# Stakeholder Comments Template

# Transmission Access Charge Options

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

| Submitted by | Company | Date Submitted |
|---|---|---|
| *Tony Braun*<br>*(916) 326-4449*<br>*braun@braunlegal.com* | *BBMS, PC., Counsel to the California Municipal Utilities Association* | *4/5/2016* |

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.**

## Section A: Introductory Comments

*Allocation of transmission costs among disparately situated entities has been a matter of great controversy in California and in other RTO regions, and has contributed to the failure to establish "Day Two" type markets in other areas of the West. It comes as no surprise that there are disparate views on how these costs should be allocated, as reflected in the stakeholder comments submitted to date in this initiative.*

*What is surprising and disappointing is that the CAISO's calendar, even with the recent extension, is inadequate to allow a full airing of countervailing considerations and to facilitate possible resolution of this matter. Further, it is not aligned with other processes that must likely* *proceed as conditions' precedent to the addition of additional PTOs across the region. There are several issues that must be aligned, including technical issues (TPP, CRRs etc.) closely related to transmission cost allocation, and broader policy issues, notably agreement on a governance structure. In turn these issues must be linked back to the empirical work being done to assess costs and benefits of adding PacifiCorp specifically, and other possible implications of a wider regional CAISO operation. In this regard, the CAISO has touted regional renewable procurement as the primary benefit from regional expansion. Setting aside interpretation of existing procurement rules for a moment, the Product Content Categories (PCC) have no logical linkage to PacifiCorp's status as a PTO. The PCCs are created by statute, and can be modified by statute. Broader regional procurement can be accomplished with or without PacifiCorp becoming a PTO. Stated differently, PacifiCorp may become a PTO, and PCC 1 may stay unchanged or indeed become more restrictive.*

*CMUA finds this lack of process alignment and time allocation particularly frustrating given the historic significance of the proposal under consideration. When afforded sufficient time for vetting and collaboration with stakeholders, CAISO processes have successfully resolved complex issues such as the establishment of the Flexible Resource Adequacy Capacity Must Offer Obligation (FRACMOO), and multiple rounds of Capacity Procurement Mechanism reauthorization, wherein filings were made at FERC that were largely uncontested on core elements of the proposals. In FRACMOO, for example, the CAISO allowed roughly 18 months to permit difficult issues to be examined and resolved. Here, the CAISO is allowing 5-6 months (between proposal and action) for an issue that has broader regional implications, as compared to FRACMOO, which was limited to California and though while critical, was limited in scope. The CAISO's attempt to prioritize of PacifiCorp's state regulatory considerations at the expense of a full explication of the issue that has ramifications far beyond PacifiCorp-specific concerns is untenable. CMUA strongly urges the CAISO to take a step back, reassess, and add additional time for consensus building and resolution on this matter, and to better align and prioritize issues that are foundational to regional grid development.*

*Further, the lack of adequate time to examine TAC options and implications is compounded by the fact that the proposal is not complete. The CAISO is introducing new concepts (DFAX, for example) or using existing concepts (TEAM) for different purposes. Yet, the detail to develop and integrate these ideas is not developed and will not be developed prior to Board consideration of this issue. The CAISO has delinked in the policy development phase the elements of the Transmission Planning Process, through which assessment of benefits and proposed allocation of costs will be made, from TAC discussions. In every sense, the CAISO is asking stakeholders to comment and take positions on a conceptual "pig in a poke" because there is no way for stakeholders to adequately assess their exposure to future transmission costs. Such an approach is not conducive to sound policy development and illustrates the need to allow additional time to link necessary policy elements into a comprehensive proposal that can be fairly examined by stakeholders.*

*Finally, CMUA provides constructive feedback on the specified issues on which the CAISO asked for comments, with the caveat that the TAC proposal must be complete, and indeed all of the policy changes necessary to complete consideration of adding PacifiCorp as a PTO must be considered as a comprehensive package. CMUA's views on one component part cannot be fairly* *separated from other elements needed to expand the CAISO BAA to encompass significant portions of the Western Interconnection.*

## 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.

*Please see Answer to Question 3, below.*

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.

