Stakeholder Comments Template

Transmission Access Charge Options

August 11, 2016 Stakeholder Working Group Meeting

Submitted by	Company	Date Submitted
Kenneth Sahm White *831-425-5866* *sahm@clean-coalition.org* *Katherine Ramsey* *202-709-8063* *katie@clean-coalition.org*	*Clean Coalition*	*Aug. 25, 2016*

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. 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

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.

    No comment at this time.

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.

    It is appropriate to assign costs for each sub-region in relative proportion to the benefits received by each sub-region. It would not be appropriate to assign costs based on the relative internal load of each sub-region, as the benefits are not necessarily proportional to internal load.

While we agree that economic benefits may be defined by avoided costs (after consideration of reliability and policy drivers), it should be recognized that the alternative being avoided might provide a different and potentially greater quantity of benefits to that sub-region. Due to this, it is essential that each sub-region have the opportunity to elect the option which offers the highest net benefits, and the selection of this option should then be incorporated into BAA planning. This also enables sub-regions to consider non-transmission alternatives, including load modification programs and related distributed energy resources (DER).

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?

It is critical that CAISO consider alternative projects in order to provide an avoided cost estimate that reflects the costs that would actually be incurred if a less costly alternative were selected to meet sub-regional needs. Without this, CAISO might assign a sub-region "avoided costs" greater than it would actually incur and thereby bear a disproportionate share of cost responsibility. The Clean Coalition recommends that CAISO build careful study of alternatives—including non-transmission alternatives—into the default avoided cost estimates to ensure that transmission investments are cost-effective. Distributed energy resources and policy-based programs all have significant potential to delay or avoid additional transmission investment. Accordingly, the default cost allocation methodology should incorporate these elements as points of comparison.

There are plentiful examples of non-transmission resources providing more cost-effective alternatives to traditional transmission investments. ConEdison, for example, avoided more than $1 billion in capital expenditures by including energy efficiency and demand response in its forecasting[1] and saved over $300 million by using targeted demand resources to defer investments in its distribution system.[2] Within California, DER can replace or offset transmission projects, as evident by PG&E's cancellation of $192 million in sub-transmission projects that were no longer needed due to DER deployment.[3] With evidence that DER and policy options can be reasonably cost-effective alternatives to transmission investment, CAISO's avoided cost process should always include consideration of these alternatives.

Beyond the general desirability of considering DER and public policy programs in transmission facility planning, Federal Energy Regulatory Commission (FERC) Order 1000 specifically requires that regional transmission planning consider non-transmission alternatives.[4] Incorporating non-transmission alternatives into the avoided cost savings review is one method to implement this requirement. For these reasons, the Clean Coalition recommends that the avoided cost study for any proposed new transmission project include a study of alternative projects.

Clearly, CAISO cannot practically identify and evaluate a wide range of hypothetical alternatives; therefore, this responsibility must lie with each sub-region. In order for sub-regions to consider and develop appropriate alternatives, they need input from CAISO studies that identify the needs that must be met. With this information, regional or sub-regional regulatory agencies and system operators can consider and select specific alternatives for CAISO to study, including programs, procurement opportunities, or other incentive mechanisms that will mitigate the previously identified transmission needs.

Coordination with regional agencies is essential not only for the development of load forecasts to be used in transmission planning, but also for development and adoption of non-transmission alternatives by regional agencies for their inclusion in load forecasts and transmission planning. CAISO should turn to the California Public Utilities Commission

[1] Chris Gazze & M. Massarlian, "Planning for Efficiency," *Public Utilities Fortnightly* (Aug. 2011).

[2] Chris Neme & R. Sedano, "US Experience with Efficiency as a Transmission and Distribution System Resource," *The Regulatory Assistance Project* (Feb. 2012).

[3] California Independent System Operator, *2015-2016 Transmission Plan* (Mar. 28, 2016), *available at*
[2] Chris Neme & R. Sedano, "US Experience with Efficiency as a Transmission and Distribution System Resource," *The Regulatory Assistance Project* (Feb. 2012).

[3] California Independent System Operator, *2015-2016 Transmission Plan* (Mar. 28, 2016), *available at https://www.caiso.com/Documents/Board-Approved2015-2016TransmissionPlan.pdf.*

[4] *See* FERC Order No. 1000 at ¶ 155 (requiring "the comparable consideration of transmission and non-transmission alternatives in the regional transmission planning process").

