

Stakeholder Comments Template

Transmission Access Charge Options

September 30, 2016 Second Revised Straw Proposal

Submitted by	Company	Date Submitted
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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. Submissions are requested by close of business on **October 28, 2016**.

I. Overview

The Staff of the California Public Utilities Commission (CPUC Staff) appreciates the opportunity to comment on the California Independent System Operator Corporation's (CAISO) proposal to revise the structure of its Transmission Access Charge (TAC). Over the past year, in prior comments, CPUC Staff has expressed concern about CAISO's Regional TAC Proposal generally, as well as identifying the following specific concerns: (1) existing facility costs would not be shared on a regional basis despite the regional benefits provided by those facilities; and (2) loss of wheeling revenue to California utilities due to market distortions caused by significant rate differences among the proposed sub-regions could adversely impact California ratepayers.

In addition, CPUC staff has expressed concern regarding the ongoing uncertainty regarding the structure of the regional ISO Board and the authority of the Western States Committee (WSC). This concern, combined with the cost allocation issues raised by TAC reform leaves CPUC Staff unable to support the Second Revised Straw Proposal (Proposal). To reiterate CPUC Staff's long-held position: it cannot support the CAISO's submission to FERC of stand-alone tariff revisions modifying the TAC structure before the CAISO has addressed other equally, or more important issues, such as the governance structure for a regionalized CAISO.

Consequently, CPUC Staff approaches the CAISO's latest TAC Proposal with the following observations in mind:

- CAISO's existing system has benefited greatly from California IOU ratepayers and is fundamental to the majority of benefits PacifiCorp (PAC) or any other joining entity will receive as a result of more efficient over-generation management and renewable procurement savings;
- Ambiguities remain within the definitions of "existing" and "new" facilities and consequently trigger concerns about inappropriate cost allocation;
- There should be no foreclosure on competitive solicitation by allowing a new participating transmission owner to invoke CAISO Tariff section 24.5.1;

- If costs of existing facilities are not shared regionally, then spreading new facility costs regionally should be limited;
- The process for identifying, approving, and allocating policy-driven project costs needs to be more clearly defined and account for the benefits multiple sub-regions may gain from a policy-driven project;
- CAISO should consider reevaluating the procedures of its Transmission Planning Process (TPP) to ensure that the existing process does not require any changes for the expanded region or in the alternative, modify the process as necessary to fit the needs of an expanded region; and
- CAISO should consider reevaluating the process of its Transmission Economic Assessment Methodology (TEAM) to ensure that the existing process does not require any changes for the expanded region or in the alternative, modify the process as necessary to fit the needs of an expanded region.

CPUC Staff remains supportive and committed to this initiative to ensure the success of any final, regional framework. To be sure, CPUC Staff remains committed to continuing its effective coordination with its sister agency, CAISO, for the benefit of all Californians.

With these observations in mind, CPUC Staff addresses the CAISO's identified issues below.

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.

CPUC Staff supports the TAC proposal's new requirement that an embedded or electrically integrated new participating transmission owner (PTO) will become part of the relevant sub-region and will not have the choice to become a separate sub-region. The previous TAC Proposal allowed a new PTO a one-time choice to join that sub-region or become a separate sub-region. That approach allowed the new embedded or electrically integrated PTO to choose whatever option was more effective for it and as a consequence, created an imbalance of benefits for the new PTO and unreasonable cost shifts to the existing PTO in the existing sub-region. CPUC Staff supports this new requirement and consequently, finds that the TAC Proposal takes a step in the right direction. However, this issue highlights that the overall TAC Proposal is still problematic and that the CAISO's piecemeal approach to its regionalization proposal potentially creates more problems than it solves.

For example, the TAC proposal does not adequately define what constitutes an "integrated" or "electrically embedded" entity – and what does not. The TAC Proposal also fails to provide any analysis regarding how the grant of a new PTO's application for membership would affect the market or market participants in real time. Additionally, the TAC Proposal lacks any criteria regarding how the regional ISO Board or the WSC would decide whether an entity qualifies as an "electrically integrated" entity for purposes of joining the regional ISO. The TAC Proposal's reliance on the criteria listed in Tariff section 27.5.3.8.1 does not provide helpful guidance in resolving these open issues, and it is not appropriate to put them off based on the fact that they will be "specified in the tariff."

