

# Stakeholder Comments Template

## Transmission Access Charge Options

### August 11, 2016 Stakeholder Working Group Meeting

Submitted by	Company	Date Submitted
<i>Tom Darin</i> <i>Phone: 720-244-3153</i>	<i>American Wind Energy Association (AWEA)</i>	<i>8/25/2016</i>
<i>Lisa Hickey</i> <i>Phone: 719-302-2142</i>	<i>Interwest Energy Alliance (Interwest)</i>	
<i>Cameron Yourkowski</i> <i>Phone: 971-634-0143</i>	<i>Renewable Northwest</i>	

The ISO provides this template for submission of stakeholder comments on the August 11, 2016 stakeholder working group meeting. Topic 1 of the template is for comments on the default cost allocation provisions for new regional transmission facilities, the topic of the morning session of the working group. Topic 2 is for comments on the region-wide TAC rate for exports, which the presentation referred to as the “export access charge” (EAC) and was the topic of the afternoon session of the working group. The ISO invites stakeholders to offer their suggestions for how to improve upon the ideas discussed in the working group meeting.

The presentation for the August 11 meeting 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 **August 25, 2016**.

### Topic 1. Default Cost Allocation Provisions for New Regional Transmission Facilities

#### Context

For purposes the working group discussion the ISO assumed that the current structure of the transmission planning process (TPP) would be retained for the expanded BAA. That is, the TPP

would consist of a first phase for specifying and adopting planning assumptions including public policy directives that would drive transmission needs, as well as a study plan. The second phase would consist of a sequential process for performing planning studies and identifying reliability projects, followed by policy-driven projects, and finally economic projects. With each successive project category, the ISO may identify a project that serves the need of a project identified in a prior category, in which case the project would be labeled by the last category in which it was identified, but its cost allocation would reflect the benefits in all categories.

By design these two TPP phases take 15 months, at the end of which the ISO would present the comprehensive transmission plan for approval to the governing board for the expanded BAA. At the working group meeting the ISO also pointed out that while the concept of a “body of state regulators” or “Western States Committee” is still under discussion in the context of governance for the expanded BAA, no details have been developed or proposed regarding this entity’s role with regard to transmission planning and cost allocation. Moreover, once the default provisions being discussed in the working group are finalized, filed and have been approved by FERC for inclusion in the ISO tariff, any variations or deviations from those provisions would also have to be filed and approved by FERC. Stakeholders should therefore view the current effort to develop default cost allocation provisions as determining the rules that would govern transmission cost allocation for the expanded BAA.

Stakeholders should assume for purposes of their comments that the current ISO TPP structure would be followed in an expanded TPP performed for the expanded BAA. Parties wishing to comment on or suggest alternatives to these assumptions may add any additional comments at the end of this topic.

## Questions

### *AWEA, Interwest, and Renewable Northwest: Context and Principles for Default Transmission Cost Allocation Methodology:*

The following comments of AWEA, Interwest, and Renewable Northwest are written with the understanding that the proposed regional ISO Western States Committee will be formed and will be delegated some amount of responsibility and authority for transmission cost allocation. With this background in mind, we offer some high-level comments on the design and principles of a default cost allocation methodology. First and foremost, the default methodology should be defensible and should provide a timely and workable path for financing and constructing transmission projects. The method should allocate costs roughly commensurate with benefits. Recognizing that the Western States Committee will have the ability to work together, along with ISO staff and the ISO Board on the nuanced cost allocation details of specific transmission project proposals, we think the default methodology should be as simple and as transparent as practicable, while also being relatively accurate and providing a sound starting place for the Western States Committee to begin from. Providing all parties with a clear understanding of how costs will be allocated under the default approach will help to facilitate the development of superior and more broadly supported cost allocation agreements through the Western States Committee process.

1. The working group presentation assumed we would use the current Transmission Economic Assessment Methodology (TEAM) to calculate a project's economic benefits to the BAA as a whole and to each of the sub-regions. Currently TEAM calculates the following types of benefits: efficiency of the economic dispatch, reduction of transmission line losses, and reduction of resource adequacy capacity costs. Are these economic benefit types sufficient for purposes of cost allocation, or should other types of benefits be included? Please describe any additional benefit types you would include in the benefits assessment and suggest how they could be quantified.