*CAISO's proposal would create license plate pricing for "existing facilities" as it has defined that term above. And, its rationale for applying license plate pricing for "existing facilities" as opposed to "new facilities" is that the owners of existing facilities had built them for the benefit of existing ratepayers and without expectation of broader cost sharing. Without endorsing the CAISO's rationale for the use of license plate pricing for existing facilities, CMUA does not believe the CAISO's proposed definition, as applied to known facilities, results in an equitable allocation of cost responsibility. Specifically, CMUA does not support classification of the Gateway set of facilities outside of the definition of "existing facilities." Gateway has been studied, examined, and affirmative steps toward development have been taken for many years. Almost exactly eight years ago PacifiCorp filed for particularized rate treatments for Gateway, and FERC provided such guidance in October 2008 (Order on Petition for Declaratory Order, PacifiCorp, 125 FERC 61,076 (October 21, 2008)). It is also safe to assume that, having started the planning of these facilities years before any consideration of merging with the CAISO, PacifiCorp reasonably expected that the costs of these facilities would be recovered from its existing ratepayers. That is, to use CAISO's words - "without any anticipation of some other parties paying part of those costs." Indeed, there is no reasonable dispute that this was PacifiCorp's expectation. The project, after all, was planned to meet the needs of PacifiCorp's customers. PacifiCorp's July 2008 incentive rate filing referenced above explained exactly that. "The new lines," PacifiCorp further explains on its website, "will move power to customer load centers across the system and support the needs of customers seeking a more diverse resource mix." "The Energy Gateway transmission expansion," PacifiCorp adds, "will position PacifiCorp to serve the long-term needs of its retail customers and network customers while improving the reliability of its overall transmission system."*

*To now create a rule that deems these facilities "new" reinvents history, is arbitrary, presents PacifiCorp with a windfall opportunity to earn returns for facilities that it apparently cannot gain approvals for in other forums, and potentially exposes California consumers to billions of dollars of additional costs.*

*The approach also appears at odds with how other regions addressed introduction of large new PTOs, particularly MISO. Specifically, as CMUA understands it, when Entergy was proposed to be added to MISO, the issue of major projects already in the development phase was addressed by creating a transition period which applied license plate treatment to most transmission approved during a specified period after the new PTO joined, with limited exceptions. It appears that MISO recognized the inequities of insulating some PTOs from exposure to costs while at the same time allowing new facilities that were clearly being developed to be blended across sub-regions. This point is not to argue for license plate rates, but to note that other regions have dealt directly with the inequities presented due to possible cost shifting for facilities already well into the planning and development process.*

*CMUA's concerns about Gateway are not limited to scenarios wherein the facility is approved under a consolidated TPP and California consumers have cost exposure. As part of its incentive rate filing referenced above, PacifiCorp requested abandoned plant cost protection for cancellation of the Gateway project for reasons beyond its control. Because PacifiCorp previously represented that it was planning Gateway to meet the needs of its customers, the failure to approve Gateway in any future TPP cycle should not constitute a reason beyond its control that would trigger abandoned plant protections. CMUA is also concerned that California consumers specifically may be exposed to abandoned plant allocations should the California TPP not approve all or portions of the several Gateway segments. California consumers must be insulated from this cost exposure.*

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.

*CMUA opposes CAISO's current proposal that allocates costs of existing facilities entirely by subregion, particularly in combination with the proposal to allocate potentially large cost responsibility for new regional facilities to California consumers. CAISO's proposal runs counter to "beneficiary pays" principles. Just examining, but not accepting, the results of the Q4 CAISO/PacifiCorp Benefits Study, the per-customer benefits from operational efficiencies of a larger Balancing Authority Area are many times greater for transmission customers of PacifiCorp than they are for CAISO transmission customers. These purported operational efficiencies would not be possible without the tremendous investment in transmission infrastructure paid for by California consumers over the last several years. To allow realization of those benefits without contribution to the system that enables them violates core ratemaking principles.*