CPUC Staff recommends that CAISO first clearly define these terms, and any others necessary, and identify and make available to stakeholders any analysis that contributed to the development of the proposal. The CAISO can *then* solicit stakeholder input, rather than asking stakeholders to comment on high level proposals that do not appear to have been appropriately developed, considered, or vetted.

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.

See CPUC Staff response to Question 1.

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.

The TAC Proposal defines new facilities as “facilities that are planned and approved under an integrated transmission planning process that will plan new transmission infrastructure for the entire expanded [Balancing Authority Area] and will commence upon integration of the first new PTO.”¹ The TAC Proposal states that costs of new facilities will be allocated to sub-regions of the expanded ISO depending on the classification of the facility and the economic benefits it provides to each sub-region.² The TAC Proposal explains: (a) the cost of a reliability project within a sub-region that addresses a reliability need of that sub-region will be allocated entirely to that sub-region; (b) the cost of a policy-driven project within a sub-region that supports policy mandates for that sub-region only will be allocated entirely to that sub-region;³ and (c) the cost of an economic project, for which its economic benefits must exceed its cost, will be allocated to the sub-regions in proportion to each sub-region’s benefits.⁴

CPUC Staff is ambivalent toward the TAC Proposal’s allocation of the cost of a reliability project to the sub-region for which the project addresses a reliability concern.

CPUC Staff supports the TAC Proposal’s cost allocation for economic projects that are solely justified on economic grounds. Indeed, the costs should be allocated to the sub-regions benefitting economically from the project on a pro rata basis according to the economic benefits identified and relied upon to justify approval of the project.

However, CPUC Staff does not support the TAC Proposal’s allocation of costs for new policy-driven projects. On its face, it seems logical for the TAC Proposal to allocate costs of a policy-driven project to the sub-region whose policy mandate is driving the project. However, the Proposal fails to account for

¹See Second Revised Straw Proposal, page 4.

²Id.

³The Proposal states that for a policy-driven project that supports policy mandates of more than one sub-region, or that is built in one sub-region to meet the policy mandate of another sub-region, the ISO will calculate the economic benefits of the project and allocate costs to each sub-region in proportion to the sub-region’s benefits, but only up to the point where each sub-region’s cost share equals the sub-region’s benefits. Any additional cost of the project will be allocated to the sub-region(s) whose policy mandate(s) are driving the need for the project.

⁴See Second Revised Straw Proposal, page 4.

instances where similar, sub-regional policies are mandated from multiple sub-regions that drive the creation of a policy-driven project. In other words, how does the TAC Proposal deal with determining an appropriate cost allocation for policy-driven projects that involve more than one sub-region?

The TAC Proposal defers this issue to the stakeholder discussion occurring on the Governance initiative, which proposes that a WSC will have “primary authority” to resolve such issues. The Governance initiative is running concurrently to this initiative, however, and therefore does not provide certainty or clear guidance because Governance initiative is still being worked on.

The CPUC Staff supports deferring finalization of the regional TAC Proposal until after the Governance initiative is finalized and approved by FERC. That initiative should specify that the WSC will have primary authority over transmission cost allocations. While the CAISO may need to adopt default provisions to guide initial cost allocation decisions during the start-up or transition period into a regional ISO, it should ultimately defer to the WSC to set the default cost allocation rules going forward, in addition to granting the WSC primary approval authority for potential changes, and the ability to determine whether to apply default rules or subject a specific project to a different cost allocation rule. Further, the ISO should clarify that if the WSC does not make a determination for cost allocation of a specific project (*e.g.* if it fails to act for a sustained period of time), the default cost allocation rules will apply, rather than allowing the ISO Board of Governors to apply a separate or different cost allocation to the project.

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.”

The Proposal states that the cost of existing high-voltage (rated 200kV and above) facilities will be recovered on a sub-regional basis, where the current ISO BAA is considered one sub-region and the new PTO is another.⁵ In other words, each sub-region will continue to “pay for the same costs for existing facilities under an expanded ISO BAA that they would have paid if they remained separate.”⁶

CPUC Staff disagrees with this approach and recommends that if existing facility costs will not be shared regionally, then spreading new facility costs regionally should be limited. CPUC Staff continues to reiterate its position that CAISO’s existing system has benefited greatly from aggressive ratepayer investment in the existing system to make it more reliable and to facilitate access to renewable resources. These upgrades are fundamental to the majority of benefits PAC or any other joining entity will enjoy, including more efficient over-generation management and renewable procurement savings. The CPUC Staff is concerned that PAC and its ratepayers will make substantial gains because they will be able to access California’s upgraded transmission infrastructure without having to pay for it, and then share the costs of any new PAC facilities with California ratepayers.

