Stakeholder Comments Template

Transmission Access Charge Options

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

Submitted by	**Company**	**Date Submitted**
Nora Sheriff *415-421-4143* *Alcantar & Kahl* *Counsel to CLECA*	*CLECA*	*March 23, 2016*

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.**

General Comment

CLECA is concerned by the lack of detail in the CAISO's Straw Proposal on the Transmission Access Charge, particularly given the timeline for a June 2016 Board vote. Above, this template asks for "suggestions" "in the spirit of brainstorming". The Straw Proposal states, "for evaluating the distribution of benefits resulting from public policy projects, the ISO proposes a basic principle at this time *but does not offer a specific method of analysis*."[1] The basic principle is "the method should assess benefits to each sub-region irrespective of the particular state whose policy mandate was the originating motivation for the project."[2] The ISO states, however, that it "is *not yet ready* to address questions of which benefits to consider and how to measure them."[3]

1 Straw Proposal, at 16 (emphasis added).
2 Straw Proposal, at 16.
3 Straw Proposal at 16 (emphasis added).

Several benefits methodologies for three different types of transmission projects (reliability, economic or public policy) are to be considered, but none of the details have been developed; there are many unanswered questions and open issues. Moreover, comments at the working group meetings indicate that for the one methodology under consideration used by the CAISO, the TEAM approach, there is insufficient documentation of how that methodology is currently employed. The timeline provides for a draft Final Proposal on April 7, one stakeholder meeting later that month and a single set of comments in May on the draft Final Proposal. It is difficult to see how this ensures informed, thoughtful consideration by stakeholders and a reasoned, informed board decision in June.

Further, stakeholders do not know the process by which new regional transmission projects would be approved in the regional TPP; the stakeholder initiative to develop that regional TPP process is planned to occur in 2017. More importantly, no public proposals have been made on Governance for an expanded ISO; accordingly, stakeholders also do not know the structure of the board that would be making the ultimate decision to approve a regional transmission project. Yet the allocation methodologies under consideration here and slated for a June 2016 vote by the CAISO board will determine the allocation of billions of dollars in transmission costs for a regional ISO.

Under SB 350, the studies on the benefits of a more regional ISO do not need to be finalized or provided to the Legislature until the end of next year.[4] Further, enactment of any changes to California law is not required by SB 350 to occur this summer.[5] Rather, SB 350 gives the state and stakeholders more time for the consideration of an expanded ISO – to January 1, 2019 if necessary.[6] The process for developing critical market structure policies, such as TAC allocation methodologies, should be afforded more time.

Section 1: Straw Proposal

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 approach seems reasonable, but is difficult to assess in a vacuum. CLECA notes that the general rule (that each new PTO would become a sub-region regardless of size or geography) may not make sense for all new PTOs. For example, a very small new PTO joining could result in a tiny sub-region that would otherwise more efficiently be subsumed within an existing, larger sub-region. CAISO proposed at the March 1 workshop that special cases such as this might be

4 PU Code § 359.5(e)(4) "The Governor transmits to the Legislature the studies described in paragraph (1) and revised bylaws or other corporate governance documents setting forth the proposed modifications to its governance structure, no later than December 31, 2017."

5 Changing state law would occur after the studies and revised governance documents are provided to the Legislature. PU Code § 359.5(e)(5) "The Legislature enacts a statue implementing the revised governance changes." This is then followed by the ISO's adoption of its revised governance structure. *See* PU Code § 359.5(f).

6 PU Code §359.5(i) "This article is repealed on January 1, 2019, if a statute implementing the governance modifications has not become effective on or before January 1, 2019."

addressed as they come up, with differential treatment in a transition agreement, which would be filed at FERC. CLECA agrees with the concept that special cases may come up where a transition agreement may make sense – for very small new PTOs.

As was discussed at the March meetings, MISO has sub-regions that align with state boundaries; this approach would make sense if state borders align with new PTOs; PacifiCorp's borders, however, do not; nor are PacificCorp's existing regions themselves currently contiguous. Will PacifiCorp be a single sub-region or multiple sub-regions?

Notably, the anticipated Transition Agreement between CAISO and PacifiCorp also came up at the March 1 workshop; according to CAISO staff, apparently the Transition Agreement is to be finalized before July 1, 2016 when the current Memorandum of Understanding terminates. As characterized at that workshop, the Transition Agreement would potentially significantly impact end-use California ratepayers. The impact would be due in large part to a proposed exemption from the competitive bidding requirement for transmission projects that PacifiCorp and the CAISO intend to be regionally planned, specifically, several segments of PacifiCorp's Gateway transmission project. While transition agreements may make sense for small PTOs with minimal ratepayer impact, CLECA is concerned by the prospect of a bilaterally-negotiated Transition Agreement where ratepayers have no potential for input prior to the filing of the final agreement at FERC.

Also, the timing is problematic. The Transitional Agreement may be filed (and only upon its filing be shared with stakeholders) concurrently with the request for CAISO board approval of the TAC methodology; stakeholders will not be able to consider the TAC methodology in the context of the Transition Agreement.

2. <u>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.</u>

The following possible timeline was discussed at the March 1 workshop: if PacifiCorp joins effective 1/1/2019 – its in-service facilities would remain separate, as would those facilities that CAISO and or PacifiCorp may have approved with target in-service dates in separate planning processes up until then. Once integration happens, the expanded TPP process would begin in January 2019, with the first comprehensive plan approved in March 2020.

Several Gateway segments, specifically D, E, F, G, and H, have been in the planning process for almost a decade, but would apparently be considered "new facilities" to be "planned" under the new regional process; this could lead to some portion, perhaps even most, of those segments' costs being allocated to California ratepayers; notably, none of the pending projects are located in California. However, if they are deemed to "benefit" California under the-still-not-defined benefits methodology, California ratepayers would bear the costs.

