAC opposes establishment of a single, weighted EAC but supports the element to charge all entities within a particular sub-region the same sub-regional TAC rate.
- Wyoming OCA does not support the concept of a single EAC.

ISO response: For reasons explained in the DRFP and prior proposals, the ISO believes that a single region-wide export rate is reasonable and the most appropriate among available options, and that the rate should reflect an average of the sub-regional TAC rates.

18. The EAC would be calculated as the sum of all high-voltage transmission revenue requirements (TRRs) of all PTOs within the expanded BAA divided by the sum of the projected internal load for the entire expanded BAA. Please comment on this element of the proposal.

Stakeholders are split on the proposal..

- BPA understands and partially supports the idea of one EAC price for a regional ISO. Bonneville fails to understand why the CAISO refuses to acknowledge that a lower EAC rate than the current proposal of $8.37 MWh is possible.
- PAC opposes single EAC.
- SCE supports.
- Six Cities support setting the EAC at highest sub-regional TAC rate.

ISO response: See ISO response to previous item.

19. The CAISO proposes to allocate shares of the EAC revenues to each sub-region in proportion to their total high-voltage TRR. Please comment.

Stakeholders that commented were not in support of this proposal.

- BPA does not support the approach to allocating EAC revenues, contending that the proposal favors sub-regions with higher system costs. BPA proposes an alternative EAC allocation methodology.
- PAC opposes EAC.
- UAMPS believes that EAC should be cost based on transmission facilities being used.
- Wyoming OCA does not support and suggests that rates be based on the individual transmission entities' costs and then to allocate the export revenues on the revenue requirements. Alternative, it would be appropriate to allocate the revenues, especially wheeling revenues that use the facilities of more than one transmission owner, on the volume of wheeling done over the system.
- CPUC supports.

- SCE believes that since load pays for the transmission facilities, the allocation of export revenue should be limited to only load-serving PTOs. Alternatively, export revenues could be allocated to all PTOs, as long as those without load were required to return their allocation in their rates.

ISO response: The ISO believes that all PTOs should receive shares of the EAC revenue that reflect their TRRs. A primary reason for this approach is that the revenue shares will be reasonably stable as the BAA expands further and transmission paths that were import-export paths are internalized in the BAA. For example, if the BAA continues to expand by integrating additional PTOs, a PTO that previously had significant exports but later is surrounded by other PTOs and now has limited export quantities will not see a precipitous drop in its export revenues under the proposed approach. This is appropriate because the transmission facilities of PTOs that are "internal" to the expanded BAA provide benefits that will facilitate import-export transactions with neighboring BAAs.

20. The CAISO proposes to break down each sub-region's share of the EAC revenues into portions to be allocated to the sub-regional TAC and each state or local regulatory authority whose load is paying a share of the high-voltage TRR for policy-driven transmission whose costs are not included in the sub-regional TAC. These shares of the sub-region's EAC revenue would be in the same proportion as the corresponding shares of the sub-regional high-voltage TRR. This element of the proposal would not affect the allocation of EAC revenues between sub-regions. Please comment on this proposal.

A large number of stakeholders who commented do not support the proposal.

- BPA does not support. Policy driven projects that do not generate EAC revenue should not get a specially allocated share of EAC revenue. The load associated with a policy project that does not generate EAC revenue should only benefit from the reduction of the sub-regions TAC like all other LSEs in the sub-region.
- CPUC does not support any proposal that will make CA ratepayers pay for upgrades that will not benefit them.
- ICNU does not support the overall construct of a single region-wide EAC.
- PAC requests that the proposal explicitly acknowledge that while state or LRA boundaries may be used to calculate the default EAC revenue allocation to areas within sub-regions, these allocations may not determine the ultimate cost and revenue allocations for retail-ratemaking purposes.
- Wyoming OCA's general position is that the revenues should follow the same trail as costs. For related cost and revenues, the allocation methods should be as consistent as reasonably possible.
- BAMx supports.

ISO response: The ISO recognizes that this element of the proposal was added relatively late in the initiative. If and when the regional TAC options initiative is reopened the ISO will conduct further discussion of this element to explore specific scenarios and see if refinements are needed.

21. Please provide any additional comments on topics that were not covered in the questions above.

- LS Power asks that the ISO address cost allocation for a project that is an economic project in one sub-region and has some economic benefits (with a BCR less than 1) in other sub-regions.
- ORA recommends the ISO conduct a study of grid usage to determine reasonable cost allocation rules for economic and policy projects. And recalculation of transmission project benefits every three years.
- PG&E recommends that the ISO focus on resolving governance issues prior to expending more time on the TAC proposal.
- SCE believes that any transmission project classified as new should be allocated to new members if they receive benefits. Also the ISO needs to discuss the issue of eligibility to receive congestion revenue rights.
- SDG&E supports the proposal to not recalculate benefits and generally supports cost allocation methodologies but it is important to understand the need for new accounting processes and allow for adequate time for implementation.
- Six Cities believes that the CAISO's proposed cost allocation scenarios are confusing and unclear and should be further refined so that the various scenarios and cost allocation approaches are readily understandable.
- BPA raised the concern that creating the expanded BAA should not require that existing contracts for transmission service be converted to ISO operational control.
- Many stakeholders also referred back to their comments on prior TAC options straw proposals. The CAISO has previously addressed those comments.

<u>ISO response:</u> The ISO recognizes that many elements of the DRFP are complicated, and that some of the more complicated provisions were added relatively late in the initiative in order to address many of the concerns stakeholders expressed. If and when the regional TAC options initiative is reopened the ISO will conduct additional discussions on several topics as noted above, in particular to consider specific scenarios and applications to gain greater understanding of how the proposal would function in practice. The question of recalculating benefits for the purpose of modifying cost allocation has had extensive discussion in this initiative, and the ISO has concluded, based on prior input from stakeholders, that such recalculation will create uncertainties for existing and prospective entities who pay the TAC, and that the cumulative incentives resulting from not recalculating benefits are ambiguous.

Regarding BPA's concern, the ISO notes that this matter is outside the scope of the TAC options initiative and is being discussed in conjunction with a separate process being conducted by PAC. In that process, the ISO collaborated with PAC on a discussion paper dated June 24, 2016 that proposed an initial approach for the transition of transmission service agreements from PAC to the ISO. One general premise was that existing transmission contracts would only be "grandfathered" if they were entered into prior to the effective date of PacifiCorp's open access transmission tariff. This general principle was proposed to provide comparable treatment between PacifiCorp transmission customers and ISO transmission customers. It did not take into consideration the rights of Northwestern utilities under section 218 of the Federal Power Act or any details concerning the rates, terms and conditions of service if such agreements were "grandfathered". The TAC options initiative only considers what rate Northwestern entities would pay for transmission service in an expanded BAA; not whether an existing transmission service agreement might be "grandfathered". Nonetheless, the ISO believes that there should be a path forward to account for existing transmission service agreements protected under section 218 of the Federal Power Act if we are able to establish the associated rates, terms and conditions of continued service in a regional ISO. The ISO commits to work with all of the affected parties at the proper time to satisfactorily resolve this matter.