For example, consider PAC’s Gateway Transmission Project (Gateway) which is proposed as a reliability project. The most current Gateway proposal would add approximately 2,000 miles of new transmission line across the West for a cost of \$6 billion. PAC has completed 577 miles of the project for a cost of \$1.1 billion. This leaves \$4.9 billion in estimated costs for Gateway, which is likely to be much higher given historic experience. Under CAISO’s proposal, these costs would be shared by PAC and California

⁵See Second Revised Straw Proposal, page 4.

⁶Id.

ratepayers. While CPUC Staff understands that requiring new PTOs to bear some costs of their existing facilities may be an impediment to new PTOs joining the CAISO, CPUC Staff cannot disregard that the TAC Proposal shifts significant costs onto California ratepayers if the remaining segments of Gateway are constructed. As a consequence, CPUC Staff is zealously scrutinizing all other costs and existing investments because of concerns that the TAC Proposal is inappropriately shifting additional costs to California ratepayers.

Consequently, CPUC Staff does not support the TAC Proposal's new definition of "existing facilities," and recommends that if existing facility costs will not be shared regionally, then spreading new facility costs regionally should be limited.

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.

The TAC Proposal states that the "ISO will charge a single region-wide 'export access charge' (EAC) to all export and wheel-through transactions from the expanded BAA. The EAC will be calculated as the load-weighted average of the sub-regional TAC rates. The revenues collected via the EAC will be allocated to sub-regions in proportion to their high-voltage transmission revenue requirements."

This EAC proposal lacks sufficient analysis and provides incomplete data on how many transactions would occur through the load-weighted average of the sub-regional TAC rates in the ISO markets. CPUC Staff recommends that CAISO develop this proposal further to mitigate unintended market distortions arising from the load-weighted average of the sub-regional TAC rate. For example, as presented, this proposal could result in lower EAC revenues for PTOs with higher sub-regional TAC/wheeling access charge (WAC) rates than would exist prior to blending of access charge rates. Additionally, an EAC calculated on a load-weighted average of the sub-regional license plate rates may create incentives for non-PTOs to create their own BAA, or to join another non-ISO BAA to take advantage of an EAC rate that is lower than the otherwise applicable WAC rate. In order to avoid a shortfall in wheeling revenue from exports as new PTO's join the CAISO, and to mitigate the incentive to create a new BAA or join another ISO BAA, CPUC Staff recommends re-calibrating the EAC to one based on the highest sub-regional TAC rate.

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.

CPUC Staff believes that conceptually, the TEAM methodology offers a reasonable approach for an economic benefits assessment to the expanded ISO region as a whole and to each sub-region, so long as the analysis is subject to a level of transparency and accountability as described in Section IV, pages 20-25 of CPUC Decision No. 06-11-018. CPUC Staff notes that the TEAM methodology was designed to focus on benefits to the retail customers. This approach is appropriate because all customers pay the same high voltage rate within the CAISO territory.

However, in the context of regional expansion of the ISO, and for cost allocation between regions, CPUC Staff recommends that CAISO consider any necessary updates to the TEAM methodology, such as identification of benefits to producers and the regional economy because transmission investment will bring benefits to both consumers and producers, which both impact a regional economy. CPUC Staff

looks forward to working with the CAISO and other stakeholders to make the TEAM methodology vigorous for the use in the benefits test for an expanded CAISO.

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.

See CPUC Staff's response to Question 3.

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.

See CPUC Staff's response to Question 3.

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.

At this time, CPUC Staff finds the proposed approach is reasonable. However, this is contingent upon a transparently performed TEAM analysis and implementation of any needed updates to the TEAM methodology, including, among other things, refinements to the methodology used to quantify capacity benefits.

