Stakeholder Comments Template

Transmission Access Charge Options

February 10, 2016 Straw Proposal & March 9 Benefits Assessment Methodology Workshop

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The ISO provides this template for submission of stakeholder comments on the February 10, 2016 Straw Proposal and the March 9, 2016 stakeholder working group meeting. Section 1 of the template is for comments on the overall concepts and structure of the straw proposal. Section 2 is for comments on the benefits assessment methodologies. As stated at the March 9 meeting, the ISO would like stakeholders to offer their suggestions for how to improve upon the ISO's straw proposal, and emphasizes that ideas put forward by stakeholders at this time may be considered in the spirit of brainstorming rather than as formal statements of a position on this initiative.

The straw proposal, presentations 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. Submissions are requested by close of business on **March 23, 2016.**

Section 1: Straw Proposal

General Comments on the Straw Proposal and Regional Integration Approach

AWEA, Renewable Northwest and Interwest Energy Alliance (together "Joint Commenters") appreciate the CAISO's thoughtful and thorough approach to the Straw Proposal entitled "*Transmission Access Charge (TAC) Options for Integrating New Participating Transmission*

Owners (PTOs)." The Joint Commenters generally support the direction the CAISO has pursued in the Straw Proposal. The proposal puts forward a TAC structure which would both encourage market expansion and minimize transmission rate impacts to new PTOs, while also allowing the costs of future projects to be appropriately shared across the region. The following pages describe specific comments that the Joint Commenters have on the TAC proposal. But, at a higher level, it will be important for TAC discussions to be more holistic, both by keeping the benefits of regional integration at the forefront of the discussion and developing an approach for reviewing the regional integration package as a whole.

Determining cost responsibility for transmission charges in an expanded ISO is an important and contentious topic due to the potential for cost shifts and ratepayer impacts. Impacts to ratepayers are a critical element of regional integration, but the isolated nature of the TAC initiative causes stakeholders to focus solely on potential costs and negative transmission rate impacts that may result from expansion of the ISO to a regional market. All TAC discussions must be grounded in an understanding of the relative size of transmission cost impacts on ratepayers and should be contrasted against potential ratepayer benefits. Nationally, transmission represents approximately 10% of a consumer's bill, with generation representing 50% and distribution and customer service making up the remaining 40%. Moreover, there are a myriad of benefits that regional integration will offer, many of which will result in substantial cost savings on the generation side, having a much more substantial positive impact on customers' bills. Benefits of regional integration that are often neglected when the TAC is discussed in isolation include: access to lower cost generation resources, capacity benefits from regional diversity, reliability benefits, and cost savings from more efficient transmission planning. The benefits of regional integration are likely to far outweigh the costs to ratepayers and, thus, could mitigate any negative rate impacts that might result from TAC design. Therefore, while rate impacts of a TAC will be a critical feature of a regional ISO, it is important to keep the broader picture in mind.

The Joint Commenters urge the CAISO to take a more comprehensive approach to the regional market design being proposed. There are many disparate regional integration initiatives that will take place at the ISO over the coming months. At some point, these discrete proposals need to be reviewed holistically. Breaking regional integration issues down into discrete, manageable tasks is a reasonable approach to initiating proposals and beginning discussions on critical topics. However, in order for stakeholders to support the regional integration effort, they will need to understand how the disparate proposals work in concert. For instance, potential modifications to Congestion Revenue Rights (CRRs) and CRR allocation, may impact stakeholders' support for the TAC proposal. There will be a number of other interrelated regional initiatives that deserve to be reviewed as a whole package. The Joint Commenters recommend that the CAISO develop a plan to review the complete regional integration package with stakeholders before moving forward with Board approval of the disparate proposals. This is important because, while discrete proposals may seem reasonable on their own, the sum of the parts may not result in a robust market design that encourages regional expansion. Therefore, while the Joint Commenters support the CAISO's general approach in the TAC Straw Proposal, we look forward to additional discussions on how this proposal will interact with other elements of regional integration and more information on the CAISO's plans for a holistic review of the various regional integration proposals.