Increasingly, as renewable resources become the lowest cost generation option, the line between economics and public policy has become blurred. No longer are renewable resources purchased solely to meet public policy requirements. As has been demonstrated by Xcel and other utilities, procurement of wind and solar resources increasingly occurs because these resources are the lowest cost option available to serve customers. To address the blurring line between economics and public policy, AWEA, Interwest, and Renewable Northwest believe that TEAM needs to be expanded to capture additional economics benefits above and beyond those currently quantified. This includes expanding TEAM to capture capacity cost savings (as described in more detail below) beyond the narrowly quantified Resource Adequacy (RA) savings currently used in TEAM. 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.

Additionally, AWEA, Interwest, and Renewable Northwest believe that if TEAM is appropriately expanded, with benefits accurately attributed to the ISO's subregions, it will help reduce the number of transmission projects that will fall into the "public policy" category. This is important because, to date, the ISO has yet to provide a concrete proposal for how to allocate costs of public policy transmission across the ISO's subregions.

AWEA, Interwest, and Renewable Northwest suggest that the ISO thoroughly review SPP's *The Value of Transmission* report and attempt to expand TEAM to cover the various categories of benefits that SPP was able to capture in that analysis, though we recognize that applying some of these metrics to a planning study in an expanded ISO may not be possible. AWEA, Interwest and Renewable Northwest believe that TEAM could be expanded to include the following benefits, which were assessed in the SPP analysis:

- **Avoided or delayed reliability projects**
  - A SPP staff analysis estimated the benefits associated with deferring or avoiding reliability projects by building the SPP's Economic Projects.
  - The ISO may be able to incorporate a similar concept into its planning studies and add these benefits in to TEAM, which may help to incorporate "reliability" benefits inside of the TEAM analysis.
    - The ISO would certainly need to ensure these benefits are not "double counted" when the avoided cost concept is included.

- **Reduced loss of load probability**
  - SPP attributed a 2% reduction in planning reserve margin to the backbone EHV facilities that have been installed.
  - The ISO may be able to apply a similar assumption in assessing EHV economic transmission projects.
- **Capacity cost savings due to reduced on-peak transmission losses**
  - Reductions in losses during on-peak hours may reduce the need to build additional generation to meet peak needs.
  - The benefits of lower generation capacity requirements can be quantified and applied to transmission projects that are being considered in the ISO's TPP.
- **Access to lower-cost generation resources**
  - SPP partially captured the benefits of transmission that allowed access to wind generation located in lower-cost/higher capacity factor areas.
    - SPP performed this analysis in retrospect, but a forward looking analysis could be developed for the expanded ISO perhaps by utilizing interconnection queues and various resource planning information from state regulators or utility Integrated Resource Plans (IRPs).
    - This benefit category could also be tailored to include any transmission costs which are "avoided" by accessing a different set of generation resources.
  - This assessment may also be tailored to capture installed cost savings that results from reduced curtailments of renewable resources as a result of renewable resource diversification enabled by a transmission line.

Though this list would significantly expand the categories of benefits assessed in TEAM studies, there remain many benefit categories which are not included on this list, as AWEA, Interwest, and Renewable Northwest recognize that their quantification may be extremely difficult. Because many categories of benefits are not included, even this expansion of TEAM's benefit categories would still tend to result in a conservative estimate of the benefits of transmission.

AWEA, Interwest, and Renewable Northwest believe that, as the TAC stakeholder initiative continues to move forward, the ISO should concentrate its efforts on expanding TEAM to incorporate additional benefit categories, such as those listed above. Expanding TEAM may also help begin to capture public policy benefits to individual subregions. AWEA, Interwest, and Renewable Northwest believe this is important because, in an expanded ISO, we expect most large-scale transmission projects that would be eligible for regional cost allocation would likely provide both economic benefits and facilitate public policy requirements. Furthermore, as described above, with the lines between economics and public policy becoming increasingly difficult to distinguish, establishing a methodology which accurately captures both these types of benefits at once will be beneficial to all subregions.

2. The ISO's presentation suggested that a sub-region's avoided cost for a needed transmission project could be included among the benefits of a project with region-wide benefits. For example if project A with region-wide economic benefits enables sub-region 1 to avoid a

reliability project B that would have cost \$40 m, then the \$40 m avoided cost should be included in the total benefits of project A for purposes of cost allocation to the sub-regions. Please comment on whether such avoided costs should be included in the benefits for cost allocation purposes.