CPUC Staff has identified the following important issues that CAISO should address in considering refinements to the TEAM methodology:

- How would and should economic benefit studies account for the considerable *range* of plausible Western Interconnection futures impacting economic benefits, especially different futures as impacted by policy objectives (RPS, GHG, Clean Power Plan, coal retirements), and also by further penetration of distributed resources?
- How would and should the economic benefits calculation and cost allocation methodology correspond to the analogous methodology used for interregional project evaluations pursuant to FERC Order 1000? It is conceivable that a project could face the prospect (or strategic choice) of being evaluated as: (1) an interregional project; (2) a project within a regional ISO; or (3) both, at different times?
- In recent economic studies of transmission projects ultimately approved by the CAISO,⁷ calculated capacity benefits contributed significantly to favorable benefit-cost ratios, and yet the capacity benefit calculation methodology entailed uncertainties and approximations that were questionable and subject to scrutiny. The CAISO's September 30, 2016 presentation on Transmission Access Charge Options states that (unlike energy cost benefits calculated and

⁷ The Delaney-Colorado River project and the Harry Allen-Eldorado project.

allocated based on production simulation results) “Capacity benefits can be manually derived based on capacity requirements on perhaps sub-region basis.”

In fact, such manual capacity benefit derivation requires important assumptions and generalizations which should be justified, documented, and transparently applied. For example, important assumptions and generalization may include: (1) the magnitude of need for capacity in each area (e.g., sub-region); (2) the baseline (absent the proposed transmission project) cost of capacity over time in each area (e.g., sub-regional); (3) the availability and cost of surplus capacity in areas (sub-regions) that would provide capacity to other area(s) via existing versus via expanded transmission; and (4) the quantified extent to which capacity needs in any region can or must be met by certain types of capacity (e.g., local, flexible) having limited or no ability to be delivered over the proposed transmission.

Since capacity benefits can be (and have been) an important part of total calculated economic benefits, updated documentation of the TEAM methodology and rationale should clearly describe the calculation and allocation of capacity benefits including the issues noted above. CPUC Staff understand that TEAM is intended to be a comprehensive economic benefit calculation and allocation methodology and not just a methodology for running and interpreting production simulations. Thus, how capacity or other benefits are quantified outside of or beyond direct production simulation results is an important part of the methodology.

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.

First, CPUC Staff call attention to comments in response to question 10 regarding the need for updated and clear documentation of TEAM methodology and rationale. Second, CPUC Staff assume that for purposes of this question only one sub-region obtains policy-related or reliability-related benefits, as illustrated in the example on page 22 of the September 30, 2016 presentation.

The proposed “driver first” approach would first assign to the reliability or policy-related beneficiary sub-region **100%** of that sub-region’s avoided reliability or policy-driven cost and then allocate the remainder of project costs (up to the total cost) pro rata in proportion to sub-regions’ respective economic benefits. This approach appears to over-allocate costs to the policy- or reliability “driver” sub-region. Consider that total project costs being allocated are less than (perhaps considerably less than) project benefits, which justifies the project in the first place. Thus, overall allocated costs are less than benefits. However, as a first step the driver first approach allocates to the reliability or policy beneficiary sub-region an amount of costs equal (not just proportional) to the total reliability or policy-based benefits estimated via avoided costs. This outweighs those benefits relative to economic benefits.

CPUC Staff recommends a more balanced approach to allocate total costs in proportion to total benefits; the “total benefits” approach. However, there appear to be two potential problems:

- a. CPUC Staff assumes that what is intended under this scenario is that the avoided reliability or policy-related costs are simply the costs of a separate identifiable and more limited project design without the additional investment to produce economic benefits. If the reliability or policy “project” without economic benefits is not really separable from the final project design having economic benefits because some or even all of the economic benefits are

inherent in even the most basic and rational reliability or policy project design, then there is no clear way to separate out the dollars of reliability or policy project *cost* from the additional dollar cost for achieving economic benefits. This dilemma may limit what kinds of projects having “additional economic benefits” actually qualify for the “*driver first*” approach, which requires putting the reliability or policy project costs into a separate bucket from the costs for achieving the economic benefits.

- b. On the other hand, the “*total benefits*” approach requires separately computing economic versus reliability or policy *benefits*. As discussed above, calculating dollars of policy project benefits is problematic. One obvious candidate for such benefits, the avoided cost of the “next best” option for achieving the same policy benefits, is more attractive in the abstract than in practical reality, and in fact, may reduce to attempting to identify the same “policy purposes only” project referenced above.