In the following sections, the Joint Commenters provide specific comments on certain elements of the TAC Straw Proposal. The key points made in the remainder of the comments on the Straw Proposal are summarized below:

- Joint Commenters strongly support the proposed extension of the CAISO's current TAC rate structure to a regional ISO/RTO, where TAC costs are borne by loads and exports.
- Joint Commenters also support the allocation of the costs of existing facilities to individual sub-regions and the definition of new regional facilities.
- Joint Commenters have concerns about the CAISO's approach to benefit determination and annual benefit recalculation. Precise benefit determination, especially for public policy projects, will be contentious and may not be achievable. Furthermore, annual recalculation of benefits increases uncertainty and unnecessarily increases the complexity of cost allocation methods, providing more opportunities for arguments, delays, derailments, and conflicts within an expanded ISO.
- Under the CAISO's proposed beneficiary determination approach, the Joint Commenters urge the CAISO to consider all types of benefits rather than boxing projects into one benefit determination based on the project "type."
- The CAISO should consider the potential for cost shifts as a result of the use of energy as a billing determinant for transmission costs across new sub-regions.

1. The proposed cost allocation approach relies on the designation of "sub-regions," such that the current CAISO BAA would be one sub-region and each new PTO with a load service territory that joins the expanded BAA would be another sub-region. Please comment on the proposal to designate sub-regions in this manner.

   This proposal seems reasonable.

2. The proposal defines "existing facilities" as transmission facilities that either are already in service or have been approved through separate planning processes and are under development at the time a new PTO joins the ISO, whereas "new facilities" are facilities that are approved under a new integrated transmission planning process for the expanded BAA that would commence when the first new PTO joins. Please comment on these definitions.

   The Joint Commenters encourage the CAISO to very clearly define "existing facilities" such that stakeholders can understand which transmission facilities that are currently in the planning process would be classified as "existing" and which would be classified as "new."

   Stakeholders do not currently have a clear understanding of how the Gateway transmission projects would be classified under the ISO's Straw Proposal. It would be useful for stakeholders to be able to review the quantitative impact of various scenarios for the Gateway project. The Joint Commenters ask the CAISO to provide additional spreadsheet modeling for the following scenarios:

1. Gateway lines are not built and are not included in the PacifiCorp or CAISO transmission revenue requirement under the TAC.
2. The Gateway project is classified as "existing" (i.e. transmission revenue requirement is allocated entirely to the PacifiCorp subregion).
3. The Gateway project is classified as "new" (i.e. the transmission revenue requirement is allocated to individual subregions based on expected beneficiaries).

3. Using the above definitions, the straw proposal would allocate the transmission revenue requirements (TRR) of each sub-region's existing facilities entirely to that sub-region. Please comment on this proposal.

Under the CAISO's Straw Proposal, existing transmission facilities, defined as those transmission facilities that are in-service or approved by independent planning processes at the time a new PTO joins the regional ISO, would be recovered on a sub-regional basis. In other words, both the CAISO and the new PTO would continue to pay the same costs for existing transmission facilities that each entity would have paid if the ISO had not expanded to include the new PTO. The Joint Commenters support this element of the proposal, as it should encourage utilities to consider participation in a regional ISO and significantly reduces, but does not eliminate, concerns about rate impacts to new PTOs.[1] It also eliminates the potential for an entity becoming a new PTO to approve expensive transmission projects and then seek to impose those costs on other PTOs.

The CAISO's approach to cost allocation for existing facilities is probably the only solution under which new PTOs would consider joining the expanded ISO. Moreover, this option appears most likely to receive approval from new PTOs' state regulatory commissions. If the CAISO had proposed a structure under which new PTOs were required to pay for existing facilities within the CAISO, the potential for transmission rate impacts would be great. We expect such a proposal may be a non-starter for most PTOs interested in joining the ISO.

Thus, the Straw Proposal mechanism for existing facilities to continue to be allocated to individual sub-regions will help encourage regional expansion and increase the probability of realizing the resulting benefits. As the CAISO notes, the Straw Proposal approach is also reasonable because the individual transmission owners had made investment decisions on these facilities prior to joining the ISO, and the proposed allocation for existing facilities avoids unnecessary cost shifts. For these reasons, the Joint Commenters support the Straw Proposal's approach to cost allocation for existing facilities. We encourage the CAISO to very clearly define "existing facilities" such that stakeholders can understand which transmission facilities that are currently in the planning process would be classified as "existing" and which would be classified as "new."

[1] Concerns about rate shifts may still exist for new PTOs that believe significant, new regional facilities will cause substantial increase in transmission rates. Additionally, as discussed later in AWEA's comments, there may be shifts in transmission rates to individual customer classes within new PTOs simply as a result of changing the billing determinant for existing transmission facilities.