Conceptually, the use of avoided costs is a reasonable proxy to help address cost allocation for projects required to meet reliability needs. And, conceptually, these costs would warrant inclusion in a benefit assessment conducted in an expanded ISO. However, as other stakeholders have alluded to, these conceptual avoided projects may not exist, or may not have been adequately studied. Therefore, implementation of the “avoided cost” metric may be difficult to achieve in practice. Nevertheless, AWEA, Interwest, and Renewable Northwest support continuing to develop details necessary to include “avoided cost” in benefit assessments, particularly for assessing reliability “benefits” to individual subregions.

3. In the example of Question 2 a specific project B was identified to meet a reliability need, and so its avoided cost could be viewed as a realistic estimate of the cost to sub-region 1 of mitigating its reliability need. In many instances in practice, however, cost-effective projects may be identified that provide economic, policy and reliability benefits without the planners ever identifying less costly but narrowly-scoped hypothetical alternative projects that could serve to provide concrete avoided cost estimates. Do you think it is important to perform additional studies to determine meaningful avoided cost estimates to use in cost allocation, perhaps by identifying hypothetical alternatives that would not ordinarily be considered in the TPP? Are there other approaches you would favor for estimating avoided costs to use in cost allocation? What other methods should the ISO consider for allocating reliability or policy “benefits” to a sub-region absent a well-defined project that can be avoided?

AWEA, Interwest, and Renewable Northwest believe consideration of avoided costs is appropriate in benefit assessments, but wish to reiterate that avoided costs alone are not adequate to capture public policy benefits. As described in question #1, AWEA, Interwest, and Renewable Northwest recommend an expansion of TEAM to begin to capture additional benefits related to public policy.

As the ISO points out, the use of “avoided cost” may present problems when a narrowly scoped project has not been developed and, thus, cannot be used as a basis for cost allocation. In these instances, several approaches could be considered for calculating benefits to subregions for purposes of cost allocation. The ISO may consider generic project “costs” for use in cost allocation. For instance, generic project costs may be roughly estimated by looking at previous reliability issues in the general area and using the cost of addressing that reliability need as a “proxy” cost for addressing the current reliability need. While this is most certainly a crude estimate, it might suffice for use in a backstop cost allocation methodology when an “avoided cost” estimate does not exist.

It should be noted that cost allocation in the absence of an avoided cost estimate may need to be tailored to the specific situation (i.e. whether the project meets a reliability need or public policy requirement, and whether the project is required for single subregion or for more than

one subregion). For instance, cost allocation in the absence of an “avoided cost” alternative could be addressed in the follow manner, depending on the situation:

- Project addresses reliability need for only one subregion and there is no “avoided cost” alternative
    - Full costs of the project could be allocated to the subregion with the reliability need
      1. This approach suggests the ISO may want to consider whether it is appropriate to use TEAM for cost allocation when a project is only required for a reliability need in one subregion and no alternative project exists. In this instance, the ISO may want to consider the use of TEAM because any TEAM benefits to other subregions may be incidental in nature (see AWEA/Interwest’s response to question #7).
  - Project addresses public policy requirement for only one subregion and there is no “avoided cost” alternative
    - Following a TEAM assessment, the remaining costs of the project are allocated to the subregion with the public policy requirement.
  - Project addresses reliability need for more than one subregion and there are no “avoided cost” alternatives
    - Following a TEAM assessment, costs could be allocated to the subregions in proportion to projected internal load in the year in which the project will be placed in service.
  - Project addresses public policy requirement in more than one subregion and there are no “avoided cost” alternatives
    - Following the TEAM assessment, if the BCR is  $<1$ , all remaining costs are allocated to subregions in proportion to one of the following:
      1. In proportion to economic benefits, especially if TEAM is expanded as suggested above. This option could be particularly useful, especially as a default approach, as it would use a simplifying assumption that public policy benefits will accrue to subregions at the same rate as economic benefits. If items such as “access to lower capital cost resources” are included in TEAM, this initial cost allocation approach may be an accurate representation of the remaining “public policy benefits” to individual subregions.
        - *AWEA, Interwest, and Renewable Northwest believe that this approach warrants consideration as an alternative to the “avoided cost” approach when a transmission project facilitates public policy requirements.*
      2. Internal load in the year in which the project will be placed in service.
      3. Expected public policy deficiency (calculated as MW or GWh of incremental public policy resources required to achieve public policy compliance in each subregion).
4. The cost allocation approach presented at the working group for projects with benefit-cost ratio  $BCR < 1$ ) started by first allocating cost shares equal to economic benefits, and only after that allocating remaining costs to the sub-region(s) driving the reliability or policy need. In the discussion, some parties suggested reversing this order, i.e., to start by allocating a cost

