

# Stakeholder Comments Template

## Transmission Access Charge Options

### September 30, 2016 Second Revised Straw Proposal

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The ISO provides this template for submission of stakeholder comments on the September 30, 2016 second revised straw proposal. The second revised 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](mailto:initiativecomments@caiso.com). Submissions are requested by close of business on **October 28, 2016**.

### **Second Revised Straw Proposal**

1. The ISO previously proposed to allow a new PTO that is embedded within or electrically integrated with an existing sub-region to have a one-time choice to join that sub-region or become a separate sub-region. The ISO now proposes that an embedded or electrically integrated new PTO will become part of the relevant sub-region and will not have the choice to become a separate sub-region. This means that the new embedded/integrated PTO's transmission revenue requirements will be combined with those of the rest of its sub-region and its internal load will pay the same sub-regional TAC rate as the rest of the sub-region. Please comment on this element of the proposal.
2. An embedded PTO is defined as one that cannot import sufficient power into its service territory to meet its load without relying on the system of the existing sub-region. Whether a new PTO is considered electrically integrated will be determined by a case-by-

case basis, subject to Board approval, based on criteria specified in the tariff. Please comment on these provisions of the proposal.

3. The proposal defines “new facilities” as transmission projects planned and approved in an expanded TPP for the expanded ISO BAA. The integrated TPP will begin in the first full calendar year that the first new PTO is fully integrated into expanded ISO BAA. 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. Please comment on these provisions.

These provisions appear reasonable. AWEA, Interwest and Renewable Northwest support the proposal that any “new” facility must be planned and approved in an expanded TPP for the regional ISO. Requiring projects that may be eligible for regional cost allocation to be planned for through a TPP process will help provide state regulators with more confidence that the full suite of transmission options have been studied and compared against one another in an open and transparent process, before transmission project costs are considered for allocation within their sub-region.

4. The ISO previously defined “existing facilities” as transmission assets planned in each entity’s own planning process for its own service area or planning region, and that are in service, or have either begun construction or have committed funding to construct. The ISO is now simplifying the proposal to define “existing facilities” as all those placed under operation control of the expanded ISO that are not “new.” Please comment on the ISO’s proposed new definition of “existing facilities.”

This definition seems to increase clarity related to how facilities will be classified. The proposed definition of “existing” ensures that, if a project does not meet the definition of “new,” it will be considered “existing”, without exception. Thus, this definition should ensure that transmission costs of projects not planned through the expanded TPP will only be allocated to the sub-region which brought them into the regional ISO.

5. Consistent with the previous revised straw proposal, the ISO proposes to recover the costs of existing facilities through sub-regional “license plate” TAC rates. The ISO has proposed that each sub-region’s existing facilities comprise “legacy” facilities for which subsequent new sub-regions have no cost responsibility. Please comment on this aspect of the proposal.

AWEA, Interwest and Renewable Northwest continue to support this aspect of the proposal. Because of the vast difference in existing transmission costs between the current CAISO and other potential sub-regions, the license plate approach for existing

facilities appears to be a necessary prerequisite for ISO expansion and realization of the associated benefits.

6. The ISO proposes to use the Transmission Economic Assessment Methodology (TEAM) to determine economic benefits of certain new facilities to the expanded ISO region as a whole and to each sub-region. Please comment on these uses of the TEAM.

AWEA, Interwest, and Renewable Northwest strongly support consideration of a broad suite of benefits. Unfortunately, as currently defined, TEAM does not adequately capture all of the economic benefits associated with transmission development and many significant categories of benefits will remain unquantified.

The SB350 studies which were recently completed illustrate the benefits that may not be considered if TEAM is not enhanced. The SB350 studies estimated renewable procurement savings that might accrue to California ratepayers of \$680M in Scenario 2 and \$799M in Scenario 3. But, as currently structured, TEAM would not capture these savings. It may capture some small fraction of these savings by quantifying Resource Adequacy (RA) savings” but it would not capture the vast majority of the savings associated with reduced capital cost expenditures.