4. If you believe that some portion of the TRR of existing facilities should be allocated in a shared manner across sub-regions, please offer your suggestions for how this should be done. For example, explain what methods or principles you would use to determine how much of the existing facility TRRs, or which specific facilities' costs, should be shared across sub-regions, and how you would determine each sub-region's cost share.

5. The straw proposal would limit "regional" cost allocation – i.e., to multiple sub-regions of the expanded BAA – to "new regional facilities," defined as facilities that are planned and approved under a new integrated transmission planning process for the entire expanded BAA and meet at least one of three threshold criteria: (a) rating > 300 kV, or (b) increases interchange capacity between sub-regions, or (c) increases intertie capacity between the expanded BAA and an adjacent BAA. Please comment on these criteria for considering regional allocation of the cost of a new facility. Please suggest alternative criteria or approaches that would be preferable to this approach.

   Backbone (extra high-voltage) transmission facilities, even if wholly within a single state, can nevertheless provide benefits to the entire region. Additionally, interconnections between sub-regions, and between a sub-region and an adjacent area, can also provide regional benefits. Therefore, the Joint Commenters support the CAISO's Straw Proposal to consider regional cost allocation for those facilities meeting the definition of a "new regional facility."

   Regional Facilities are defined by the CAISO as those facilities: (a) >300 kV; or (b) interconnecting two or more sub-regions or upgrading an existing interconnection, regardless of voltage; or (c) creating new or upgrading existing interties with a BAA adjacent to the expanded ISO, regardless of voltage level. This definition, which ultimately governs which facilities would be eligible for regional cost allocation, does a good job of defining those facilities likely to provide broad benefits to the region and, therefore, should be cost allocated on a regional, rather than sub-regional, basis.

   The Joint Commenters support the definition of new regional facility and the proposal to regionally allocate costs of facilities meeting this definition. However, the CAISO will need to provide additional details on how facilities are classified as "new" or "existing" and, particularly, on the "transition plans" which were discussed during the March 1st stakeholder meeting. Transition plans may blur the lines between "existing" and "new" facilities resulting in uncertainty and increase the likelihood of stakeholder pushback.

6. For a new regional facility that meets the above criteria, the straw proposal would then determine each sub-region's benefits from the facility and allocate cost shares to align with each sub-region's relative benefits. Without getting into specific methodologies for determining benefits (see Section 2 below), please comment on the proposal to base the cost allocation on calculated benefit shares for each new regional facility, in contrast to, for example, using a postage stamp or simple load-ratio share approach as used by some of the other ISOs.

AWEA and Interwest previously argued that complicated cost allocation methods will result in arguments, delays and derailments, which will make it difficult to realize the benefits of transmission expansion. Moreover, AWEA and Interwest explained that the process for developing and defending the assumptions required for complex cost allocation methods is likely to be contentious, time-consuming, and expensive. Therefore, AWEA and Interwest advocated for relatively simple cost allocation methodologies, as they will minimize disputes at the cost allocation stage, which will facilitate the goal of expanding an efficient transmission system and delivering the benefits of such transmission expansion.

Nevertheless, the Joint Commenters recognize that more precise determination of beneficiaries may facilitate the ISO's expansion and be favored by utilities considering becoming PTOs. The CAISO's proposal to quantify beneficiaries and allocate costs to individual sub-regions roughly commensurate with benefits should reduce concerns about cost-shifting in an expanded market footprint. Therefore, we are cautiously optimistic about the CAISO's proposed process to determine beneficiaries of new regional facilities.[2]

But we are concerned about the ability of the CAISO and stakeholders to arrive at benefit assessment methodologies for each "category" of new regional facility: reliability, economic and public policy. While it is admirable to attempt to accurately quantify benefits that will accrue to each sub-region as a result of new regional facilities, arriving at an agreeable methodology for each type regional facility will be contentious.

Thus, the Joint Commenters are concerned that the CAISO may underestimate the time and effort needed to establish these processes and achieve reasonable consensus among stakeholders. While existing modeling tools may be leveraged for evaluation of beneficiaries of reliability and economic projects, determining beneficiaries for public policy projects may be much more difficult, especially given the regional nature of this discussion and the vast difference in public policies from state to state. Little, if any, precedent exists for determining beneficiaries of public policy projects. Most other ISO/RTOs ultimately allocate costs for public policy projects on a load ratio share. Because of concerns about the difficulty, and ultimately success, of precise beneficiary calculations, we appreciate that the CAISO has indicated it is not opposed to using postage stamp rates and would urge this option be considered if the currently proposed process proves untenable.