share to the sub-region with the reliability or policy driver base on the avoided cost of the reliability or policy project it would have had to build, and only then allocating remaining costs based on economic benefit shares. Please state your views on these two approaches, or describe any other approach you would prefer and explain your reasons.

AWEA, Interwest, and Renewable Northwest believe that expansion of TEAM could help to incorporate additional benefits into the initial BCR calculation, which may reduce the importance of the order of cost allocation. However, in general, it is preferable to allocate costs proportionally to anticipated benefits, rather than first allocating to one type of benefit or another.

5. The presentation at the working group suggested that all facilities > 200 kV planned through the expanded TPP would be assessed for potential region-wide economic benefits. Some parties suggested the ISO should apply threshold criteria to eliminate projects that clearly would not have region-wide benefits, rather than perform TEAM studies for all > 200 kV. Do you support the use of threshold criteria? If so, what criteria would you apply and why?

The ISO may want to consider skipping the TEAM studies for a project >200kV which is built to address a reliability need in only one subregion, as any TEAM benefits calculated for other subregions may be “incidental benefits” which may not be appropriate to use for cost allocation. Alternatively, the ISO could establish a “de minimis” threshold for TEAM assessment, below which any TEAM benefits would not be used for cost allocation. For instance, if TEAM studies produced benefits of <5% of the project’s costs, TEAM’s benefit results would not be used for cost allocation between subregions.

6. Do the details of TEAM, e.g., financial parameters, period over which present values are determined, etc., need to be pre-determined to maximize consistency of methodology and criteria across all projects, or should case-by-case considerations be taken into account?

Generally, flexibility is preferred, as flexibility in these assessments provides the ISO with more opportunities to use assumptions that best reflect changing conditions. However, the ISO’s criteria must be transparent and appropriately documented to allow for stakeholder review and comment on a case-by-case basis.

7. Should incidental benefits to a sub-region cause a cost allocation share for that sub-region even though the project would not have been built but for a reliability or policy need in another sub-region?

Generally, AWEA, Interwest, and Renewable Northwest believe that costs should be allocated proportionally to benefits received. However, there is always an inherent uncertainty in calculating benefits. The inherent uncertainty associated with benefit calculations warrants consideration of whether “incidental” benefits are appropriate to use for cost allocation purposes. There may be some instances where the “incidental” benefits should not be allocated to other subregions. For instance, as AWEA, Interwest, and Renewable

Northwest have suggested elsewhere in these comments, in instances where a transmission project is being built solely to address reliability need in one subregion, it may be appropriate to forego the TEAM studies to avoid cost allocation based of “incidental benefits.”

Alternatively the ISO could establish a “de minimis” threshold, below which any TEAM benefits would not be used for cost allocation. For instance, if TEAM studies produced benefits of <5% of the project’s costs, TEAM’s benefit results would not be used for cost allocation between subregions.

8. Please offer any additional comments, suggestions or proposals that were not covered in the previous questions.

AWEA, Interwest, and Renewable Northwest generally support the conceptual approach the ISO laid out during the workshop, as it helps to eliminate the arbitrary distinctions of “reliability”, “economic” and “public policy” transmission projects. As articulated in prior comments, transmission cost allocation which looks at a larger suite of benefits is preferable to transmission costs allocation which arbitrarily lumps projects into a single project category and constrains cost allocation based on the benefits in that single category. Therefore, AWEA, Interwest, and Renewable Northwest, support the ISO’s conceptual approach, with some modifications and expansion, as discussed in these comments.

