Stakeholder Comments Template

Transmission Access Charge Options

August 11, 2016 Stakeholder Working Group Meeting

Submitted by	Company	Date Submitted
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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.**

Comments on the Transmission Access Charge Working Group

The Industrial Customers of Northwest Utilities ("ICNU") appreciates this opportunity to comment on the California Independent System Operator's (the "ISO") August 11, 2016 Transmission Access Charge Options ("TAC") Stakeholder Working Group Meeting discussion, concerning default cost allocation provisions for new regional transmission facilities and a region-wide TAC rate for exports, i.e., the "export access charge" ("EAC"). While ICNU endeavors to submit comments upon the date requested by the ISO, these comments were only lately completed. ICNU will appreciate the ISO's consideration.

As noted in prior comments, ICNU has not necessarily concluded that integration into the ISO of PacifiCorp or any other particular entity will be beneficial to large power consumers. In order to form such a conclusion, it would be necessary to find, among other things, that: 1) joining the market will result in no harm to large customers of PacifiCorp or other potential new Participating Transmission Owners ("PTOs"); and 2) any incremental benefits associated with the market are shared equitably between market participants. ICNU looks forward to further analysis to determine if such a showing can be reached.

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.

In prior comments jointly submitted with the Wyoming Industrial Energy Consumers ("WIEC"), ICNU stated that "[t]he TEAM methodology is best suited to focus on *quantifiable* benefits, which can be modeled in a power cost simulation."[1] Conversely, ICNU continues to oppose any "broad range of qualitative benefits being incorporated into the benefits assessment," i.e., "benefits which are more speculative and difficult to quantify."[2]

With this understanding, ICNU supports the calculation of quantitative benefits associated with efficiency of the economic dispatch, and reduction of transmission line losses. However, these economic benefit types may not be sufficient, standing alone, for purposes of cost allocation. For instance, ICNU believes that congestion revenues may also need to be reflected in benefits assessment modeling: "If, for example, a project is constructed that diminishes the congestion revenues received by a particular sub-region … the resultant reduction in revenues ought to be reflected in the benefits calculation."[3]

ICNU is concerned with the inclusion of resource adequacy capacity costs in the TEAM calculation, as the extent to which new transmission will result in meaningful reductions to resource adequacy requirements is not necessarily clear. It is also not clear how the TEAM methodology will value those benefits. To this end, the ISO should safeguard against potential overstatement of capacity benefits in TEAM calculations. In particular, because merely "[i]ncreasing transmission capacity does not result in any new generation capacity being built …. [C]apacity benefits associated with transmission projects can often be illusory and difficult to quantify."[4] Lastly, ICNU would reiterate a concern that, "[a]bsent an improved, rigorous methodology" to determine import capacity from neighboring balancing authority areas, "it may be impractical to evaluate the benefits of a transmission facility that results in increased import capability."[5]

Within the context of TEAM calculations, the ISO directly posed the following question: "Does a single base scenario need to be developed?"[6] ICNU takes the position that the establishment of an accurate base is critical to evaluating how a change in the transmission topology might impact system costs.

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

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1/ ICNU - WIEC Comments at 11 (Mar. 23, 2016) (emphasis added).
2/ Id. at 10-11.
3/ Id. at 9.
4/ Id.
5/ Id.
6/ Agenda and Presentation, TAC Working Group, August 11, 2016 ("August 11th Presentation"), at 13.

allocation purposes.

ICNU is not necessarily opposed to the inclusion of avoided costs within cost allocation benefit calculations, provided that the avoided costs are supported by tangible benefits to the respective sub-regions.

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?

In order to apply an avoided cost allocation methodology discussed in response to # 2, above, ICNU would support the performance of additional studies necessary to determine meaningful avoided cost estimates to use in cost allocation, including the identification of analytically supportable hypothetical alternatives.

4. The cost allocation approach presented at the working group for projects with benefit-cost ratio BCR < 1) started by first allocating cost shares equal to economic benefits, and only after that allocating remaining costs to the sub-region(s) driving the reliability or policy need. In the discussion, some parties suggested reversing this order, i.e., to start by allocating a cost share to the sub-region with the reliability or policy driver base on the avoided cost of the reliability or policy project it would have had to build, and only then allocating remaining costs based on economic benefit shares. Please state your views on these two approaches, or describe any other approach you would prefer and explain your reasons.

ICNU supports the second approach, i.e., first allocating a cost share to the sub-region driving the non-economic project, and only then allocating remaining costs based on economic benefit shares. Also, for policy-driven projects, this approach would be consistent with ICNU's belief that "[t]he allocation principle for public policy projects should be simple: the costs and benefits of a public policy project should be directly assigned to the entity or sub-region driving the public policy project."[7/] So long as full cost allocation based on the avoided costs of a policy project are first assigned exclusively to the sub-region(s) driving the project, ICNU is not opposed to allocation of remaining costs based on calculations of economic benefit shares.[8/]

7/ ICNU Comments on Revised TAC Straw Proposal at 4 (June 10, 2016).

8/ In this sense, recognizing that policy-driven projects could also result in additional economic benefits, ICNU would modify any prior statements as needed to clarify that broader allocation may be appropriate following an initial, full, and exclusive allocation based on the avoided costs of a policy project. For example, ICNU would add the italicized terms to the following prior statement: "it has been ICNU's

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?