A definition of "new" that would include projects in the planning stages for well over a decade before the regional planning process contemplated here would even begin is troubling.

Also, as discussed at the March 1 workshop, if planned projects in the CAISO TPP are existing and to be allocated to the CAISO sub-region, what happens if in subsequent TPPs, a project is modified before construction is started? It is not clear if it would be a new project or an old project; the impact on the cost allocation status is likewise unclear. CAISO should clarify how its proposal would address such projects in the draft Final Proposal.

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.

This appears initially to make sense, as the potential initial expansion of the BAA (PacifiCorp joins CAISO) will not be geographically contiguous. However, if the overall "benefits" of regionalization more greatly favor one set of ratepayers, it may make sense to re-examine this aspect of the proposal to spread the benefits more equally (e.g., if PacifiCorp ratepayers save three times more than California ratepayers from the proposed regionalization).

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.

See response to question 3.

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.

No comment at this time.

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.

Basing cost allocation on and performing the requisite calculation of benefit shares appears to be complicated, as well as required by FERC and reviewing courts. Beyond this general statement, far more detail on the proposed methodologies is needed for CLECA to offer informed input.

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.

No comment at this time other than to note that this seems to contradict the proposed treatment of "legacy" Transmission assets that do not get re-allocated to a subsequent PTO.

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.

CLECA agrees the cost shares will need re-allocation at pre-defined, regular intervals, such as every two years (once a year may prove to be burdensome on parties with limited resources). The Straw Proposal references the need to adjust the allocations because "patterns of flow can change where there are changes to grid topology or the supply fleet."[7] CLECA notes the discussion at the March 9 workshop that changes could also be due to new or revised policy implementation or a new PTO joining. The reassessment should thus occur at regular intervals, and not depend on a trigger.

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).

The Straw Proposal also states, "PacifiCorp and the ISO are addressing item 4) ["Possible treatment of transmission service contracts that existed on the new PTO's system prior to joining the ISO"] collaboratively through a review of all existing contracts on PacifiCorp's system."[8] Additional public meetings on this topic were promised. While CAISO has stated that this is not within scope of the Regional TAC, when will these additional meetings be scheduled? How does the timing of these meetings (and any resolution of this topic) align with the current proposed June 2016 CAISO Board of Governors' vote on the Regional TAC proposal?

[7] Straw Proposal at 16.
[8] Straw Proposal at 7.

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.

SDG&E suggested simplifying this approach to use one methodology for all projects, perhaps the TEAM approach, to determine benefit shares. CLECA might be supportive of such a simplified approach if the TEAM methodology were better documented and more transparent. More information is clearly needed by stakeholders about this methodology.

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.

PacifiCorp suggested at the March 1 workshop that perhaps some percentage of a “regionally planned” project could be reasonably allocated based on a “policy-driven” benefit shares analysis and the remainder of the costs could be allocated based on a production cost modeling or TEAM approach. CLECA would be interested in additional details for such a hybrid approach.

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.

No comment at this time.

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.

TURN noted at the March 9 meeting that the TEAM methodology as applied today is not fully documented. In CAISO’s TPP, there is apparently minimal explanation of the methodology and references to a TEAM document from 2004. CLECA shares TURN’s stated concern that “TEAM is too much in staff heads and not documented well yet.” The CAISO needs to fully detail the TEAM methodology in the draft Final Proposal.

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.

CLECA cannot comment on this without a fuller explanation of the TEAM methodology and details on "other" benefits and their measurements.

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.

CAISO states that its basic principle is "the method should assess benefits to each sub-region irrespective of the particular state whose policy mandate was the originating motivation for the project."[9] What does the CAISO mean by "originating motivation"? CLECA understands that Gateway segments referred to above were not previously identified in the various prior planning processes as being needed to satisfy California policy goals but were in fact proposed to meet PacifiCorp load and reliability needs. Is that what CAISO means?

Without a fully developed proposal, it is difficult to take an informed position.

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.

See response to question 10.

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.

No comment at this time.

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

---

9 Straw Proposal, at 16.

It would be helpful if PacifiCorp would provide updated capital cost estimates for these segments for stakeholders to realistically evaluate the potential for significant increases in TRRs and the impacts of various allocation scenarios for Gateway segments D, E, F, H. CLECA understands that while these segments have been under development for almost a decade, they may not become operational before 2020 or 2022.

The Impact Assessment Tool spreadsheet has estimated Transmission Revenue Requirements (TRR), gross load and average annual growth rates for CAISO, PacifiCorp, PTO 1 and PTO 2 through 2029; it also includes illustrative capital cost and resulting TRR estimates for hypothetical "new facilities approved via expanded ISO TPP" projects. Apparently, however, it does not include specific estimates for capital costs or TRR for PacifiCorp's Gateway segments D, E, F, and H.

CLECA input costs, online dates, and percentage shares in the Impact Assessment Tool for Gateway segments D, E, F and H; CLECA used very dated costs for Gateway Segments D, E, F and H referenced in a 2008 FERC Order.[10] CLECA allocated them primarily to California ratepayers (75% of segments D and E, 50% of segments F and H); CLECA further assumed D and E would be online in 2020 and F and H would be online in 2022. With those assumptions in the Impact Assessment Tool, California's share of the TRR *just for these Gateway segments* would be $214 million in 2020, rising to $330 million in 2022. California's TAC rate *just for these Gateway segments* would be $0.96/MWh in 2020, rising to $1.45/MWh in 2022.

[10] *See* Order on Petition for Declaratory Order, 125 FERC ¶ 61,076 (2008) at 4 (listing expected costs for segments D, E, F and H in footnotes 6, 7, 8). We doubt these cost estimates have decreased.