The ISO appears to believe that renewable procurement savings, such as those quantified in the SB350 studies, can be realized via the identification of “policy-driven” transmission projects. But, we remain concerned that such a process is ill-defined and may not yield the results the ISO is currently expecting. For instance, while California has a process in place to help identify expected generation resources to meet policy requirements, other states do not, and without expanded TEAM, these benefits will not be properly accounted for and considered as part of the TPP in the expanded ISO.

The deficiencies of the current TEAM methodology and the proposed use of TEAM for cost allocation with a separate public policy-driven process may be best illustrated through an example. Consider a long-distance transmission line primarily built to achieve California’s public policy goals by allowing access to low-cost wind generation in New Mexico (for instance). The use of TEAM, as currently proposed, would not capture any economic benefits associated with accessing this low-cost resource for utilities in New Mexico or Arizona, even if utilities in those states wanted to procure electricity from the wind resources assessed by the line. TEAM is also not setup any economic savings that may be attributable to California by accessing low-cost resources (resources which may help meet policy objectives, while also being the lowest cost option for ratepayers). Therefore, as discussed in more detail throughout these comments, AWEA, Interwest, and Renewable Northwest believe that updating TEAM to capture more benefits is the highly preferable approach. Providing the Western States Committee (WSC) with authority over the TEAM approach may be a method for building state support for the benefit calculations early in the process.

In prior comments, AWEA, Interwest, and Renewable Northwest provided comments on

how TEAM should be expanded to capture additional economic benefits above and beyond those currently quantified. This includes expanding TEAM to capture capacity cost savings beyond the narrowly quantified RA savings. It will be important for TEAM to be expanded such that it can adequately capture economic benefits associated with renewable resource development, whether that development meets public policy requirements or occurs because renewable resources are the lowest cost option available for utilities to serve their customers.

Specifically, the ISO should focus on expanding TEAM to include the following benefits:

- Avoided or delayed reliability projects
- Reduced Loss of Load Probability
- Capacity cost savings due to reduced on-peak transmission losses
- Access to lower-cost generation resources

AWEA, Interwest and Renewable Northwest believe that, at a minimum, if the inclusion of these additional benefits is not adopted by the ISO in this initiative, these benefits should be studied and considered for inclusion by the WSC. Providing the WSC with primary authority over determining whether these benefits are included and for reviewing their calculations should be thoroughly reviewed in this initiative and in the governance initiatives currently underway at the CEC.

If TEAM can be adequately expanded, either in this initiative or as part of the broader governance discussions, then it would be appropriate to use for determining economic benefits for the region as a whole as well as to each sub-region. But, as currently drafted TEAM is not sufficient to measure the economic benefits that might accrue to the region as a whole, nor to individual sub-regions.

7. For a reliability project that is narrowly specified as the more efficient or cost-effective solution to a reliability need within a sub-region, and has not been expanded or enhanced in any way to achieve additional benefits, the ISO proposes to allocate the project cost entirely to the sub-region with the driving reliability need, regardless of any incidental benefits that may accrue to other sub-regions. Please comment on this provision.

This approach is consistent with what AWEA, Interwest, and Renewable Northwest supported in the last set of comments. This approach appears to be preferable to studying incidental economic benefits that may result from a transmission line and, potentially having the costs of reliability projects in one region partially allocated to other sub-regions, as that may cause significant disagreements and unnecessary conflicts among the sub-regions.

8. For a policy-driven project that is connected entirely within the same sub-region in which the policy driver originated, the ISO proposes to allocate the project cost entirely to the

sub-region with the driving policy need, regardless of any incidental benefits that may accrue to other sub-regions. Please comment on this provision

This principle cannot be commented on without understanding how “policy-driven” transmission projects are identified in the CAISO today and how they might be identified in a regional ISO construct in the future.

