

# Stakeholder Comments Template

## Transmission Access Charge Options Issue Paper

Submitted by	Company	Date Submitted
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This template has been created for submission of stakeholder comments on the issue paper for the Transmission Access Charge Options initiative that was posted on October 23, 2015. The issue paper and other information related to this initiative may be found at:

<http://www.caiso.com/informed/Pages/StakeholderProcesses/TransmissionAccessChargeOptions.aspx>

Upon completion of this template please submit it to [initiativecomments@caiso.com](mailto:initiativecomments@caiso.com). Submissions are requested by close of business on **November 20, 2015**.

1. One theme emphasized in the issue paper and in FERC orders is the importance of aligning transmission cost allocation with the distribution of benefits. Please offer your suggestions for how best to achieve good cost-benefit alignment and explain the reasoning for your suggestions.

Cost allocation is historically grounded in the concept that burdens should be aligned with benefits. For this alignment to occur in practice, planning regions must measure benefits in a broad way. Incomplete measures of benefits cause free ridership—those who receive tangible (but unmeasured) benefits pay too little while other beneficiaries pay too much.

ITC Holdings, of which ITC Grid Development (ITC) is a subsidiary, owns and operates 15,600 circuit miles across the MISO and SPP regions. The Issue Paper on Transmission Access Charge Options presented by the ISO includes a summary of cost allocation methods employed by other regions for new projects. ITC is very familiar with the cost allocation methods employed by MISO and SPP, and offers these comments to the ISO based on its experience in those regions.

2. Please comment on the factors the ISO has identified in section 5 of the issue paper as considerations for possible changes to the high-voltage TAC structure. Which factors do you consider most important and why? Identify any other factors you think should be considered and explain why.  
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3. The examples in section 7 illustrate the idea of using a simple voltage-level criterion for deciding which facilities would be paid for by which sub-regions of the combined BAA. Please comment on the merits of the voltage-based approach and explain the reasoning for your comments.

The dispersion of benefits from a facility is linked to the voltage of the facility; thus, it is appropriate to use voltage to inform *how* costs are allocated. However, voltage should not be used in a binary way to determine *whether* costs are allocated, and arbitrary voltage thresholds should not prevent a full evaluation of a project for inclusion in the regional transmission plan.

Rather than sort projects by type (see the response to question 4), SPP employs an allocation method that sorts projects by voltage. The Highway/Byway model described in the Issue Paper is consistent with the concept that the benefits of transmission facilities roughly accrue on the basis of voltage and independently of project type (as the voltage of a facility increases, so does the dispersion of its benefits across the region). This is similar to the ISO's example near the end of section of 6, "Options with a Breakdown of the HV Category," and something ITC generally supports.

Unlike SPP, MISO employs an arbitrary voltage threshold with respect to economic projects. If an economic project is at a voltage of lower than 345 kV, the cost of the project is assigned to the local pricing zone. The 345 kV voltage threshold for Market Efficiency Projects presupposes that lower voltage projects do not have regional or sub-regional economic benefits—something that has not been proven to be the case for the MISO region. Some MISO stakeholders have raised concerns about the voltage threshold for Market Efficiency Projects; calls to lower the voltage threshold are currently being discussed in MISO's Regional Expansion Criteria and Benefits Task Force (RECBTF).

Further, MISO's voltage threshold for economic projects has frustrated interregional coordination. ITC protested the filings by which MISO seeks to meet the interregional coordination requirements of Order 1000 on its seams with PJM and SPP. A common feature of those protests is the voltage threshold employed by MISO. The economic benefit of lower voltage interregional projects on these seams are never considered, as there is no vehicle for incorporating such projects into MISO's regional transmission plan. Although the MISO-PJM seam was formed over 10 years ago, to date no interregional projects have been approved. In recent interregional planning studies between MISO and PJM, the Big Stone – Blair 230 kV line and New Canby 345/230 kV substation showed benefits sufficient to pass the benefit cost threshold but were removed from further consideration because they did not pass MISO's regional voltage threshold. Similarly, a study between MISO and SPP found significant benefits for the South

Shreveport – Wallace Lake 138 kV line rebuild, but the project was excluded from further consideration due to MISO’s voltage criterion. While it is not certain that these projects would have ultimately been approved, arbitrary thresholds should not prevent planning regions from fully evaluating potentially beneficial additions to interregional infrastructure.

ITC cautions the ISO against adopting binary, voltage-based criteria for cost allocation as have been adopted by MISO for economic projects. Cost allocation should not drive the identification and selection of projects for the regional transmission plan.

4. Please comment on the merits of using the type of transmission facility – reliability, economic, or public policy – as a criterion for cost allocation, and explain the reasoning for your comments.

