

Stakeholder Comments Template

Transmission Access Charge Options

February 10, 2016 Straw Proposal & March 9 Benefits Assessment Methodology Workshop

Submitted by	Company	Date Submitted
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The ISO provides this template for submission of stakeholder comments on the February 10, 2016 Straw Proposal and the March 9, 2016 stakeholder working group meeting. Section 1 of the template is for comments on the overall concepts and structure of the straw proposal. Section 2 is for comments on the benefits assessment methodologies. As stated at the March 9 meeting, the ISO would like stakeholders to offer their suggestions for how to improve upon the ISO's straw proposal, and emphasizes that ideas put forward by stakeholders at this time may be considered in the spirit of brainstorming rather than as formal statements of a position on this initiative.

The 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 **March 23, 2016**.

Section 1: Straw Proposal

1. The proposed cost allocation approach relies on the designation of “sub-regions,” such that the current CAISO BAA would be one sub-region and each new PTO with a load service territory that joins the expanded BAA would be another sub-region. Please comment on the proposal to designate sub-regions in this manner.

NIPPC agrees with the proposal to designate sub-regions.

2. The proposal defines “existing facilities” as transmission facilities that either are already in service or have been approved through separate planning processes and are under development at the time a new PTO joins the ISO, whereas “new facilities” are facilities that are approved under a new integrated transmission planning process for the expanded BAA that would commence when the first new PTO joins. Please comment on these definitions.

NIPPC agrees with the proposed definitions of “existing facilities” and “new facilities”. NIPPC also suggests that the names of the defined terms are unnecessarily confusing. NIPPC suggests changing the term “existing facilities” to “sub-regional facilities”. NIPPC also suggests changing the term “new facilities” to “system facilities”. This avoids the inevitable confusion inherent in describing facilities planned and developed outside the integrated transmission planning process (i.e. facilities for local reliability) as “existing” when they are still in the planning stages.

3. Using the above definitions, the straw proposal would allocate the transmission revenue requirements (TRR) of each sub-region’s existing facilities entirely to that sub-region. Please comment on this proposal.

NIPPC agrees with the proposal to allocate the TRR of each sub-region’s existing facilities to the respective sub-region. An alternative methodology would likely shift the cost allocation of existing facilities in ways unlikely to result in expansion of the CAISO footprint.

4. If you believe that some portion of the TRR of existing facilities should be allocated in a shared manner across sub-regions, please offer your suggestions for how this should be done. For example, explain what methods or principles you would use to determine how much of the existing facility TRRs, or which specific facilities’ costs, should be shared across sub-regions, and how you would determine each sub-region’s cost share.

NIPPC does not believe that the costs of existing facilities should be reallocated among sub-regions. Any proposals to re-allocate the costs of existing facilities among sub-regions should include a rationale explaining why reallocating costs of existing facilities between sub-regions is necessary.

5. The straw proposal would limit “regional” cost allocation – i.e., to multiple sub-regions of the expanded BAA – to “new regional facilities,” defined as facilities that are planned and approved under a new integrated transmission planning process for the entire expanded BAA and meet at least one of three threshold criteria: (a) rating > 300 kV, or (b) increases interchange capacity between sub-regions, or (c) increases intertie capacity between the expanded BAA and an adjacent BAA. Please comment on these criteria for considering regional allocation of the cost of a new facility. Please suggest alternative criteria or approaches that would be preferable to this approach.

NIPPC agrees the criteria proposed (>300kV, increase interchange capacity, increase intertie capacity) for regional cost allocation are appropriate.

Nevertheless, NIPPC needs more information on the new integrated transmission planning process before fully supporting this proposal. NIPPC is less concerned about the planning element of the new integrated transmission planning process, but very concerned about the approval element. A planning element can be assumed to identify transmission solutions to identified reliability, economic or public policy needs. But NIPPC seeks more detail on the mechanism the ISO will use to select and approve specific projects for allocation between sub-regions.

An LRA and its LSEs are less likely to challenge a cost allocation decision if LRAs believe their interests have been adequately represented in the selection and approval process.

In this particular context, greater insight into the proposed governance of an expanded ISO would be helpful. In other RTOs/ISOs, cost allocation of new facilities does not exist independently of the approval and governance process. While specific governance proposals are outside the scope of this TAC work stream, final development of a regional cost allocation methodology must be done within the context of a specific governance structure and a defined process for selection and approval of projects for regional cost allocation.