At a high level, AWEA, Interwest, and Renewable Northwest are concerned that the ISO may not be fully considering how “policy driven” projects will be identified in an expanded ISO. Within California, today, the ISO is provided with significant input from the CPUC, including expected resource portfolios. This information facilitates the ISO’s determination of which transmission projects might be necessary to deliver public policy resources and those projects can be identified as “policy-driven” projects. However, that same information is unlikely to be provided by state regulatory commissions in other states. This may make it difficult or impossible to identify “policy-driven” projects, especially for non-California subregions in an expanded ISO.

Again, this points to the need to focus on expanding TEAM and identifying ways in which the capital cost savings associated with access to lower cost generation resources might be calculated and incorporated into that methodology. Doing so should help to limit the number of “policy-driven” transmission projects and ensure that costs are allocated more closely with actual benefits received.

AWEA, Interwest, and Renewable Northwest point out that there may be an appropriate role for the WSC in determining which projects are “policy-driven” and which sub-regions are driving those projects. Additionally, it is possible that the WSC could play a role in providing resource portfolios to study, similar to what the CPUC does in California today. Regardless, the ISO will need a clear methodology that considers policy-driven benefits and encompasses other economic benefits as well. Expanding TEAM to include additional values would be the easiest way to accomplish this goal.

9. For a purely economic project with benefit-cost ratio (BCR) > 1, cost shares will be allocated to sub-regions in proportion to their benefits, and because BCR > 1 this completely covers the costs. A purely economic project is one that is selected on the basis of the TPP economic studies following the selection of reliability and policy projects, and is a distinct new project, not an enhancement of a previously selected reliability or policy project.

Please see response to question #6. If a broader range of economic benefits is considered, then this approach may be appropriate.

10. For an economic project that results from modifying a reliability or policy-driven project to obtain economic benefits greater than incremental project cost, the ISO proposes to

first, allocate avoided cost of original reliability or policy-driven project to the relevant sub-region, then allocate incremental project cost to sub-regions in proportion to their economic benefits determined by TEAM. This is called the “driver first” approach to cost allocation. The proposal also illustrated an alternative “total benefits” approach. Please comment on your preferences for either of these approaches.

AWEA, Interwest and Renewable Northwest’s understanding of the proposed approach is that it will allow a broad suite of benefits to be considered and studied as part of the TPP. As discussed in Question #6, AWEA, Interwest and Renewable Northwest support expansion of TEAM to more appropriately include additional economic benefits that sub-regions may realize. Assuming the TEAM is expanded, we supports the general direction the ISO is moving forward with, as it allows for consideration of many types of benefits. However, we continue to ask the ISO to better consider how “policy-driven” projects will be identified outside of California (see response to Question #8). This is a critical piece of determining whether the ISO will actually be able to identify “policy-driven” projects and, thus, whether this proposed cost allocation approach will actually work, in practice.

11. The proposal outlined two scenarios for policy-driven projects involving more than one sub-region. In scenario 1, where a project built within one sub-region meets the policy needs of another sub-region, costs would be allocated to sub-regions up to the amount of their economic benefits (per TEAM) and the remaining costs would be allocated to the sub-region that was the policy-driver. Please comment on this cost allocation approach for scenario 1.

AWEA, Interwest, and Renewable Northwest urge the ISO to focus on expanding the range of benefits captured in TEAM. The ISO also needs to give additional thought to how “policy-driven” projects will be identified in a regional ISO. Stakeholders need to better understand how it will be determined which sub-regions drive the “policy-needs.”

Please see response to question #6 and #8 for additional background.

12. In scenario 2, where a policy project meets the policy needs of more than one sub-region, costs would be allocated to sub-regions up to the amount of their economic benefits (per TEAM) and the remaining costs would be allocated to the relevant sub-regions in proportion to their internal load for project in-service year. Please comment on this cost allocation approach for scenario 2.

