

# Stakeholder Comments Template

## Transmission Access Charge Options

### December 6, 2016 Draft Regional Framework Proposal

Submitted by	Company	Date Submitted
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The ISO provides this template for submission of stakeholder comments on the December 6, 2016 draft regional framework proposal and the discussion at the December 13 stakeholder meeting. The 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](mailto:initiativecomments@caiso.com). Submissions are requested by close of business on **January 11, 2017**.

**NOTE:** Items highlighted in yellow below refer to elements of the present proposal that have not changed from the prior proposal, the second revised straw proposal posted on September 28. If your organization's position on one of these elements has not changed from the comments you submitted on the September 28 proposal, you may simply refer to your prior comments in response to that item and the CAISO will take your prior comments as reflecting your current position.

### **Draft Regional Framework Proposal**

**General Comments:** The Modesto Irrigation District ("MID") thanks the California Independent System Operator Corporation ("CAISO") for the opportunity to comment on the December 6 2016 draft regional framework proposal for the Transmission Access Charge ("TAC"). MID's comments are provided below. To the extent that MID has not commented in response to a particular item or topic in this template, such refrain from comment should not connote MID's approval or disapproval of any position suggested by that item or topic.

1. The proposal defines "new facilities" as facilities that are planned and approved under an integrated TPP that will plan new transmission infrastructure for the entire expanded

BAA and will commence upon integration of the first new PTO. Please comment on the CAISO's proposal for the definition of "new facilities."

2. The proposal previously defined "existing facilities" as transmission facilities that are in service or have been approved in separate planning processes for the current CAISO BAA and the new PTO's area at the time the new PTO is fully integrated into the expanded BAA. Simply stated, all transmission facilities that are included in the controlled grid for the expanded BAA and are not "new" facilities will be considered "existing" facilities. Please comment on the CAISO's proposal for the definition of "existing facilities."
  
3. The CAISO provided further details on the determination of whether a candidate PTO should be deemed "integrated" within an existing sub-region rather than designated a new sub-region. The CAISO proposed that the expanded ISO would work with the candidate PTO and other stakeholders to apply criteria specified in the tariff (listed in the December 6 proposal) for making this determination. The CAISO would then present its recommendation to the Board of Governors as part of the new PTO application process, and upon Board approval would file for FERC approval of the proposal to treat the new PTO as either a new sub-region or part of an existing sub-region. Please comment on this element of the proposal.

The CAISO's proposed criteria are not suitable for an assessment of whether an entity should be deemed "Integrated". These criteria include criteria similar to those applied in determining the existence of Integrated Balancing Authority Areas ("IBAA"). As proposed in the Draft Regional Framework Proposal, the term "Integrated" is intended to capture an entity that is "not dependent on another [Participating Transmission Owner's or (PTO's)] transmission facilities to import energy prior to joining" a Regional Independent System Operator ("ISO"), but has "significant interconnections" with one or more PTOs in the existing sub-region, and once it joins "will benefit significantly" from the transmission system of the sub-region with which it is integrated. Framework Proposal at 10.

One criterion of the test for determining if a proposed PTO is "Integrated" is the amount of peak load that is served over the facilities over the existing sub-region. Since an entity that is "Integrated" is defined as not being dependent on another PTO's system to meet its load-serving needs, this criterion would not be applicable to, or an indicator of, an "Integrated" entity. Instead, this criterion conflates "Integrated" entities with "Embedded" entities, since an "Embedded" PTO is defined as one that is "dependent on

the transmission facilities of an existing sub-region to meet its load-serving obligations.”  
*Id.*