6. For a new regional facility that meets the above criteria, the straw proposal would then determine each sub-region’s benefits from the facility and allocate cost shares to align with each sub-region’s relative benefits. Without getting into specific methodologies for determining benefits (see Section 2 below), please comment on the proposal to base the cost allocation on calculated benefit shares for each new regional facility, in contrast to, for example, using a postage stamp or simple load-ratio share approach as used by some of the other ISOs.

NIPPC agrees with the proposal to allocate costs commensurate with each sub-region’s relative benefits.

7. The straw proposal says that when a subsequent new PTO joins the expanded BAA, it may be allocated shares of the costs of any new regional facilities that were previously approved in the integrated TPP that was established when the first new PTO joined. Please comment on this provision of the proposal.

NIPPC disagrees with the proposal to allocate shares of new facilities to PTOs that join the expanded BAA in the future. This proposal is inconsistent with the straw proposal's provisions regarding allocation of existing facilities upon initial expansion (see Question 3 above). Why should costs of transmission facilities be reallocated for the second and third PTO to join, but not the first? A better solution would be to structure the "new integrated transmission planning process" or the inter-regional planning process in such a way that neighboring regions or BAs which benefit from a regional transmission project obtain an allocation of costs directly — not only if they join the expanded BAA.

8. The straw proposal says that sub-regional benefit shares – and hence cost shares – for the new regional facilities would be re-calculated annually to reflect changes in benefits that could result from changes to the transmission network topology or the membership of the expanded BAA. Please comment on this provision of the proposal.

NIPPC disagrees with the proposal to perform annual recalculations of costs. NIPPC may reconsider this position within a broader context in which other annual recalculations are performed (such as the calculation and allocation of intertie capacity and capacity on internal constraints at issue in the RRA process). To the extent that allocations of import capability and congestion revenue rights may be re-allocated annually, NIPPC concedes that it may be appropriate to also re-allocate costs of the underlying facilities. For this reason, NIPPC urges the ISO to explain in more detail how congestion revenue rights will be treated not only in the specific context of reallocation of costs/benefits for new regional facilities but generally.

9. Please offer any other comments or suggestions on the design and the specific provisions of the straw proposal (other than the benefits assessment methodologies).

NIPPC reiterates its belief that full evaluation of the proposals for treatment of the Transmission Access Charge and allocation of costs for new facilities requires more information regarding:

Governance

Selection and approval of new regional facilities
Congestion Revenue Rights

Section 2: Benefits Assessment Methodologies

10. The straw proposal would apply different benefits assessment methods to the three main categories of transmission projects: reliability, economic, and public policy. Please comment on this provision of the proposal.

NIPPC disagrees with the proposal to apply different benefits assessment methods to different categories of transmission projects. Different methods for assessing benefits will lead to different allocations of costs depending upon how a transmission project is categorized. Inevitably this will lead to disputes regarding whether the purpose of a project is reliability, economic or public policy. As noted on the call, most transmission projects - especially those likely to meet the criteria for “new facilities” - are driven by a combination of reliability and economic and possibly public policy goals. Using three different assessment methods will likely result in disputes over which assessment method should be used — not only whether the assessment mechanism was appropriately applied.

11. The straw proposal would use the benefits calculation to allocate 100 percent of the cost of each new regional facility, rather than allocating a share of the cost using a simpler postage stamp or load-ratio share basis as some of the other ISOs do. Please comment on this provision of the proposal.

NIPPC agrees with the proposal to use the benefit calculation to allocate 100 percent of regional facilities.

12. Please comment on the DFAX method for determining benefit shares. In particular, indicate whether you think it is appropriate for reliability projects or for other types of projects. Also indicate whether the methodology described at the March 9 meeting is good as is or should be modified, and if the latter, how you would want to modify it.

NIPPC does not support use of the DFAX method for reliability or other types of projects. NIPPC is generally familiar with the disputes in PJM regarding use of the DFAX method for cost allocation. Furthermore, NIPPC supports a single methodology

for calculating benefits regardless of the project category — and NIPPC does not believe a power flow method is the most appropriate.