Simple cost allocation processes, such as postage stamp cost allocation, have been highly successful in other areas of the country. Generally, regions that have implemented simple cost allocation methodologies, such as SPP's "highway-byway" method and MISO's "multi-value projects", have been most successful in delivering significant benefits to ratepayers. In contrast, complicated cost allocation methodologies may be less likely to result in transmission projects that provide substantial benefits to ratepayers. Moreover,

[2] As discussed more in Section 2 of these comments, considering benefits based solely on the project "type" will become increasingly antiquated and may require modification in a regional market where sub-region's individual benefits are used to determine cost allocation.

simple cost allocation methods in the expanded ISO footprint could still allocate costs roughly commensurate with benefits, given the proposed definition of regional facilities, which includes high voltage facilities. High voltage transmission projects inherently provide some benefits to all ratepayers within a region through improved reliability, greater access to low-cost generation, improved market efficiency and protection against fuel price uncertainty. Therefore, the Joint Commenters would support the CAISO revisiting the use of load ratio cost allocation schemes for regional facilities, especially if the complex benefits assessment methodologies the CAISO is considering prove too difficult to implement.

7. The straw proposal says that when a subsequent new PTO joins the expanded BAA, it may be allocated shares of the costs of any new regional facilities that were previously approved in the integrated TPP that was established when the first new PTO joined. Please comment on this provision of the proposal.

   The reasonableness of this proposal is highly dependent on the benefit methodologies that are ultimately selected for cost allocation for new regional facilities. If, for instance, the ISO ends up recommending a postage stamp cost allocation scheme at a later date, this proposal may be unreasonable and serve to inhibit expansion of the ISO. Once the benefit methodologies are more clearly defined, the ISO should carefully weigh inclusion of this provision with the implications for future PTO participation.

8. The straw proposal says that sub-regional benefit shares – and hence cost shares – for the new regional facilities would be re-calculated annually to reflect changes in benefits that could result from changes to the transmission network topology or the membership of the expanded BAA. Please comment on this provision of the proposal.

   The CAISO should eliminate from its Straw Proposal the annual recalculation of beneficiaries for new regional facilities. The CAISO has already proposed cost allocation methodologies that will likely prove to be complicated, providing opportunities for arguments, delays, derailments and protests. But adding the unnecessary requirement to recalculate benefits on a year-to-year basis could exponentially increase the number of conflicts associated with benefit determination and cost allocation. We understand that recalculating benefits of transmission annually would better allocate costs to actual beneficiaries, especially as the system changes and, therefore, beneficiaries change. However, annually recalculating benefits also increases uncertainty with respect to individual PTO cost allocation and would serve to discourage regional expansion.

   If the CAISO believes that periodic recalculation of beneficiaries is required, it should be undertaken less frequently. For instance, the CAISO might recalculate benefits only upon the entry of a new PTO, or a significant system change (e.g., operation or retirement of a major generating plant). Alternatively, the CAISO could propose benefit recalculation every five years. Either of these options would provide a mechanism for cost reallocation based on system changes, but they would reduce potential disputes and uncertainty associated with PTO cost allocation for new regional facilities.

9. Please offer any other comments or suggestions on the design and the specific provisions of the straw proposal (other than the benefits assessment methodologies).

Joint Commenters Support the Straw Proposal's Extension of the Current CAISO TAC Rate Structure:

The CAISO's Straw Proposal would eliminate the rate-pancaking that currently exists for generators to move power between the CAISO and PacifiCorp (or any other future PTO). The Straw Proposal would retain the current "export fee" for energy that is wheeled outside of the expanded ISO footprint. However, for energy that crosses between sub-regions, the CAISO does not propose any new sub-regional fees or other transactional barriers to these flows.

The Joint Commenters generally support this approach, as it facilitates the greatest realization of benefits associated with regional expansion and does not unnecessarily inhibit the flow of electricity across the expanded market footprint. This structure eliminates rate-pancaking. It also eliminates the need for generation and storage resources to forecast transmission rates in their long-term contracting, a reduction in developer risk that should result in lower resource costs to consumers.

