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.**

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.

LS Power agrees that the use of TEAM to calculate benefits is appropriate; however we would like add that following items should be incorporated in the overall economic analysis:

1) Hurdle Rates – These transmission wheeling charges that apply to the transfer of energy from one Balancing Authority to another, as included in the WECC TEPPC common case model, should be carefully reviewed and adjusted as appropriate. Applying standard hurdle rates to all transmission paths that connect two regions may not align with the commercial realities of scheduling generation from one region to another. Standard hurdle rates may unnecessarily restrain the flows on a transmission path, which could lead to erroneous findings related to congestion points in the grid.
2) Dynamic Path Limits - The economic study models do not typically account for the dynamic path limits that exist on several California import interfaces. While we understand that efforts are made by CAISO to model certain nomograms, more work should be done to accurately capture these limits. As an example, CAISO's PACI interface typically which stays within 1600 to 2000 MW for about 50% of the time in a year (for a 4800 MW limit) may not get accurately captured

in the economic studies. If not, the study will mask the true congestion that is experienced on the system. Modelling enhancements should be considered to accurately reflect these dynamic path limits. Some CAISO intertie paths, such as PACI, have been consistently getting de-rated over last several years which caused congestion in Real Time. Most of these derates get triggered by maintenance outages on the transmission line segments. If such outages are routine annual maintenance outages then this should be modelled in the planning studies so the studies can accurately quantify congestion.

3) Other Base Assumptions – Hydro availability/capacity factor assumptions, load assumptions, transmission outages, and gas prices are all normal assumptions used for study. Sensitivities around these key assumptions should be carefully studied to ensure the assumptions reflect actual system conditions.
4) Market Dynamics - Bilateral trades and Unscheduled Loop Flow Mitigation events on CAISO interface paths, such as the PACI interface, create market inefficiencies that result in real time congestion. Production cost simulation studies do not capture this. This modeling deficiency was identified in CAISO's SB 350 study results (*see slide 168 in the SB 350 presentation linked below – Production Cost Savings not quantified*). CAISO should look at ways to handle these inefficiencies.
5) Sub-hourly economic benefits – With the beginning and continued expansion of CAISO's EIM markets, there are added benefits that CAISO and other Regions experience on the sub hourly level. These benefits do not get quantified in the Economic Studies performed in the Transmission Planning Process. If a new transmission project improves transfer capability between two regions which results in increased EIM benefits, this should be captured not only in TPP Economic Studies, but also for TAC cost allocation purposes.

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.

LS Power agrees with CAISO proposal on this topic.

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?

LS Power would caution CAISO in using "hypothetical alternatives." As CAISO is aware it

takes several years of permitting followed by construction to build a major transmission project in California. Use of hypothetical alternatives that look attractive on paper may have feasibility constraints and never get built, resulting in economic impacts and impacts on grid reliability.

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.

LS Power supports the reverse order, i.e. 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.

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?

LS Power supports the use of 200 kV threshold criteria. However, LS Power notes that on August 26, 2016 FERC accepted the PJM 200 kV voltage floor proposal in Docket ER16-1335-001. However, it was conditioned on the condition that if projects below 200 kV have regional benefits that those projects also would have to go through the PJM competitive bid process even if they are below 200 kV. There may be a need to consider this for the TAC allocation discussion as well.

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?

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?

LS Power proposes that incidental benefits to a sub-region should not cause cost allocation to that sub-region.

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

Projects that provide multiple benefits should be carefully analyzed. For instance, if a project was submitted as an Economic Study project and CAISO's studies show a BCR of < 1, rather than rejecting this project for approval (which is currently done), CAISO should analyze whether the project provides any policy and/or reliability benefits. If so, these benefits should be quantified and accounted for in the overall decision making for this project.

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.

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.

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.