Since the “peak load served” criterion is the only criterion enumerated that is not based on the existing IBAA criteria, MID is concerned that the criteria will be biased toward finding those entities that were previously treated as IBAA’s to be considered “Integrated”, whereas other entities would be treated as their own sub-region. MID is concerned that the CAISO will take an overly abbreviated approach to evaluating the classification of such a potential, new PTO if that entity had been located within an IBAA. In addition, certain policy choices were made in advancing the IBAA proposal that would seem to have no relevance to Regional ISO decisions. For example, the Balancing Authority of Northern California (“BANC”) and Turlock Irrigation District (“TID”) Balancing Authority Areas (“BAA”) were grouped for the CAISO’s IBAA Tariff filing. It is unclear whether such choices for purposes of implementing IBAA would have any relevance in evaluating Regional ISO characteristics. The Regional ISO proposal focuses on the introduction of new PTOs, as opposed to BAAs.

An IBAA-like criteria is not a suitable model for decisions concerning the characteristics of a Regional ISO, since the point of the grid expansion is to create an “integrated” West-wide grid. The more entities that join the expanded region, the more interconnections and parallel flows there will be. As such, if the CAISO intends on continuing with its “Embedded”/“Integrated” proposal, including application of the IBAA-like criteria, the other new PTOs should also have to share the costs of existing facilities of other sub-regions, as their interconnections and parallel flows increase or as their benefits in use of the existing facilities of other sub-regions grow.

The Draft Regional Framework Proposal lacks criteria for determining or calculating “significant benefits” to the “Integrated” PTO from the existing sub-region’s facilities, and as such has a gap in transparency that will lead to subjective application. If the CAISO is going to go this path, in determining “significant benefits” for entities that are not dependent (or entirely dependent) on the existing sub-region’s transmission, the CAISO must take into account the increase in the new PTO’s TAC rate if it were to be deemed “Integrated” with an existing sub-region and the resultant rate shock that entity would experience. Avoiding rate shock to PacifiCorp was among the factors presumed in the CAISO’s offer of sub-regional license plate treatment to PacifiCorp, which would allow PacifiCorp to avoid paying TAC rates reflective of existing CAISO sub-region facilities. As such, failure to net out these costs in the CAISO’s “significant benefit” calculations would further exacerbate the failure to uniformly treat all future new PTOs as compared to PacifiCorp.

MID understood the CAISO from the December 13, 2016 stakeholder meeting that the CAISO envisions smaller PTOs to more likely to be deemed “Embedded” or “Integrated.” MID is concerned that if this is the outcome likely to occur, the result will be unfair to those California BAAs that have not yet joined the CAISO market (mostly municipalities) despite the fact that they have already contributed to the building of the existing CAISO footprint. A related concern with the Draft Regional Framework

Proposal's treatment of "Integrated" entities is that they would be required to contribute to the entire scope of existing projects of the sub-region to which they are integrated at the commencement of their joining. There has been no consideration on whether the "Integrated" PTO should only have to pay a share of a subset of the existing facilities from which it actually benefits (e.g., limiting cost responsibility to just the existing facilities of the PTO to which it interconnects) as opposed to having to contribute to the entire sub-regional license-plate TAC of the sub-region to which it is deemed integrated. During the stakeholder meeting, the CAISO noted in response to Southern California Edison Company's ("SCE") question that there will not be a transition period for rolling in the Embedded/Integrated PTO's Transmission Revenue Requirement ("TRR") into the sub-regional TAC. As such, "Integrated" PTOs may suffer rate shock, for which the Draft Regional Framework Proposal is silent as to mitigation, and as noted above, a consequence that PacifiCorp may avoid. These circumstances could unduly burden smaller PTOs.

If the CAISO continues to move forward with its proposal to treat certain small PTOs as "Embedded" or "Integrated," in order to ensure equitable treatment, the CAISO should be required to record the amount by which PacifiCorp benefits from the existing CAISO sub-region once it joins the expanded ISO. If significant benefits are revealed, the CAISO should require PacifiCorp to pay for such existing CAISO sub-region facilities. In calculating the allocation of costs, the CAISO should also net out the benefit that an existing sub-region would gain from the new PTO's transmission system (e.g., if the new PTO's transmission opens up a significant amount of available capability for the rest of the sub-region's benefit) when it conducts a "significant benefits" assessment.