CAISO Should Further Consider Billing Determinants For New PTOs Under a Regional TAC:

Although the Straw Proposal would reduce the potential for negative rate impacts by recovering costs for existing facilities from the individual sub-regions, the CAISO's Straw Proposal glosses over a substantive concern that will impact nearly every new PTO that might be interested in joining the ISO. The Straw Proposal assumes that the TAC will continue to be charged on a per-MWh basis to load and exports. The Straw Proposal does not consider alternative billing determinants such as peak-demand based charges. However, most utilities in the Western Interconnection currently allocate transmission costs based on peak-demand, a stark contrast for the CAISO's energy based allocation. Therefore, while the Straw Proposal may mitigate major cost shifts to, for instance, PacifiCorp's customers as a whole, the shift to charging for transmission based on energy could cause drastic cost shifts within PacifiCorp's individual customer classes. Large commercial and industrial customers, in particular, may experience a substantial increase in costs as a result of a change in the transmission billing determinant.

These cost shifts could prove to be a major hurdle in state regulatory proceedings for future PTOs and could, potentially, prevent market expansion. Notably, this issue is not unique to PacifiCorp, but will exist with nearly every western utility that may be interested in joining the ISO. Therefore, this issue deserves additional discussion and consideration within the CAISO's regional TAC proposal. The CAISO might, for instance, include language indicating that new PTOs can choose to retain existing billing determinants for existing facilities within their sub-region, while converting to the system of charging only loads and exports (as discussed above).

Section 2: Benefits Assessment Methodologies

10. The straw proposal would apply different benefits assessment methods to the three main categories of transmission projects: reliability, economic, and public policy. Please comment on this provision of the proposal.

    As AWEA and Interwest discussed in comments on the TAC Issues Paper, going forward it will be extremely difficult, if not impossible, to distinguish between the benefits of a transmission segment that enables policy goals in one state while delivering significant economic savings to customers in another state and improving grid reliability in all states. Increasingly, classifying new or upgraded transmission facilities as a specific type of project (e.g., "economic," "policy driven," or "reliability") is an antiquated concept and the lines of delineation between project types are increasingly blurred. Many regional facilities, in particular, will offer benefits that span the suite of project types. Therefore, as the CAISO considers methods for quantifying benefits for individual project types, it should also develop cost allocation methods that consider the full suite of benefits a new regional facility may offer.

    For instance, if a new regional facility is constructed primarily for reliability purposes but offers public policy benefits to one sub-region and economic benefits to another sub-region, it would be inappropriate to allocate the costs of that project based only on the calculation of reliability benefits. For new regional facilities, the CAISO should consider using a cost allocation methodology that allocates costs based on the benefits of all three benefit categories (reliability, economic and public policy). This concept of considering all types of benefits would support the ISO's goal of considering a "broad range of regional benefits and beneficiaries that result from policy-driven projects and allocate costs accordingly" while also providing a path where the costs of public policy projects would not be allocated 100% to the state whose policy first triggered the need for the project, unless that state was the only sub-region to realize benefits of the regional facility. Of course, when considering the full suite of benefits there may be nuances that the ISO needs to consider and address. For instance, if a project is required primarily to relieve congestion but provides some tangential reliability benefit, it may not be appropriate to allocate costs of the project based on the reliability benefits.

    Considering all types of benefits that may accrue to individual sub-regions might also eliminate potential disagreements over the appropriate classification of a new regional facility. For these reasons, the Joint Commenters urge the CAISO to begin to consider cost allocation and identification of beneficiaries across all benefit categories, regardless of the official classification of the transmission project.

11. The straw proposal would use the benefits calculation to allocate 100 percent of the cost of each new regional facility, rather than allocating a share of the cost using a simpler postage stamp or load-ratio share basis as some of the other ISOs do. Please comment on this provision of the proposal.

Complicated cost allocation methods will result in arguments, delays and derailments, which will make it difficult to realize the benefits of transmission expansion. Generally, regions that have implemented simple cost allocation methodologies, such as SPP's "highway-byway" method and MISO's "multi-value projects", have been most successful in delivering significant benefits to ratepayers. For instance, the MISO MVP portfolio creates $8.4 to $34.7 billion in net benefits.[3] And the benefits of transmission installed in SPP from 2012-2014 is expected to exceed $16.6 billion over a 40-year period, compared to a cost of $3.4B.[4]

We have previously advocated for relatively simple cost allocation methodologies, as they will minimize disputes at the cost allocation stage, which will facilitate the goal of expanding an efficient transmission system and delivering the benefits of such transmission expansion. Nevertheless, the Joint Commenters recognize that more precise determination of beneficiaries may facilitate the ISO's expansion and be favored by utilities considering becoming PTOs. Therefore, the Joint Commenters believe exploring beneficiary determination is worthwhile at this stage in the process, but hope that the CAISO will revisit the use of simpler methods if the complex benefits assessment methodologies being considered prove too difficult to implement.