(CPUC) and the California Energy Commission (CEC) for this assistance. In reviewing alternatives to a proposed project, CAISO should require that the avoided cost study be developed in close coordination with these agencies to evaluate whether policies or programs are available that could mitigate identified transmission needs at a lower cost or greater net benefit. Due to their familiarity with forecasting impacts of programs and policies, these agencies can provide effective input on the potential costs and benefits of load modifying programs like energy efficiency rebates that present cost-effective alternatives. Requiring close coordination with other regulatory agencies would help ensure that DER and non-transmission alternatives are fully explored in avoided cost studies.

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 based 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.

Under the original proposal in which costs are first allocated based on economic benefits, CAISO would equally allocate to all benefitting parties the proportional net benefits relative to costs (i.e. all parties receive the same return on their investment). If, in the alternative, CAISO allocates costs first related to non-economic needs, this can create undue windfall profits and disproportionate distribution of economic benefits. In this second scenario, one sub-region may invest in a project to meet policy goals and pay for 99% of the cost of that project, while a different sub-region may receive 100% of the economic benefits while contributing only 1% to the costs.

In the workshop presentation a viable and seemingly preferable variant was proposed (slide 18) in which the "benefits" include both the economic benefits and the avoided costs associated with reliability or policy needs. Allocating costs based on proportional share of these total benefits (economic benefits + avoided costs, for each sub-region) would appear the most equitable allocation of costs, avoiding windfall benefits financed by others while also ensuring that no sub-region is subject to costs that exceed the total benefits they will realize.

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?

It is reasonable and appropriate to exclude from TEAM analysis any projects for which benefits across sub-regions are anticipated to be negligible and where the expense of TEAM analysis does not warrant broader allocation of facility costs. Projects exceeding this threshold should be analyzed for cost allocation to the extent practical, with lower priority given to those of lesser significance in each study cycle.

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?

Standard parameters should be set in advance in order to avoid actual or perceived cherry picking of relevant values to manipulate benefits. However, unusual circumstances may warrant individual consideration of additional factors to be included in an analysis. Periodic review of the methodology should examine these cases to ensure that the methodology adequately captures relevant details.

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?

Yes. As discussed in response to Question 4, this will result in the most equitable allocation of costs, avoiding windfall benefits financed by others while also ensuring that no sub-region is subject to costs that exceed the total benefits they will realize.

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

The Clean Coalition wishes to clarify that cost allocation should be used to establish the share of facilities costs to be borne by each sub-region. Further, this share of costs should be proportional to the avoided costs and economic benefits realized by each sub-region—and ultimately each service territory within a sub-region. The benefits of any transmission project or its alternatives are not directly correlated with customer load within each sub-region, and therefore a single common High Voltage TAC rate may not appropriately be applied based on the metered customer load of each sub-region, just as the Low Voltage TAC rate is differentiated between service territories within the existing CAISO.

CAISO should also clarify the basis for the TAC rate applicable to each sub-region and actively review the TAC wholesale billing determinant. This review is currently underway in a separate stakeholder initiative,[5] and CAISO should consider the results of that review and proposed reform for application across sub-regions. The existing proposal is that the TAC billing determinant be shifted from End-Use Metered Load to Transmission Energy Downflow (TED). The proposal merits support for a number of reasons. First, the proposal would align TAC payments with volumetric delivery of energy—ensuring that the utilities benefitting from the transmission system are charged proportionally. For example, utilities that source a large portion of their portfolio from distributed generation ("DG") resources proportionally benefit less from transmission upgrades as they are able to source more of their portion of load from local sources that do not rely on the transmission system to deliver their energy. Therefore, utilities with a smaller portion of DG should reasonably be responsible for a higher portion of the sub-region's cost share for transmission investments. Additionally, the proposal would also create a more level playing field for DG projects in procurement decisions by reflecting the avoided transmission cost value for local projects. Additional DG investment would save ratepayers billions of dollars over the next 20 years through deferred or avoided transmission investments. Furthermore, the proposal would aid in the creation of Distribution Resources Plans and assess the TAC consistently across all utilities under CAISO jurisdiction. For these reasons, the Clean Coalition reiterates its suggestion that CAISO review the TAC wholesale billing determinant as soon as reasonably possible.

Topic 2.

The Clean Coalition has no comments on Topic 2 at this time.

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[5] *See* the California ISO's "Review transmission access charge wholesale billing determinant stakeholder initiative (details are available at: http://www.caiso.com/informed/Pages/StakeholderProcesses/ReviewTransmissionAccessChargeWholesaleBillingDeterminant.aspx).