Facility type should not be a criterion for cost allocation. Sorting projects into buckets for purposes of cost allocation prevents a broad consideration of benefits, therefore resulting in an erroneous allocation of costs. For example, an economic project may also provide reliability benefits. Categorization of the project as economic in nature drives a cost allocation predicated solely on economic benefits. Other types of benefits (reliability, public policy) are overlooked, which in turn has two negative effects: an artificially low measure of benefits that may prevent a beneficial project from meeting the relevant benefit/cost thresholds for selection in the regional transmission plan, and cost allocation that is unfairly weighted toward those who receive economic benefits and away from those receiving reliability and/or public policy benefits. All types of benefits, regardless of type, should be considered simultaneously when evaluating the total benefit of a facility (and when allocating the costs of a facility commensurate with its benefits).

5. Please comment on the merits of using the in-service date as a criterion for cost allocation; e.g., whether and how cost allocation should differ for transmission facilities that are in service at the time a new PTO joins versus transmission facilities that are energized after a new PTO joins.

It is reasonable to separate legacy facilities from post-integration facilities for the purpose of cost allocation. FERC has approved this approach for other regions (MISO, SPP) and it comports with the concept that the cost responsibility for legacy facilities should reside in the planning areas that deemed the facilities beneficial in the first instance. For facilities energized after a PTO joins, the ISO should employ a cost allocation method that aligns the cost of the facilities with their beneficiaries, and such cost allocation should begin as soon as the PTO joins (without a transition period).

Both MISO and SPP have recently addressed this issue—MISO with the integration of Entergy and SPP with the integration of the Integrated System. In the MISO example, there is a five-year transition period for the Entergy integration. The cost of a Baseline Reliability Project, Generator Interconnection Project, or Market Efficiency Project that is approved and/or identified during the transition period and terminates solely in one

planning area (either classic MISO or the new MISO South) is not shared between planning areas. In other words, if a project solely resides in one region, the costs are contained in that region. However, after the transition period, costs will be allocated based on MISO's existing cost allocation rules that allow costs to be spread across regions under certain conditions. Projects located solely in one region may convey benefits to the other region, yet the transition period cost allocation ignores this possibility and allows a misallocation of costs in this circumstance.

SPP recently received approval of its cost sharing proposal related to the integration of the Integrated System Parties. The proposal includes a bright line date of October 1, 2015 (the integration date), after which cost sharing will begin between SPP and the Integrated System. Facilities that predate the bright line, as well as any planned facilities with a need date prior to the bright line, will not be cost shared between SPP and the Integrated System. Facilities after this date will be cost shared pursuant to the existing provisions of the SPP Tariff. One intervenor argued for cost sharing of the legacy transmission systems but FERC declined to order such cost sharing. SPP employs a *post hoc* review to check for potential inequities in the Highway/Byway cost allocation, and FERC noted this review when declining to order cost sharing of the legacy transmission systems. The SPP approach deals with legacy costs separate from post-integration costs, but SPP's allocation methodology immediately applies to post-integration costs. This approach appropriately accounts for the regional benefits of projects immediately upon integration of the Integrated System, and serves as a model for how the ISO can approach cost allocation in the event a new PTO seeks to join the ISO.

6. Please comment on using the planning process as a criterion for cost allocation; i.e., whether and how cost allocation should differ for transmission facilities that are approved under a comprehensive planning process that includes the existing ISO PTOs as well as a new PTO, versus transmission facilities that were approved under separate planning processes.

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7. The examples in section 7 illustrate the idea of using two "sub-regional" TAC rates that apply, respectively, to the existing ISO BAA and to a new PTO's service territory. Please comment on the merits of this approach and explain the reasoning for your comments.

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8. Please offer any other comments or suggestions on this initiative.

ITC appreciates the ISO's proactive consideration of cost allocation issues related to the integration of a new PTO and thanks the ISO for the opportunity to provide comments. In summary, ITC believes the ISO should keep the following principles in mind when determining the appropriate method for calculating the Transmission Access Charge:

- Facility type (economic, reliability, public policy) should not be a criterion for cost allocation. Sorting facilities by type prevents a broad consideration of benefits. Economic, reliability, and public policy benefits should be considered in tandem (benefit metrics should be additive). This ensures that all beneficial facilities are identified and costs are allocated commensurate with benefits.
- Voltage thresholds should not be used in a binary way to determine whether costs are allocated. Facility voltage should be used to inform how, but not whether, costs are allocated. The Highway/Byway cost allocation employed by SPP appropriately recognizes that higher voltage facilities have a wider dispersion of benefits.
- The cost of legacy facilities and post-integration facilities should be separated for purposes of cost allocation. Facilities with need dates after this “bright line” date should be allocated pursuant to a regional cost allocation methodology consistent with the principles listed above; the ISO should not employ a transition period for cost allocation when integrating a new PTO.