ICNU is generally supportive of applying threshold criteria. However, ICNU would be interested in gaining a better understanding of the threshold parameters that may be applied to determine which projects would "clearly" have no region-wide benefits. ICNU notes that it continues to be of the position that all public policy-driven projects should be evaluated under a regional cost allocation framework, irrespective of the size of the public policy projects.[9/] Thus, the threshold should consider that any public policy project, including those < 200 kV, should be evaluated within the regional framework.

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?

ICNU is generally supportive of the application of case-by-case considerations, with the understanding that "soft or qualitative" factors should be excluded.[10/] ICNU is generally opposed to the application of bright-line standards, when those standards are known to be unreasonable. Thus, while a degree of consistency is important, it would likely produce a less accurate result to "lock-in" financial parameters that are known to have changed, solely for the sake of consistency. For example, it will probably produce more accurate results to evaluate projects based on the most recently available load forecast of Load Serving Entities, rather than locking in a load forecast that is outdated.

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?

ICNU believes that this question is answered through an approach which first allocates all avoided costs to the sub-region(s) driving non-economic projects, as explained in # 4, above. After full avoided cost allocation has been made to any such sub-region(s), then and only then would it be appropriate to allocate costs among sub-regions in proportion to respective shares of quantitatively supportable economic benefits resulting from the project.

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

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position that the costs and benefits of public policy projects should be, in no case, allocated to any sub-region other than the sub-region driving the project, *unless and until all avoided costs of the project are first allocated to the sub-region(s) driving the policy project*." Id. at 5.

9/ See id. at 4-5.

10/ ICNU - WIEC Comments at 9-10.

ICNU has a few comments regarding statements made by the ISO in the "Context" section above. First, the ISO assumes that the current TPP would be retained within a regional ISO, and "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."[11/] While the incorporation of California "public policy directives" into TPP assumptions may be relatively straightforward in the current ISO, ICNU believes that the incorporation of diverse public policy directives may be considerably more challenging within a regional ISO expanded to encompass PTOs operating in several states. Accordingly, ICNU requests that the ISO reconsider the basis for this aspect of its TPP assumptions, or at least address this issue in the next TAC proposal, in regard to how TAC and regional governance proposals intersect within the public policy context.

Second, ICNU seeks clarification on the statement, concerning a "body of state regulators" or the "Western States Committee," that "no details have been developed or proposed regarding this entity's role with regard to transmission planning and cost allocation." This assertion seemingly contradicts an express statement within the most recent TAC proposal: "Decisions to build and cost allocation for new regional economic and policy-driven facilities as defined here will be determined by a body of state regulators …."[12/] ICNU understands that the ISO may have revised its position; but, if so, an acknowledgment of a revised viewpoint would clarify any potential confusion.

Third, ICNU notes the preclusive effect and finality which the ISO attaches to determinations made in this initiative:

> 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.

Given the difficulty which may attend any future attempts to address cost allocation issues, ICNU has serious concerns with the ISO's continued assumption that "Transmission revenue requirements (TRR) are [to be] recovered via volumetric rate[s] charged to internal load and exports."[13/] On multiple occasions, ICNU has noted that the use of a "volumetric factor to allocate TRR for PacifiCorp has the potential to result in dramatic cost shifts between the states *and* between customers in those states."[14/] While ICNU understands that the ISO may consider a FERC tariff filing to only concern total PacifiCorp costs, and not any allocation of total costs between PacifiCorp states, ICNU has pointed out that existing U.S. Supreme Court precedent may not actually allow PacifiCorp to exercise "the option to allocate TAC costs between its states in a manner that is different than prescribed in the proposed

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[11/] Emphasis added.
[12/] TAC Revised Straw Proposal at 8.
[13/] August 11th Presentation at 4.
[14/] E.g., ICNU - WIEC Comments at 7; ICNU Comments on Revised TAC Straw Proposal at 7.

regional tariff, on a $/MWh basis."[15] Accordingly, to avoid potentially preclusive determinations in this initiative, ICNU believes it is imperative that the ISO address and articulate, and not merely assume, the cost allocation recovery methodologies permissible within sub-regions of an expanded ISO.

ICNU notes that it is not uncommon for other Regional Transmission Operators to allow flexibility in how individual sub-regions allocate TRR. The Midcontinent Independent System Operator, for example, was able to overlay its market largely on top of the existing Open Access Transmission Tariff ("OATT") frameworks of its various PTOs. In light of potential requirements—that might prevent the ISO from forcing a Pacific Northwest owner of physical transmission rights to convert those rights into financial transmission rights—the ISO should evaluate structures that keep in place existing billing determinants in order to maintain consistency, where possible, with PacifiCorp's existing OATT framework.

Topic 2. Region-wide "Export Access Charge" (EAC) Rate for Exports and Wheel-throughs

Context

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

Questions

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

ICNU currently does not have a position on the EAC rate.

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

[15] ICNU Comments on Revised TAC Straw Proposal at 7 (citing Nantahala Power and Light Co. v. Thornburg, 476 U.S. 953 (1986)).

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

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

5. Suppose that in a given year the EAC revenues are not sufficient to cover a distribution to sub-regions that aligns with sub-regional TAC rates, as described in question 3. How would you propose the ISO deal with that situation? I.e., should the ISO ensure that each sub-region receives export revenues equal to its sub-regional internal TAC rate times the volume of exports from its facilities, drawing upon other TAC revenues if necessary, or should the ISO only return EAC revenues to sub-regions until the EAC revenues are used up?

6. If you answered NO to question 1, please explain what rules or principles you would prefer be applied to exports and wheel-throughs. Please discuss both (a) how you would propose to charge exports and wheel-throughs, and (b) how you would distribute the revenues collected to the sub-regions.

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