4. Consistent with the second revised straw proposal, the CAISO proposes to recover the costs of existing facilities through sub-regional "license plate" TAC rates. The CAISO has proposed that each sub-region's existing facilities would comprise "legacy" facilities for which subsequent new sub-regions have no cost responsibility. Please comment on this aspect of the proposal.

5. The CAISO proposes to use the Transmission Economic Assessment Methodology (TEAM) to determine economic benefits to the expanded ISO region as a whole and to each sub-region. Please comment on the use of the TEAM methodology to determine sub-regional shares of economic benefits.

The CAISO should continue stakeholder processes pertaining to the Transmission Planning Process ("TPP") for the expanded ISO (i.e., the "integrated TPP"), as such items will inform governance and issues that the Western States Committee ("WSC") may want to address. A complete vetting of the Transmission Economic Assessment Methodology ("TEAM") in a separate stakeholder process for a regionalized footprint may be helpful. For example, the CAISO's November 16, 2016 presentation on TEAM,

clarified that TEAM considers “indirect” benefits, such as public policy benefits and renewable portfolio standards goals. Given this clarification, the CAISO should ensure that the TEAM is updated, where needed, to accurately delineate indirect benefits and to avoid double-counting of benefits, such as policy-driven benefits in projects that meet both policy and economic needs.

6. The CAISO assumes that a new integrated TPP for the expanded ISO will retain today’s TPP structure. Please comment on the structure of the current three phase TPP process.
  
7. The CAISO proposes to allocate the entire cost to a sub-region if a reliability project within that sub-region only addresses a reliability need of that sub-region or if a policy-driven project within that sub-region is approved only to support the policy mandates for that sub-region. Please comment on this element of the proposal.
  
8. The CAISO proposes to allocate the cost of an economic project, for which the economic benefits must exceed its cost, to sub-regions in proportion to each sub-region’s economic benefits. Please comment on this element of the proposal.
  
9. For a reliability project that is enhanced or replaced by a more costly project that also provides economic benefits that exceed the incremental cost above the cost of the original reliability project, the avoided cost of the original project will be allocated to the sub-region with the original reliability need, and the incremental cost will be allocated to sub-regions in proportion to each sub-region’s economic benefits. Please comment on this proposal.
  
10. For a policy-driven project that is enhanced or replaced by a more costly project that also provides economic benefits that exceed the incremental cost above the cost of the original policy-driven project, the avoided cost of the original project will be allocated to the sub-region with the original policy need, and the incremental cost will be allocated to sub-regions in proportion to each sub-region’s economic benefits. Please comment on this proposal.

11. In the December 6 proposal the CAISO introduced an approach for allocating costs more granularly than just to sub-regions for certain policy-driven projects and for the policy-driven costs of projects that provide economic benefits in addition to meeting policy needs. The proposal is based on the following principles: If a project that meets policy needs is built within a different sub-region from the state or local regulatory authorities driving the policy need, the policy-related project cost will be allocated only to the load of those regulatory authorities driving the policy need. Alternatively, if a project that meets policy needs is built within the same sub-region as the state or local regulatory authorities driving the policy need, that project is deemed to provide benefits to the entire sub-region and therefore the policy-related costs will be allocated to the sub-region as a whole rather than on a more granular basis. Please comment on these principles.
  
12. Continuing with the scenario of item 10 and applying the principles above, for a policy-driven project, if the new project is built outside the sub-region where the regulatory authorities driving the policy need are located, the ISO will allocate the policy-related avoided cost to the load served under the state or local regulatory authority or authorities whose policy mandates drove the need for the original project. Please comment on this proposal.
  