In conclusion, despite its drawbacks, CPUC Staff believe that attempting to develop a total benefits approach is preferable. For policy projects having additional economic benefits, the total benefits approach is conceptually preferable but the actual choice of cost allocation methodology may depend on the empirical question of which can be more credibly and reliably calculated: (i) the separate *cost* of the policy-only (no economic benefits) portion of a project, or (ii) the separate policy-related *benefits* (to a particular sub-region) of a project having both policy and economic benefits. CPUC Staff cannot state with full confidence whether (i) or (ii) would be more feasible. If (i) and (ii) collapse into the same challenge, identifying the cost of the “policy-only” project without economic benefits, then the “total benefits” approach is conceptually preferable.

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.

The proposed approach under Scenario 1 avoids (at least apparently, see below) the potentially difficult and contentious quantification of avoided policy-driven costs. On the other hand, it has the problem of allocating, in the first step, *costs* equal to the full calculated amount of economic *benefits* even though an economic project should cost less than its economic benefits, having a benefit/cost ratio greater than 1.0.

If the economic benefits are *clearly* small relative to total project costs the proposed approach may encounter little resistance. However, situations may be encountered in which calculated economic benefits are substantial, elevating two issues or needs: (i) clear updated documentation of the TEAM methodology and rationale, as requested elsewhere in CPUC Staff comments; (ii) as noted in the preceding paragraph, the portion of costs being allocated based on economic benefits might be seen as excessive, given that the economic cost/benefit ratio exceeds 1.0 so that dollars of “economic” project costs will be less than dollars of economic benefits. The above two issues might become most critical when (foreseeably) substantial economic benefits are calculated for a subregion not obtaining policy benefits. There might then be pressure to quantify *policy-related* benefits for comparison with economic benefits. As stated elsewhere, it appears to CPUC Staff that attempting to quantify policy-related benefits is, at best, fraught with problems. However, CPUC Staff provide a proposal to this quandary in the Answer to Question 12 below.

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.

The same points made by CPUC Staff elsewhere regarding the TEAM and economic benefits apply for “scenario 2.” That is, (i) it is important and necessary to have clear updated documentation of the TEAM methodology and rationale, and (ii) allocating economic project *costs* in the same absolute dollar amounts as economic *benefits* conceptually overweighs economic benefits as a basis of cost allocation since with an economic benefit/cost ratio greater than 1.0 economic benefits will always exceed economic costs.

However, where policy-driven (not economic) benefits dominate and where multiple sub-regions have such benefits, the main challenge appears to be calculating *relative policy-related benefits* across different sub-regions on a comparable (“apples to apples”) basis. Using as a measure of policy-related *benefits* the avoided *costs* for alternative policy-achieving options (options that presumably achieve the same magnitude of policy benefits) appears impractical. For example, it could require specifying what quantity and quality⁸ of policy-supporting resources each sub-region would expect to obtain via its share of the project as well as what comparable benefits would be obtained from each sub-region’s “avoided” alternative strategy (the cost of which is supposedly well established). Furthermore, the certainty and precision of such estimates would almost certainly *differ significantly among sub-regions*. The list of problems could be expanded, but suffice it to say that allocating policy-related project costs based on relative quantified policy-related benefits appears to be unappealing.

Rather than avoided costs, CPUC Staff recommends a better measure for allocating policy-related *benefits*, and thus, *project costs* among multiple sub-regions, would be simply the anticipated magnitude of usage of the transmission project by the different sub-regions, such as MWh, or as either peak or firm MW. This could be based on approved resource plans or portfolios, solicitations, authorizations to procure, or other well-founded sources. Clearly such information would be more firm and reliable for some situations and some sub-regions than for others.

The above suggested usage-based method of “policy-driven” cost allocation appears to be more relevant and useful than simply allocating policy-attributed costs based on the relative magnitudes of internal load across sub-regions, as provided in the draft proposal. It is clearly quite possible and in fact likely that usage of (and benefits from) a policy transmission project would differ among sub-regions in a manner poorly correlated with load magnitudes but instead would be driven by other factors such as the magnitude of unmet (e.g., “net short”) RPS needs, physical and electric topology/geography, types of resources sought by LSEs and/or regulatory processes, or actual innovative and entrepreneurial (or prudent and risk hedging) market activities. If, in the expanded TPP, there is sufficient evidence of need to support ISO approval of a policy project, this evidence presumably sheds light on the magnitudes of likely relative need and usage, by the different sub-regions.