13. Please comment on the use of an economic production cost approach such as TEAM for determining benefit shares. In particular, indicate whether you think it is appropriate for economic projects or for other types of projects. Also indicate whether the methodology described at the March 9 meeting is good as is or should be modified, and if the latter, how you would want to modify it.

NIPPC supports the use of an economic production cost methodology for determining benefit shares for all types of transmission projects — including reliability, economic and public policy driven projects.

NIPPC also agrees the existing TEAM approach is a good beginning towards a methodology for determining benefit shares. NIPPC agrees it is reasonable to use the TEAM to calculate benefits for the purpose of allocating costs. Nevertheless, full evaluation of the TEAM requires more information concerning the assumptions used in the formula. Specifically, answers to how the following are determined:

- Load forecast
- Locational Marginal Price assumptions
- Generator Revenues
- Generator Costs
- Transmission shadow price

NIPPC is also continuing to evaluate whether it is appropriate to limit the consideration of generator profit to generators owned by utilities serving load. Based on our current understanding of the TEAM, we are concerned that utilities, which rely on power purchase agreements, would take on a larger share of costs compared to a utility which owned the identical resources. Considering generator profit in the allocation of transmission costs will encourage load serving entities to rate base generation assets. Independent power producers provide energy at lower cost and lower risk to ratepayers compared to utility owned generation.

NIPPC believes that generator profit should not be a factor used to determine the allocation of benefits or costs of transmission infrastructure. If utilities choose to own and rate base generation assets, they should not do so with the assurance that their lost profits will be protected (or considered) in the allocation of costs associated with new transmission facilities.

The March 9 presentation described the calculation of energy benefit under TEAM, but there was no discussion of how capacity benefits are calculated. There was also no discussion of how capacity benefits would be incorporated with energy benefits to derive

a cost allocation methodology. Accordingly, NIPPC also requests more information on the calculation of capacity benefits within the TEAM.

14. At the March 9 meeting some parties noted that the ISO's TEAM approach allows for the inclusion of "other" benefits that might not be revealed through a production cost study. Please comment on whether some other benefits should be incorporated into the TEAM for purposes of this TAC Options initiative, and if so, please indicate the specific benefits that should be incorporated and how these benefits might be measured.

NIPPC agrees other benefits should be considered and incorporated into a single methodology used to determine benefits and allocate costs for all categories of transmission projects, including public policy projects. Examples of specific benefits that could be included, are:

- Economic impacts (employment, state tax revenues, local tax revenues)
- Reduced costs of compliance with state/federal policies

15. Regarding public policy projects, the straw proposal stated that the ISO does not support an approach that would allocate 100 percent of a project's costs to the state whose policy was the initial driver of the need for the project. Please indicate whether you agree with this statement. If you do agree, please comment on how costs of public policy projects should be allocated; for example, comment on which benefits should be included in the assessment and how these benefits might be measured.

NIPPC agrees with the straw proposal. Even if a single state's policy drives the initial need for a transmission project, other states are likely to benefit upon completion of the project. As noted above, NIPPC believes that a production cost model, similar to TEAM, should be used for all categories of transmission projects.

16. At the March 9 and previous meetings some parties suggested that a single methodology such as TEAM, possibly enhanced by incorporating other benefits, should be applied for assessing benefits of all types of new regional facilities. Please indicate whether you support such an approach.

As noted above NIPPC agrees with this proposal.

17. Please offer comments on the BAMx proposal for cost allocation for public policy projects, which was presented at the March 9 meeting. For reference the presentation is posted at the link on page 1 of this template.

NIPPC does not support the BAMx proposal. NIPPC believes the BAMx proposal does not allocate costs to all beneficiaries of a transmission project. Rather the BAMx proposal appears to overlay a contract path methodology on top of the ISO's existing TAC mechanism. NIPPC believes that TAC should continue to be allocated to loads. Allocating a portion of a transmission revenue requirement to generators will unnecessarily complicate the TAC program and complicate development of new generation resources. The BAMx proposal begins by stating that parties that "use" a public policy project should pay for it. But once a project is completed other parties - beyond those driving the rationale for it - are likely to receive benefit from reduced congestion and access to cheaper generation resources.

18. Please offer any other comments or suggestions regarding methodologies for assessing the sub-regional benefits of a transmission facility.

No other comments.