12. Please comment on the DFAX method for determining benefit shares. In particular, indicate whether you think it is appropriate for reliability projects or for other types of projects. Also indicate whether the methodology described at the March 9 meeting is good as is or should be modified, and if the latter, how you would want to modify it.

Based on the discussions at the March 9th stakeholder meeting, the DFAX method does not appear to be a reasonable approximation of benefits for reliability or other types of facilities. As pointed out during the March 9th meeting, this is especially true for reliability projects that are necessitated by voltage, stability or short-circuit issues. Modification of this methodology does not appear to be sufficient to mitigate concerns, but we would be open to exploring modifications that may be proposed by other stakeholders.

Based on the information currently available, the CAISO should consider other methods for determining benefits of reliability projects. As we have pointed out elsewhere, the ultimate benefits methodology used needs to account for a variety of benefit types rather than artificially restraining the types of benefits that are calculated to one method based on a relatively arbitrary distinction of project "type." To achieve this end all benefits should be able to be expressed in a consistent unit (such as dollars). The DFAX methodology does not appear to lend itself to combination with other types of benefits, such as economic or public policy benefits. As transmission lines will increasingly serve multiple purposes under a regional ISO, allowing benefits to be combined will become more and more important and should be an important factor in assessing proposed benefit

[3] MISO, MTEP15 Chapter 7.5: MTEP15 MVP Limited Review, available here: http://www.misomtep.org/mvp-limited-review-mtep15/.
[4] SPP, The Value of Transmission, January 2016, available here: http://www.spp.org/documents/35297/the%20value%20of%20transmission%20report.pdf.

methodologies. The DFAX method does not seem to easily lend itself to combination with other types or benefits, nor does it seem to reasonably approximate actual reliability benefits to individual subregions.

The ISO may want to consider reliability benefit assessment methodologies that are utilized in non-ISO/RTO transmission planning regions. Some of those concepts may lend themselves to calculation of a monetary benefit amount and determination of benefits for each individual subregion. For instance, several of the western transmission planning regions use the concept of "avoided costs" to calculate benefits of larger, regional reliability projects. This would require development of "alternative" solutions to reliability issues that arise in the ISO, but might be worth consideration as it could provide a basis for monetary benefit calculation and allocation of costs to individual subregions.

13. Please comment on the use of an economic production cost approach such as TEAM for determining benefit shares. In particular, indicate whether you think it is appropriate for economic projects or for other types of projects. Also indicate whether the methodology described at the March 9 meeting is good as is or should be modified, and if the latter, how you would want to modify it.

    The TEAM appears to be a good starting place for determining economic benefit shares. However, sufficient details have not been provided to make a complete determination about whether TEAM is appropriate and how it may need to be modified. As mentioned during the March 9th meeting, it would be valuable for the ISO to provide complete, updated documentation of the current TEAM approach. This would allow stakeholders to better assess the appropriateness of TEAM and how it could be modified for determining economic and, possibly, other types of benefits.

14. At the March 9 meeting some parties noted that the ISO's TEAM approach allows for the inclusion of "other" benefits that might not be revealed through a production cost study. Please comment on whether some other benefits should be incorporated into the TEAM for purposes of this TAC Options initiative, and if so, please indicate the specific benefits that should be incorporated and how these benefits might be measured.

    Ideally, the TEAM approach could be expanded to capture reliability and public policy benefits, along with ensuring all economic benefits are properly accounted for. Reliability benefits might be measured by determining the "next best" or "avoided" transmission project that would be required to mitigate the reliability issues. The cost of the avoided project could then be added to the TEAM approach to determine total benefits of the regional facility. Ultimately, public policy benefits might also be able to be added to the TEAM approach, such that all categories of benefits could be considered when the ISO determines cost allocation to individual subregions.