13. Similarly, if the policy driver of the project was a federal policy, then for sub-regions other than the sub-region in which the project is built the ISO will allocate the associated avoided cost to the load served in each state in proportion to the state's need for the project to comply with the federal policy mandate. Please comment on this proposal.
  
14. 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 mandates 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 load served under the state or local regulatory authorities within each sub-region, other than the sub-region in which the project is built, whose policy mandates drove the need for the project. Please comment on this proposal.

15. Continuing with the scenario of a policy-driven project that supports policy mandates of more than one sub-region, if the policy driver of the project was a federal policy, then for sub-regions other than the sub-region in which the project is built the ISO will allocate the project costs to the load served in each state in proportion to the state's need for the project to comply with the federal policy mandate. In such cases, if the project also supports policy mandates within the same sub-region in which the project is built, the ISO will allocate that sub-region's share of the policy-driven costs to the entire sub-region as part of the sub-regional TAC. Please comment on this proposal.
16. 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, with exceptions only as stated in ISO tariff section 24.5.1 Please comment on this proposal.
17. The proposal indicated that the ISO would establish a formula for a single export rate (export access charge or "EAC") for the expanded region, and under the proposal, non-PTO entities would pay the same sub-regional TAC rate paid by other loads in the same sub-region. Please comment on this proposal.
18. The EAC would be calculated as the sum of all high-voltage transmission revenue requirements (TRRs) of all PTOs within the expanded BAA divided by the sum of the projected internal load for the entire expanded BAA. Please comment on this element of the proposal.

19. The CAISO proposes to allocate shares of the EAC revenues to each sub-region in proportion to their total high-voltage TRR. Please comment.
20. The CAISO proposes to break down each sub-region's share of the EAC revenues into portions to be allocated to the sub-regional TAC and each state or local regulatory authority whose load is paying a share of the high-voltage TRR for policy-driven transmission whose costs are not included in the sub-regional TAC. These shares of the sub-region's EAC revenue would be in the same proportion as the corresponding shares of the sub-regional high-voltage TRR. This element of the proposal would not affect the allocation of EAC revenues between sub-regions. Please comment on this proposal.
21. Please provide any additional comments on topics that were not covered in the questions above.

a) This template presents questions covering several, potential cost allocation scenarios. *See* Template Questions 7-15. MID asks the CAISO to clarify whether these Questions correlate to specific cost allocation proposals. For example, Question 10 notes that for a “policy-driven project that is enhanced or replaced by a more costly project that also provides economic benefits that exceed the incremental cost above the cost of the original policy-driven project, the avoided cost of the original project will be allocated to the sub-region with the original policy need, and the incremental cost will be allocated to sub-regions in proportion to each sub-region's economic benefits.” Does this statement reflect a cost allocation proposal of the CAISO that the CAISO will accept, reject or modify, or is the query made to collect information to be considered in the development of general principles and future concepts?

b) During the December 13, 2016 stakeholder meeting, Pacific Gas and Electric Company (“PG&E”) and SCE pointed out concerns with the complexities that arise in implementing the Draft Regional Framework Proposal in the areas of cost allocation, cost recovery, recalculation of benefits, cost accounting and ratemaking, and Export Access Charge (“EAC”) revenues. Since these issues would impact the manner in which utilities seek recovery of costs and revenues, including where applicable before the Federal Energy Regulatory Commission (“FERC”), MID urges the CAISO to continue a dialogue with stakeholders, discussing scenarios and questions of cost allocation and recovery so that entities have a better concept of how proposals to design the TAC for a Regional ISO would be implemented in practicality.



c) MID also urges the CAISO not to submit to FERC conceptual filings or piecemeal tariff submissions on the regionalization initiatives, as the proposals themselves are intricate and depend upon component parts within those proposals. Piecemeal or conceptual submissions will yield compliance directives or rulings with inconsistent results. Draft Tariff provisions should be developed, subject to stakeholder review and comment, in advance of filings seeking approval from FERC.