*CMUA also notes that the CAISO, in its materials, appears to already be deviating from its basic rule. The CAISO describes a hypothetical "small" or "embedded" BAA in California for which the "PacifiCorp" treatment may not be offered. In other words, the CAISO holds out the* *possibility that certain existing BAAs (presumably the Turlock Irrigation District, Balancing Authority of Northern California, Imperial Irrigation District, and/or Los Angeles Department of Water and Power) may be expected to contribute to the costs of existing facilities, whereas PacifiCorp or other potential PTOs will not be expected to make any contribution. That asymmetry is unjust, unreasonable, and discriminatory.*

4. <u>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.</u>

*CMUA believes several concepts could be examined as part of an augmented stakeholder process. As CMUA has noted in prior comments, California has successfully used transition periods to ameliorate cost differentials among existing and new PTOs. Some stakeholders have noted the limited transfer capability between PacifiCorp and the existing CAISO BAA. However, with new PTOs, total transfer capability across an expanded footprint could result in greater potential for optimization. Thus, the CAISO may consider linking cost allocation to specific triggers that may include increased transfer capability between the CAISO BAA and BAAs that are proposed for consolidation. However, these concepts must start from the proposition that what is being proposed is a consolidated BAA and a single optimization.*

5. <u>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.</u>

*The discussions in the stakeholder processes revealed considerable confusion over these criteria. Further discussion is warranted. CMUA and other stakeholders noted that existing <300 kV lines support ratings for interties. Further, in a consolidated and SCED-optimized BAA, it is unclear why focus on existing Interties is dispositive of what constitutes "regional" facilities. CMUA urges the CAISO to facilitate more discussion on this matter.*

6. <u>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,</u>

for example, using a postage stamp or simple load-ratio share approach as used by some of the other ISOs.

*CMUA finds it difficult to comment on a "concept" of benefits test as opposed to a bright line methodology, without further examination from the CAISO of the ultimate benefits test. CMUA will likely be skeptical of proposals that continually reallocate fixed costs, absent compelling rationales or de minimis cost impacts.*

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.

*CMUA notes that this aspect of the CAISO's proposal, including the "gaming" concern itself, largely a consequence of the artificial "existing v. new" construct created in the Straw Proposal. CMUA requires further information on how this proposal would be applied and why PacifiCorp would receive treatment different from any other new PTO. An approach that recognized the need for contribution to all facilities would alleviate any potential "gaming" concern and align with accepted ratemaking principles.*

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.

*CMUA is generally concerned with any proposal that would result in variable transmission cost exposure based on recalculation of benefits shares on a continual basis. Rate stability supports long-term planning by utilities. Absent a compelling reason, any test (benefits test or bright line) should provide certainty to the transmission customer as to its exposure to transmission costs.*

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).

*Please see Introductory Comments, 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.

*CMUA is not opposed in concept to using the existing transmission project classifications*

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.

*CMUA does not oppose use of a benefits methodology per se, but it is difficult to assess its benefits over a bright line test without further specification of any methodology.*

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.

*CMUA has no position on DFAX 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.

*CMUA has no position on the use of TEAM at this time.*

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.

*See Answer to Question 13, above.*

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.

*CMUA generally supports the CAISO's statement and approach. See response to Question 17, below.*

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.

*CMUA has no position on this issue at this time.*

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.

*CMUA urges the CAISO to fully consider cost allocation methodologies for public policy projects that link cost responsibility to those entities that are directly benefiting from the project through realization of purchased power agreements. This concept is not novel. It is CMUA's understanding that the natural gas pipelines infrastructure was largely developed on a subscription basis. While there are differences between gas and electric transportation, the applicability of the concepts is similar and should be explored. Further, it is CMUA's understanding that the current RPS scenario development process that inputs into the TPP contains a heavy weighting of commercial interest reflected in the scenarios transmitted by the CPUC and the CEC that guide the TPP.*

*CMUA is highly concerned that significant and expensive policy driven upgrades will be developed, and little if any of the interconnected generation will be under contract to CMUA members. The renewable energy industry is no longer immature or nascent and does not need development costs fronted by others in order to enable projects to get off the ground. Additional emphasis on commercial development metrics or triggers for project development and cost allocation will sent the correct price signals and allow retails sellers meeting RPS to appropriately weigh transmission investment costs when determining whether to procure distant, or local, resources.*

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

*CMUA has no further comments at this time.*