15. Regarding public policy projects, the straw proposal stated that the ISO does not support an approach that would allocate 100 percent of a project's costs to the state whose policy was the initial driver of the need for the project. Please indicate whether you agree with

this statement. If you do agree, please comment on how costs of public policy projects should be allocated; for example, comment on which benefits should be included in the assessment and how these benefits might be measured.

The Joint Commenters agree with the ISO that 100 percent of a project's costs should not be allocated to the state whose policy was the initial driver of the need for the project. As stated in other areas of these comments, transmission projects provide multiple types of benefits. A process that allocates 100% of costs for public policy projects to the state whose public policy initiated the need for the project is inappropriate and would allow unnecessary free-riding by other states that may use and benefit from a transmission facility but would not be required to pay for any of the costs associated with that facility.

16. At the March 9 and previous meetings some parties suggested that a single methodology such as TEAM, possibly enhanced by incorporating other benefits, should be applied for assessing benefits of all types of new regional facilities. Please indicate whether you support such an approach.

    This approach seems like a good starting place, but the details will be critical in determining whether this type of assessment is appropriate. In order to implement this approach it seems as though the ISO will need to find a way to calculate all benefits in a consistent unit, such as dollars.

17. Please offer comments on the BAMx proposal for cost allocation for public policy projects, which was presented at the March 9 meeting. For reference the presentation is posted at the link on page 1 of this template.

    The proposal put forward by BAMx might offer a good method for allocating costs of public policy projects. While the BAMx proposal is a fairly radical departure from the historical allocation of transmission costs, it is an intriguing concept which deserves further exploration. Under the BAMx proposal, LSEs would effectively need to consider the cost of regional transmission upgrades when making generation procurement decisions to meet public policy goals. If this approach can be properly implemented, it could serve as a vehicle for improving the efficiency of generation procurement and transmission expansion across the ISO's expanded footprint. The proposal might help maximize benefits to end use customers by facilitating development of the most cost effective generation and transmission portfolio mix to meet public policy requirements. However, the details of this methodology will be critically important and will require significant thought and coordination between the ISO and the PUCs that regulate current and future PTOs.

    While the Joint Commenters support further exploration of the mechanics of the BAMx proposal, there are certain elements which require modification if the proposal is to be successful. Namely, the proposal to allocate transmission costs to merchant generators must be eliminated. The current CAISO TAC structure allocates transmission costs to

load and exports. This structure supports efficient market outcomes and maintaining this structure is critical. If merchant generators were allocated transmission costs, as proposed by BAMx, it could lead to skewed market results and inefficient market outcomes. Therefore, the BAX proposal should be modified such that merchant generators are not allocated costs. Instead, setting the threshold for approval of a regional public policy facility at an appropriate level should be utilized to help reduce concerns about free riders.

Furthermore, the BAMx proposal should be modified such that other types of benefits can be considered and combined with this cost allocation approach. This may require developing a process to calculate the monetary value of public policy benefits. For instance, the CAISO might calculate the cost of the "next best public policy resource" that could have been acquired by the LSE absent the regional public policy transmission facility. The cost savings associated with accessing lower cost generation resources could be quantified as the public policy benefits. Those cost savings could be combined with other benefits, such as economic and reliability. Once the total value of the public policy benefits was known, that portion of the line's costs could be allocated to LSEs based on the generation ratio share of the public policy resources that require the transmission facility, as BAMx proposed.

18. Please offer any other comments or suggestions regarding methodologies for assessing the sub-regional benefits of a transmission facility.

The ISO's proposal to allocate costs based on a calculation of sub-regional benefits does create significant complications and is not a simple solution. In other regions, simple solutions have been more effective at spurring transmission development that result in cost savings. Nevertheless, we understand why the ISO is endeavoring to calculate benefits for regional projects. Ultimately, arriving at benefit assessment methodologies that are a reasonable approximation of actual benefits and account for the wide variety of benefits that are provided by transmission will require more time than the ISO has allocated to this initiative. If the ISO continues to strive for a cost allocation methodology for regional project that calculates beneficiaries, it should take the time necessary to develop the benefits assessment methodologies with stakeholders. More than likely, this will entail extending the current timeline for the TAC initiative and acknowledging that sending a proposal to the ISO Board of Governors in June will have to be delayed. Getting this component of regional expansion "right" is much more important than getting it done quickly. Therefore, the Joint Commenters urge the ISO to take the time necessary to work with stakeholders and develop defensible, reasonable benefit assessment methodologies.