Thus, CPUC Staff believe that credible evidence of likely levels of usage by different sub-regions (for policy-related purposes) of a transmission project is a better “default” basis for allocating costs than is relative level of internal loads. Where subsequent usage varies significantly from such estimates, there could be pre-defined cost allocation adjustments. In a situation where indications of usage are simply insufficient to support cost allocation, CPUC Staff is reluctant at this time to support use of internal load as a basis for cost allocation.

⁸ For example, qualities could include deliverability, capacity value, time of day/season delivery, likely contract costs, expected in-service dates etc.

The apparent lack of reliable options for an objective formula by which to allocate costs of policy projects is a clear indication that a long run solution may instead involve more of a negotiation-based approach within established principles or frameworks, such as among states. Hopefully this would be in place by the time that large and complex policy project inter sub-region cost allocations are necessary.

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.

For facilities rated over 200kV, CPUC Staff support having as much new construction subject to competitive solicitation as possible. CPUC Staff is concerned that the definitions of “existing facility” and a “new facility” currently in the TAC Proposal will not facilitate this goal.

For example, consider the PAC Gateway project, described in response to Question 4 above. That project has been partially constructed, but a significant portion remains to be constructed. The unfinished portion – which is referred to as Gateway West - is a separate “project” (or many separate projects) in its own right. If it is considered to be an “upgrade” to the “existing” Gateway project, it would not be subject to competitive solicitation under this proposal. This is not a theoretical concern. At the June 1, 2016 TAC Portland Workshop, CAISO representatives were asked to apply the definitions of “existing” and “new” facilities to the Gateway project, and CAISO representatives admitted they could not definitively categorize the project as either “existing” or “new.”

Further, CAISO currently allows certain “existing projects” exemption from the competitive solicitation process through the invocation of CAISO tariff section 24.5.1 (section 24.5.1), which could be applied to the Gateway project.

CPUC Staff is aware of at least three other proposed transmission projects that could competitively compete with Gateway West to deliver energy from Wyoming to meet California’s RPS goals. Those projects are: (1) TransWest Express; (2) Zephyr; and (3) SWIP North. However, those competitor projects will not have the ability to compete against Gateway West if PAC successfully invokes section 24.5.1 so that its Gateway project is considered an existing facility.

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.

CPUC Staff agrees that the CAISO’s proposal to drop the earlier proposal⁹ would avoid a problematic disincentive for a new PTO to join a regional ISO, as well as a problematic perception of unfairness due to the new PTO not having “caused” the need for the new facility as assessed within the integrated TPP. Thus, the revised proposal appears to be a reasonable default approach.

⁹This refers to the CAISO’s earlier proposal to potentially (depending on calculated benefits) allocate to a new PTO a portion of the costs of a new facility that was planned and approved through the integrated TPP *before* the new PTO joined the regional ISO.

However, the new proposal does leave the potential for gaming: a new PTO could avoid paying a share of the costs of a new facility that provides significant benefits to the new PTO, by delaying joining the regional ISO until after the facility has been approved. On the other hand, it must be recognized that the facility would have been originally approved and its costs allocated based on calculated benefits for incumbent PTOs when not assuming any cost allocation to the new PTO (to ratepayers in that PTO's footprint).

Therefore, CPUC Staff recommends that a provision should be added to the default approach to ensure that incumbent PTOs do not experience demonstrable and significant *diminution* of their benefits from a new facility due to the new PTO joining the regional ISO after project approval. If such diminution of benefits is determined, the new PTO should be required to assume (via its transmission revenue requirement) an appropriate share of project cost. This share as a percentage of project cost should be capped at the new PTO's percentage share of benefits from the new project.

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.

See CPUC Staff response to Question 5. A single region-wide EAC may be appropriate, but it is undermined by the disparity in the sub-regional TAC/WAC rates and as a consequence, may create market distortions.

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.

See CPUC Staff response to Question 5.

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.

See CPUC Staff response to Question 5.

18. Please provide any additional comments on topics that were not covered in the questions above.

CPUC Staff has no further comments.