If a broader range of economic benefits is considered within TEAM, then this approach may be appropriate. However, it would be preferable to allocate any remaining costs on a basis which is more closely aligned with the “policies” of each sub-region. For instance, AWEA, Interwest, and Renewable Northwest have suggested that the “expected public policy deficiency” might be a starting place for cost allocation of remaining costs. If



“expected public policy deficiencies” cannot be calculated with relative certainty then the fallback position could be allocate remaining costs in proportion to internal load.

At a threshold level, again, AWEA, Interwest, and Renewable Northwest urge the ISO to put more thought into how “policy-driven” projects will be determined outside of California. If such a process is not adequately developed, then the ISO’s proposed cost allocation methodology in these instances will be effectively meaningless and it may be impossible to identify which sub-region is driving the policy need.

Please see responses to question #6 and #8 for additional background on expanding TEAM and evaluating the identification of “policy-driven” projects in a regional context.

13. 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, regardless of whether their costs are allocated to only one or more than one sub-region, with exceptions only for upgrades to existing facilities as stated in ISO tariff section 24.5.1. Please comment on this proposal.

Opening up additional opportunities for competitive solicitations will pay dividends to end-use customers across the West, helping to ensure any transmission built in the regional ISO is done in the most cost effective manner possible. In the latest proposals, the ISO has appropriately expanded the instances in which projects would be eligible for competitive solicitation. AWEA, Interwest, and Renewable Northwest strongly support the ISO’s modification in this area and hope the expansion of competitive solicitation opportunities will help provide additional benefits to customers over the coming decades.

14. The ISO proposes to drop the earlier proposal to recalculate benefit and cost shares for sub-regions and the proposal to allocate cost shares to a new PTO for a new facility that was planned and approved through the integrated TPP but before that new PTO joined the expanded ISO. Please comment on the elimination of these proposal elements.

This revision is reasonable and will help ensure cost allocation certainty. The benefits of recalculation appeared to be small in comparison to the potential problems that may have emerged if recalculation were implemented.

15. The ISO proposes to establish a single region-wide export rate (“export access charge” or EAC) for the expanded region, defined as the load-weighted average of the sub-regional TAC rates. Please comment on this proposal.

16. Under the EAC proposal, non-PTO entities within a sub-region would pay the same sub-regional TAC rate paid by other loads in the same sub-region, rather than the wheeling access charge (WAC) they pay today. Please comment on this proposal.
  
17. The ISO proposes to allocate EAC revenues to each sub-region in proportion to their transmission revenue requirements. In the August 11 working group meeting the ISO presented the idea of allocating EAC revenues to each sub-region in proportion to its quantity of exports times its sub-regional TAC rate. Please comment on these two approaches for EAC revenue allocation, and suggest other approaches you think would be better and explain why.
  
18. Please provide any additional comments on topics that were not covered in the questions above.

The ISO's "driver first" approach increases the importance of accurately identifying the type of transmission driver for each transmission project that is evaluated. If a project that truly helps meet policy needs in subregion A is inappropriately classified as a reliability project for subregion B, the cost allocation implications, under the current proposal, will be drastic. Therefore, the ISO should consider whether the current TAC initiative, with the "driver first" approach warrants further consideration of the Transmission Planning Process under an expanded ISO. Given the driver-first approach it appears more important than ever for transmission cost allocation and transmission planning to be considered holistically.

Within the ISO's current proposal, it is critically important to identify "policy-driven" projects and the sub-region's driving those. However, it is unclear to many stakeholders how "policy driven" projects would be identified in sub-regions outside of the current CAISO footprint. This illustrates the importance of considering how "policy driven" projects are identified holistically with transmission cost allocation.

While the role of the Western States Committee is being defined through the regional governance process, it may be worth considering whether there is a role for the WSC to play in identifying or endorsing "policy-driven" transmission projects, verifying that transmission projects are appropriately classified and in expanding the suite of economic benefits considered in TEAM.