Additionally, AWEA, Interwest, and Renewable Northwest wish to reiterate that we continue to support providing the Western States Committee with primary authority over transmission cost allocation. Nevertheless, the ISO’s default cost allocation methodology needs to be thoroughly developed and we support the ISO continued efforts on this front. AWEA, Interwest, and Renewable Northwest look forward to continuing to work with the ISO as additional details are developed.

## **Topic 2. Region-wide “Export Access Charge” (EAC) Rate for Exports and Wheel-throughs**

### **Context**

For the working group discussion, the ISO’s presentation assumed a scenario where the current ISO BAA is expanded by the integration of a large external PTO such as PacifiCorp, and that the current ISO footprint and the new PTO would each be a “sub-region” with its own separate sub-regional TAC rate for load internal to the sub-region. The ISO further assumed that in this future scenario, only exports and wheel-throughs would pay the new EAC rate, while the “non-PTO” entities internal to the ISO BAA who currently pay the WAC would pay the sub-regional TAC rate. **Please assume the same in responding to the questions below.** If you wish to comment on or propose alternatives to these assumptions you can add any additional comments at the end of this section.

### **Questions**



1. For an expanded BAA do you agree that a single region-wide access charge rate for exports and wheel-throughs is appropriate? Please explain your reasons. NOTE: This question is only about whether a single rate is appropriate, not about how that rate should be determined; the latter is covered in question 3 below.

Conceptually, AWEA, Interwest, and Renewable Northwest believe that a single region-wide access charge is appropriate. A single charge should help to reduce overall seams issues in the long-run.

2. If you answered YES to question 1, do you favor the load-weighted average rate the ISO presented at the meeting, or another method for determining the single rate? Please explain the reasons for your preference.

Generally a load-weighted average appears to be the appropriate approach. However, AWEA, Interwest, and Renewable Northwest are open to exploring other ideas that may be presented in the future.

3. To distribute the revenues collected via the EAC, the ISO's presentation suggested giving each sub-region an amount of money equal to the MWh volume of exports and wheels from the sub-region times the sub-regional TAC rate. Please indicate whether you would support this approach or would prefer a different approach for distributing EAC revenues to the sub-regions.

Generally, the approach proposed by the ISO appears to be logical and well-reasoned. Nevertheless, AWEA, Interwest, and Renewable Northwest are open to exploring other ideas that may be presented in the future.

4. The working group presentation illustrated how the method of distributing EAC revenues to sub-regions would most likely produce "unadjusted" sub-regional shares that do not add up exactly to the amount of EAC revenues collected from exports and wheels. The presentation offered one approach for distributing any **excess EAC revenues** to the sub-regions. Do you support that approach, or would you prefer a different approach? Please explain.

Generally, the approach proposed by the ISO appears to be logical and well-reasoned. Nevertheless, AWEA, Interwest, and Renewable Northwest are open to exploring other ideas that may be presented in the future.

5. Suppose that in a given year the EAC revenues are not sufficient to cover a distribution to sub-regions that aligns with sub-regional TAC rates, as described in question 3. How would you propose the ISO deal with that situation? I.e., should the ISO ensure that each sub-region receives export revenues equal to its sub-regional internal TAC rate times the volume of

exports from its facilities, drawing upon other TAC revenues if necessary, or should the ISO only return EAC revenues to sub-regions until the EAC revenues are used up?

In this situation, AWEA, Interwest, and Renewable Northwest believe that only allocating EAC revenues equal to the amount of EAC revenue actually collected appears to be the best solution. It does not seem appropriate to use other TAC revenues to “make-up” any EAC revenue “deficiency.”

6. If you answered NO to question 1, please explain what rules or principles you would prefer be applied to exports and wheel-throughs. Please discuss both (a) how you would propose to charge exports and wheel-throughs, and (b) how you would distribute the revenues collected to the sub-regions.
  
7. Please offer any additional comments, suggestions or proposals that were not covered in the previous questions.

AWEA, Interwest, and Renewable Northwest understand that the ISO would NOT apply both an Export Access Charge (EAC) **and** the subregional TAC rate for energy which may wheel from an embedded non-PTO to outside of the ISO. Applying both of these charges would be highly problematic and result in inefficient rate pancaking. AWEA, Interwest, and Renewable Northwest encourage the ISO to clarify, in a future proposal, which rate would apply to these transactions.